CHINA ASSETS (HOLDINGS) LIMITED

(Stock Code: 170)

ANNUAL REPORT

2012

Contents

Corporate Information

Board of Directors

Executive Directors
Mr. Lo Yuen Yat *(Chairman)*
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
Dr. David William Maguire

Nomination Committee

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

Solicitor

ReedSmith Richards Butler
David Norman & Co.

Auditor

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

Bankers

China CITIC Bank International Limited
Shanghai Pudong Development Bank Co. Ltd.

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, 2012. The Group's consolidated net loss for the year was US$20.82 million and consolidated net asset value as at 31 December, 2012 was US$141.51 million, representing US$1.84 per share.

Business Review

The year 2012 made its own mark in recent economic history. Well into the fifth year of the global financial crisis when the collapse of Lehman Brothers in 2008 triggered the breakdown of the global financial system, the global economy is still being sustained by the activities of the world's leading central banks which are providing excessive liquidity to major banks and finance institutions through various forms of "quantitative easing", meaning printing money. Despite this, all data on the world economy for 2012 pointed to continuing low growth or recession in most major countries.

In Europe, the major developed economies were dragged into a downward spiral as high unemployment, reduced consumer spending, continued bank risk, fiscal tightening and slower growth viciously fed off one another, causing continued woes with most of these economies. The United States' economic recovery shuddered to a halt in the final months of 2012 as the government slashed defense spending, business orders weakened, and its Congress fought over the fiscal cliff budget crisis. U.S. GDP shrank for the first time in three and a half years during the fourth quarter of 2012, dropping at a rate of 0.1%. Nonetheless, its economy expanded 2.2% in 2012, better than 2011's growth of 1.8%, and with a raft of positive economic news at the beginning of 2013 the Dow Jones Industrial Average drove above 14,000 for the first time in more than five years.

China's economy expanded at an annual rate of 7.9% in the fourth quarter of 2012, snapping seven consecutive quarters of weaker growth as various pro-growth policies kicked in. The 4th quarter bounce helped lift full-year growth to 7.8% which, though the slowest pace for 13 years, generated roughly a third of global economic growth of 3.2%. While the rate still sounded fast compared to the rest of the world, it marked an uncomfortable soft patch for China. Over the past three decades, China has barreled ahead at an average of about 10% a year. The 2012 slowdown was due to a variety of factors, mainly a slight deceleration pulled by the Central Government to tame its real estate boom and rapid inflation. Those measures largely worked, with ongoing real estate regulations stablising the property market and tightened monetary policies pushing inflation down to its lowest rate in two years. However, the timing of those efforts coincided with turmoil in the global economy, with weaker demand from Europe and the United States hitting Chinese exports hard, hence slowing the manufacturing sector and resulting in ripple effects felt by all businesses. As a reflection of the economy, China's stock market was poorly performed when compared with other markets. Its Shanghai A share index rose marginally from 2,199 points at the beginning of the year to 2,269 points at the close. It actually touched 1,949 points at one point in early December to sharply rebound later, clawing its way back to positive territory. The relatively poor performance of the China stock market inevitably affected the performance of the Group's investment portfolio.

The Group recorded a loss of US$20.82 million for 2012. The consolidated net asset value decreased by US$27.08 million to US$141.51 million as at 31 December 2012. The operating loss was mainly due to an impairment provision of US$9.01 million on Junhui International Limited, an impairment loss of US$2.90 million on its investment in an associated company, Goldeneye Interactive Limited, and an impairment provision of US$2.40 million on Holygene Corporation. The Group also recognised a fair value loss of US$4.60 million on its investment in Ragentek Technology Group Limited as a result of the decline in fair value due to its poor operational performance in 2012. Apart from the above, the change of net asset value was also attributed to the material decline of its stock price in Shandong Lukang Pharmaceutical Co. Ltd. ("Lukang").

Chairman's Statement

First Shanghai Investments Ltd, its major listed associated company, reported a net loss of HK$98.27 million (approximately US$12.68 million) for 2012, compared to 2011's loss of HK$45.82 million (approximately US$5.90 million). The loss was mainly due to its share of the Group's loss of US$6.32 million and loss on disposal of investment properties.

Various government measures, including a mandated drug price reduction and a tendering system as well as restrictions on the use of antibiotics, are still tremendously affecting the performance of Lukang; the so-called toxic drug capsule event has hammered the situation further. For the nine months ended 30 September 2012, Lukang reported a net loss of RMB93.48 million (approximately US$15.00 million), compared with a net profit of RMB71.26 million (approximately US$11.32 million) in the corresponding period in 2011. Lukang's share price for the year fell from RMB4.91 to RMB3.95, eroding the fair value of the investment to US$36.78 million at end of year which resulted in an unrealized fair value loss of US$7.65 million being transferred to the investment revaluation reserve.

In February 2012, the Group made its first tranche of investment of RMB1.45 million in Shanghai Moxing Environmental Science and Technology Co Ltd ("SMECT"), a PRC-incorporated company. SMECT is an early-stage technology and services company that provides waste oil recycling services for transportation and industrial customers. Under a signed investment agreement, the Group will invest a total of RMB4.65 million in two tranches for a total equity interest of 29.86%, subject to adjustment if SMECT does not achieve certain performance milestones. As at the end of 2012, the Group had invested RMB3.05 million and it will commit the final balance of RMB1.60 million when its performance milestone is reached.

In February 2012, PingAn Defeng Collective Fund Trust Plan ("PingAn Trust") reached its maturity date and, accordingly, was dissolved for distribution. The Group received approximately US$7.21 million (RMB45.43 million) upon dissolution, resulting in a realized loss of US$0.90 million in the year. Including its past distributions from PingAn Trust, the Group realized an overall profit of US$2.75 million on this investment during the holding period, a return of 39.47% over 5 years.

In December 2012, the Group made a RMB25 million interest-bearing loan to Shanghai International Medical Centre Investment Management Company Limited ("SIMC"), in which the Group holds a 25% indirect equity. The loan was made in accordance with a shareholders' resolution passed at a general meeting held in December 2012 under which all SIMC shareholders would together, in proportion to their respective equity holdings, grant a total of RMB100 million to SIMC to bridge its financing needs while bank financing was being arranged. The loan is charged at an interest rate of 8% per annum and will run for a term of one year with maturity no later than December 2013.

In December 2012, the Group sold its entire holding in Canton Property Limited for a consideration of approximately GBP1.46 million. The disposal resulted in a recovery of approximately US$2.35 million which was credited to consolidated income statement in the year.

Economic Outlook

With the U.S. having avoided the so-called "fiscal cliff" of automatic tax increases and spending cuts, and fears abating that the Euro currency union will break up, there is still a lingering concern that the recovery is very fragile and timid. The unease about the world economy was matched by concern over political turmoil in the Arab world, terrorism in North Africa and a spate of natural disasters that have highlighted the failure to tackle climate change.

Chairman's Statement

The 2013 global economy will exhibit some similarities with the conditions that prevailed in 2012. Global economic growth will average about 3%, but with a multi-speed recovery — a sub-par, below-trend annual rate of 1% in the advanced economies, and close-to-trend rates of 5% in emerging markets. In most advanced economies, it is expected their economic growth will be slow due to painful deleveraging — less spending and more saving to reduce debt and leverage. With growth anemic in most advanced economies, the rally in risky assets that began in the second half of 2012 has not been driven by improved fundamentals, but rather by fresh rounds of unconventional monetary policy by various Central Banks engaging in some form of quantitative easing. Several risks lie ahead. Firstly, America's mini-deal on taxes has not steered it fully away from the fiscal cliff and another ugly political fight may reignite on the debt ceiling. Secondly, an ongoing stagnation exacerbated by fiscal austerity will linger for the Euro zone in the coming years. Thirdly, many emerging markets — including the BRICs (Brazil, Russia, India, and China), but also many others — are now experiencing decelerating growth.

Following a year tainted by heightened economic uncertainty, China's economy is setting itself up for a positive 2013. The government sped up approvals for the construction of new highways, ports, railways and sewage networks in the second half of 2012, local governments will boost urbanization, a major driver of growth advocated by Chinese leaders, to generate stronger investment demand this year. In addition, anticipated reforms for income distribution mechanisms and structural tax cuts will likely create more domestic consumption. It is likely that China's growth bottomed out in the final months of 2012 and started to pick up as a consequence of increased infrastructure construction and frequent open-market operations by the central bank to ease liquidity during the second half of 2012. Some uncertainties remain for its economy, as the export outlook is still shaky and higher inflationary pressure may reduce the chances of further monetary loosening. However, compared with 2012, this year will see better performance, with both domestic and external demand picking up and continuing on an upward trajectory carried forward from the last quarter of 2012. It is estimated the economic growth in China will be about 8%, with domestic demand being the driving force for expansion and supplemented by the pick-up on fixed asset investment. It is envisaged the China stock market will improve and perform in line with its underlying economy.

Liquidity and Financial Resources

The financial position of the Group was healthy throughout the year. As at 31 December 2012, the Group had cash and cash equivalents of US$20.34 million (2011: US$18.68 million), of which US$16.87 million (2011: US$16.69 million) was held in RMB equivalents in PRC bank deposits 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 U.S. dollar remained stable during the year.

Employees

The Group is managed by China Assets Investment Management Limited, and new arrangements effective from 1 January 2013 were approved by shareholders in a general meeting on 28 December 2012.

A company secretary is employed by the Company. In addition to basic salary, other benefits include a mandatory provident funds scheme and a discretionary employee share option scheme.

Chairman's Statement

Prospects

The Group has been conservative in the past two years in consideration of the ongoing uncertainties of the global economy which were mainly attributed to events driven by the two major developed economies, the Euro zone and the United States. The Group now expects that comparative economic stability from the improving situation will have a beneficial impact on China's economy in which the Group's investments are concentrated. In addition to its recent emphasis on medical-related industries, the Group believes urbanization is an ongoing process and will be a main driver of China's economy. It also anticipates investment opportunities in sectors like energy savings, environmental protection, bio-technology and new energy which are supported by the Central Government.

By Order of the Board
Lo Yuen Yat
Chairman
Hong Kong, 22 March 2013

Discussion and Analysis of Performance

The principal investment objective of the Group is to strive to achieve long-term capital appreciation through investments, primarily in equity and equity-related investments in small- to medium-sized companies operating in China.

The Group's performance for the year 2012 was unsatisfactory. Other than its investment in First Shanghai Investments Limited ("FSIL"), an associated company listed in Hong Kong, the majority of the investment portfolio consisted of equity investments or related investment in China. However, the China stock market performed poorly compared with other major stock markets, and the lackluster economy during the year exerted an indirect impact on the Group's overall performance.

The Group made a substantial provision on the loan and related accrued interest due from Junhui International Holdings Limited ("Junhui"). It granted a loan for Junhui's construction of a vessel for dredging projects in China when the dredging industry was booming. In addition to an attractive interest income of 20% per annum, a warrant was granted to the Group enabling it to take up to 15% equity in Junhui at any time on, or before, an initial public offering, with the vessel as underlying collateral. Around July 2010, the Group disagreed with an unexpected switch of Junhui strategy and, following an immediate negotiation, settlement was agreed that the loans and accrued interest be repaid according to a revised schedule. Despite repeated demands and a partial repayment of RMB5 million, Junhui couldn't discharge its obligation on the outstanding balance under the settlement agreement. Due to the downturn of the dredging industry and that the vessel is now under the control of the shipyard, a successful resolution of disposal of the vessel by the Group, therefore, is neither optimistic nor imminent. Recoverability of the loan and interest is now considered doubtful and hence a provision of US9.01 million was required.

A provision of US$2.90 million also was made on Goldeneye Interactive Limited ("Goldeneye"), a start-up search-engine portal for China market property listings. Goldeneye performed substantially behind its budget as it weathered a sustained market drop in transaction volume, and thus web traffic, due to China's policy restrictions to dampen property speculation. That trend, coupled with the volatility inherent in investing in internet start-ups, translated into rapid deterioration of the fair value of Goldeneye, and the provision was made accordingly.

The Group also made a provision of US$2.40 million on its convertible note due from Holygene Corporation ("Holygene"), which is developing an existing drug, EPO, as a bio-similar for distribution in Europe. In view of the slow progress of its certification, the Group decided to call for redemption of the convertible note even though the it still believes pharmaceuticals is an expanding industry due to the world's aging population. Holygene advised it was short of funding to discharge its obligation and that it was arranging funding for redemption, however no viable repayment schedule could be provided. The Group believed it was prudent to make the provision.

As a result of poor performance, being a reversal to an unaudited loss of RMB1.46 million in 2012 from a net profit of RMB57.21 million in 2011, the fair value of the Group's investment in Ragentek Technology Group Limited declined from US$7.31 million to US$2.71 million, resulting an impairment loss of US$4.60 million. Its poor result and hence the fair value decline was attributed to various factors including fierce market competition and allocation of significant resources to research and development.

Apart from the above provisions, the Group's two major investments, Shandong Lukang Pharmaceutical Co Ltd ("Lukang") and FSIL, also performed unsatisfactorily during the year. As affected by China's stock market, Lukang's share price declined from RMB4.91 to RMB3.95 for the year, accounting for US$7.65 million reduction in net asset value to the Group. FSIL (before sharing the loss of the Group) incurred a loss of approx. US$10.26 million for the year, of which the Group shared US$1.82 million.

Details of other investments are outlined in the Investments Section on page 9 to page 15.

In view of the weakening China economy and gyrating global stock markets in recent years, the Group has taken a conservative approach to investments, mainly focusing on potential revenue-stage investments with proven track records. Nonetheless, as private equity funds in China had been so flush with liquidity, valuation of the targeted investments had occasionally been driven to a level so fundamentally unjustifiable that the Group decided to abandon them. The Group believes risk control is a fundamental aspect of investment. To alleviate risk, it has always balanced its investment portfolio by re-allocating resources to investments according to their respective stage of development, market situation and liquidity. The Group has invested in Shanghai International Medical Centre Investment Management Co Ltd which will operate a hospital in Pudong, Shanghai. This type of longer-term investment in an expanding industry will provide the Group with stable, recurring income and appreciation in value over time. The Group's objective is that investments are phased evenly across venture, growth and mature stages so they can be liquidated systematically over a regular time frame, providing annual profit to avoid erratic performance, and steady liquidity to finance new investments for growth. However, it must be noted that as the investment portfolio has a high proportion of listed equity, it is inevitable that the annual performance and net asset value will be highly affected by the stock market in Mainland China and Hong Kong.

Despite maintaining a relatively high proportion of cash balance for potential investment opportunity, the Group has in the recent couple of years avoided using surplus cash for short-term trading gain in the stock market. This strategy is in consideration of the inherent risks involved, especially when the market has been volatile and on a downward trend, potentially exposing this portion of assets to undue risk. This conservative fund management approach has thus subdued overall performance.

Going forward, the Group believes there are still vast investment opportunities in China, especially those related to urbanization, which will promote growth domestically and reduce China's over-reliance on external demand. It will also help to absorb excessive industry production capacity. The urbanization process also will create stronger demand for services, such as housing and health care. However, the Group also sees increasing risk in unlisted equity investment in China due to the escalating incidence of false accounting, fraud and poor governance. Recent scandals involving certain high profile cases of false accounting have alerted the Group to the increasing complexity of due diligence processes on investments. Overall, the Group is confident that it can generate value over the longer term with undue risks minimized to a manageable and tolerable level.

Investments

Major Long-term Investments as at 31 December, 2012

Name	Nature of business	% of total issued capital %	Invested amount US$	Impairment loss US$	Carrying value US$	% of total asset value %	Dividend received US$
Investment in associates							
First Shanghai Investments Limited	Investment holding	17.71	13,770,330	0	54,294,872	37.04	0
Shanghai Medical International Centre	Provision of medical services	*25.00	9,869,982	0	9,891,856	6.75	0
Goldeneye Interactive Limited	Provision of web portal for online real estate information	22.37	3,850,000	2,900,776	343,435	0.23	0
Shanghai Moxing Environmental Science and Technology Co Ltd	Provision of waste oil recycling service	22.07	482,042	0	464,675	0.32	0
Available-for-sale financial assets							
Shandong Lukang Pharmaceutical Co Ltd	Manufacture and sale of pharmaceutical products	9.98	8,750,181	0	36,784,627#	25.10	163,736
China Pacific Insurance (Group) Co Ltd.	Provision of insurance service and management of insurance funds	0.02	5,427,472	0	5,500,120#	3.75	74,644
Red Stone Fund	Investment holding	*6.00	3,578,254	0	4,628,088#	3.16	0
China Alpha Fund	Investment fund	N/A	1,280,443	0	2,788,516#	1.90	0
Total			**47,008,704**	**2,900,776**	**114,696,189**	**78.25**	**238,380**

* indirect interest
\# also represent their fair values

Investments

Major Long-term Investments as at 31 December, 2011

Name	Nature of business	% of total issued capital %	Invested amount US$	Impair-ment loss US$	Carrying Value US$	% of total asset value %	Dividend received US$
Investment in associates							
First Shanghai Investments Limited	Investment holding	17.71	13,770,330	0	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 web portal for 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

Investments

Other Major Investments as at 31 December, 2012

Name	Nature of business	Number of shares held	% of total issued capital	Cost	Fair value loss	Carrying value	% of total asset value	Dividend received
			%	US$	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	6.36	7,317,557	4,604,224	2,713,333	1.85	0
Holygene Corporation	Provision of pharmaceutical research and development services	Convertible note	N/A	2,200,000	2,401,538	0	0	0
Industrial and Commercial Bank of China Ltd	Provision of personal and corporate commercial banking services in China	1,709,650	0.00	725,421	0	1,212,987	0.80	49,354
HSBC Holdings PLC	Provision of international banking and financial services	114,833	0.00	1,188,553	0	1,204,342	0.80	57,430
Total				**11,431,531**	**7,005,762**	**5,130,662**	**3.45**	**106,784**

Other Major Investments as at 31 December, 2011

Name	Nature of business	Number of shares held	% of total issued capital	Cost	Carrying 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	6.36	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**

Major Long-Term Investments

Investments in associates

First Shanghai Investments Limited ("FSIL")

FSIL reported a net loss of HK$98.27 million (approx. US$12.68 million) for the year ended 31 December, 2012 compared to a net loss of HK$45.82 million (approx. US$5.90 million) for the year ended 31 December, 2011. The loss included its share of the Group's net loss of US$6.32 million (2011 loss: US$0.35 million) which worsened its result. FSIL's brokerage operation and corporate finance, its core businesses, improved modestly; contribution from the hotel and manufacturing divisions remained stable, while its property division, due to losses on disposal of investment properties, had a significant adverse impact on the result for the year.

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

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

The Group owns a 25% indirect interest in SIMC for a total investment of RMB62.75 million (approx. US$9.87 million). In December, the Group also granted a RMB25 million loan, an amount in proportion to its shareholding in SIMC. The total loan granted by all SIMC shareholders was RMB100 million which bears interest of 8% per annum and runs for one year, to be repayable in December 2013.

Construction of the hospital started in December 2011 and is expected to finish in 2013 with opening scheduled in November. Parkway (Shanghai) Hospital Management Ltd has been appointed to manage the facility and recruitment of key personnel has begun.

Goldeneye Interactive Limited ("Goldeneye")

The Group entered into an agreement to invest US$5.5 million in two tranches for an ultimate 28.48% Preferred B shareholding in Goldeneye. The first tranche of US$3.85 million was made in April 2011, and the second tranche of US$1.65 million is to be invested upon the satisfactory achievement of agreed performance milestones. Goldeneye and its affiliated companies operate the portal www.fangjia.com, a vertical search-engine specializing in online real estate information in the secondary market. It undertakes data mining and sophisticated analysis through its self-developed and patented technology. Affected by the sluggish property market in China, the operating result was substantially behind budget. Goldeneye has significantly reduced staffing and overhead expenses in order to survive the current difficult environment, and incurred in the year an unaudited loss of US$1.44 million of which the Group shared US$0.32 million. In view of its disappointing revenue and stagnant portal traffic, the Group has decided not to invest the second tranche of the investment and, for prudence sake, has also made a provision of US$2.90 million as impairment loss on the investment

Shanghai Moxing Environmental Science and Technology Co., Ltd ("SMECT")

SMECT, a PRC-incorporated company, is an early-stage technology and services company that provides waste oil recycling services for transportation and industrial customers. It has developed a proprietary, patented oil-filtration technology that recycles waste oil without any degradation in quality. Under a signed investment agreement, the Group will invest a total of RMB4.65 million in two tranches for a total equity interest of 29.86%, subject to adjustment if SMECT does not achieve certain performance milestones. A consortium of six individuals (including Mr. Yeung Wai Kin, a director of the Company) has agreed to invest on similar terms and conditions at RMB800,000 for a total equity interest of 5.137% (each investor's share being RMB133,333, or an equity interest of 0.856%). As at the end of 2012, the Group had invested RMB3.05 million (approx. US$0.48 million) and will commit the final balance of

RMB1.60 million when its performance milestones are reached. For 2012, SMECT's operations were contained to establishment and testing phases, hence no meaningful revenue was earned. The result was a loss of RMB1.31 million, of which the Group shared US$0.02 million.

Available-for-sale financial assets

Shandong Lukang Pharmaceutical Co Ltd ("Lukang")

Since 2011, Lukang has been adversely affected by the operating environment caused by various government policies, including mandated drug price reduction measures, the start of provincial drug tendering, restrictions on the use of antibiotics, and the implementation of new Good Manufacturing Practice ("GMP") standards. These factors have either driven down the selling prices of Lukang's products or increased the overall costs of its operation. In 2012, the so-called toxic drug capsule event aggravated the already hammered situation. For the first nine months in 2012, Lukang reported a loss of RMB93.48 million (approx. US$15.00 million), compared to a profit of RMB71.26 million (approx. US$11.32 million) in the corresponding period in 2011. To mitigate the impact of government policies, Lukang has implemented energy conservation measures and streamlined production facilities that enhance cost controls. In March 2012, Lukang completed the acquisition of 70% equity in QingHai Earth Pharmaceutical Co Ltd(青海大地藥業有限公司)for RMB42 million. This acquisition has allowed Lukang access to a source of a variety of proprietary Chinese medicines which has expanded its product range and thereby reduced its exposure and major dependence on antibiotics. As a result of these measures, the third quarter loss in 2012 was reduced to RMB24.16 million from the average quarterly loss of RMB34.46 million in the first half of 2012. It was anticipated that further improvement would be achieved in the final quarter of 2012.

Lukang's share price closed at RMB 3.95 for the period ended 31 December, 2012. Its highest and lowest closing prices for the period were RMB5.90 and RMB3.47 respectively. As at 31 December, 2012, the fair value of the investment in Lukang was stated as US$36.78 million and an unrealised fair value loss of US$7.65 million was transferred to the investment revaluation reserve.

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

The Group had 1,488,200 shares of China Pacific, a PRC general insurer at the end of the period. As at 31 December, 2012, the fair value of China Pacific was stated as US$5.50 million and an unrealised fair value gain of US$1.27 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 minerals, energy or related industries in the PRC and its size is RMB500 million.

The Group has a 6% indirect interest in RS Fund and has paid RMB24 million for its first and second capital calls. The Group is committed to pay RMB6 million as the balance of its investment.

In 2010, RS Fund made investments, respectively, of 14.4% in equity in Ganxian Shirui New Material Company Limited, and 12.5% in equity in Ganzhou Chenguang Rare Earths New Material Company Limited. In March 2011, RS Fund advanced an entrusted loan of RMB180 million to 太重煤機有限公司(Tai Chong Coal Machinery Company Limited, "TCC") whose main businesses are the manufacture and sale of coal washing equipment, coking coal equipment and coal devices (scrapers, belt machines, etc.). TCC is under reorganization and certain assets are planned to be injected into it by its controlling shareholder. RS Fund has an 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 reorganization will be completed in the first half of 2013.

The fair value of the RS Fund is stated as US$4.63 million, resulting in a fair value deficit of US$2.19 million being debited to the investment revaluation reserve for the year.

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

Upon its maturity in February 2012, PingAn Trust was dissolved and distribution of RMB45.43 million was received by the Group. This resulted in a realized loss of RMB5.64 million (US$0.90 million) for the year. Including past distributions from PingAn Trust, the Group realized an overall profit of US$2.75 million on this investment during the holding period, a return of 39.47% over 5 years.

China Alpha Fund ("China Alpha")

The Group invested approximately US$1.30 million in China Alpha in 2007. Benefitting from the China stock market rebound in December 2012, the market price of China Alpha posted an increase of 1.94%, resulting in an unrealised fair value gain of US$0.06 million being transferred to the investment revaluation.

Ragentek Technology Group Limited ("Ragentek")

In February 2011, the Group invested US$7.3 million for a 6.6% common equity in Ragentek, a mobile handset design and development company. Ragentek was founded in 2006 by a group of Chinese experts from the TMT (technology, media, telecom) and mobile device manufacturing sectors. Its focus was mainly on R&D and manufacturing of ODM (original design manufacturer) mobile phone handsets using GSM, 3G and Wi-Fi systems, as well as providing smart phone total solutions. Its major customers are top local brands or local telecommunications operators throughout major developing countries, including China, India and Brazil, as well as regions in the Middle East, Southeast Asia and Africa. In March 2012, Ragentek started to upgrade from 2G to 3G smart-phone products and launched its self-branded lines in April 2012. As a result of fierce market competition and allocation of significant resources to research and development, Ragentek incurred an unaudited loss of RMB1.46 million in 2012. This compared with a net profit of RMB57.21 million in 2011. In view of the performance deterioration, the Group decided to book a fair value loss of US$4.60 million on the investment.

Investment For Which Full Provision Had Been Made

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 finance part of the construction cost of a dredging ship for projects in China. Up to August 2010, 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 construction completion, to operate there. 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. Agreement was reached that full repayment had to be made no later than June 2012. Due to its repeated failure to provide substantiated evidence of obtaining external financing to substitute the Group's loan, and on assessment of the existing financial situation of Junhui and its guarantor, the Group considers there is a high risk to its full recoverability of the loan and its related interest receivable. This together amounted to RMB56.45 million at the end of December. The Group has contacted the shipyard and been informed it is still owed a very material balance by Junhui. In consideration of the facts that the dredge is under the control of the shipyard, to which its due debt is in priority to that of the Group, and the severe prevailing market conditions of the dredging industry, the Group has made a full provision of US$9.01 million as impairment to the loan receivable and its related interest receivable.

Investments

Holygene Corporation ("Holygene")

In May 2012, the Group called Holygene for redemption of a convertible note of US$2.2 million upon its maturity. Holygene advised that, due to its funding situation, it was unable to discharge its redemption obligation. The Company is still discussing with Holygene how to resolve its repayment default. In assessing the financial position of Holygene, a full provision of US$2.4 million, being the fair value at the end of last year, was made.

Canton Property Investment Ltd. ("Canton Property")

In December 2012, the group sold its entire holding in Canton Property for a consideration of approximately GBP1.46 million. The disposal resulted in a recovery of approx. US$2.35 million which was credited in the year to other income.

Biographical Details of Directors

Mr. LO Yuen Yat, aged 67, 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.

Ms. LAO Yuan Yuan, aged 34, 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 the 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 50, has been a director since 1996. He is currently a director and 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 experience 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.

Mr. YEUNG Wai Kin, aged 51, 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 68, has been a director since 2000. He has a bachelor's degree from Qinghua University, China, and a diploma in engineering from Rul University, Germany. He is an indirect shareholder of CAIML.

Mr. FAN Jia Yan, aged 66, 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 worked for CITIC Industrial Bank in Beijing for more than 10 years and is well versed in all aspects of China's banking business.

Biographical Details of Directors

Mr. WU Ming Yu, aged 81, 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 a director of Creat Group. Mr. Wu was an independent director of Beijing Shougang Company Limited and an independent non-executive director of Venturepharm Laboratories Limited. He has been 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 has published numerous research papers and was instrumental in formulating China's policy on science and technology.

Dr. David William Maguire, aged 60, has been a director since July 2008. Dr Maguire is an independent non-executive director of the Company. Over a continuing career of more than 30 years in the media sector he has held senior management positions in Shanghai, Hong Kong and Australia, been a university media academic, and served as chairman and director of a number of corporate and NFP entities. He is a Ph.D. (Murdoch University, Perth) and Doctor of Business Administration (Edith Cowan University, Perth), as well as an Master of Business Administration (James Cook University, Cairns) and holder of Masters degrees in regional development (University of Western Australia, Perth) and tourism management (Southern Cross University). He 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, 2012 and was prepared in accordance with Appendix 23 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company is committed to maintain a sound standard of corporate governance in protecting the interests of its shareholders based on the principles of integrity, fairness, independence and transparency.

The Company continues to review the effectiveness of the corporate structure in order to assess whether changes are necessary and appropriate to improve its corporate governance practices.

Corporate Governance Practices

The Code on Corporate Governance Practices set 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.

The Board is committed to maintain a high standard of corporate governance in the best interests of the shareholders. For the year ended 31 December 2012, the Board is of the view that, for the period from 1 January 2012 to 31 March 2012, the Company has complied with the code provisions on the Code on Corporate Governance Practices (the "Old Code") set out in Appendix 14 to the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and for the period from 1 April 2012 till 31 December 2012, the Company has complied with the code provisions included in the amendments made to the Old Code which have been effective since 1 April 2012 (the "New Code") save for deviations from the code provision of A.6.7 that at the annual general meeting of the Company held on 25 May 2012, only one non-executive director attended, and at the extraordinary general meeting held on 28 December 2012, only two non-executive directors attended, while other non-executive directors were unable to attend the general meetings due to their overseas commitments.

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 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, 2012.

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's 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 16 to 17. 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 2012, the Board composed of nine directors, of whom three were Executive Directors, three were Non-executive Directors and three were Independent Non-executive Directors. One Executive Director resigned in October 2012 and the Board comprised of eight directors at the end of the year.

The members of the Board during the year ended 31 December, 2012 and up to the date of this report are set out as follows:

Executive Directors:
Mr. Lo Yuen Yat, *Chairman*
Mr Chan Suit Khown (resigned on 17 October 2012)
Ms. Lao Yuan Yuan

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

Independent Non-executive Directors:
Mr. Fan Jia Yan
Mr. Wu Ming Yu
Dr. David William Maguire

Except for Ms. Lao Yuan Yuan being the daughter of Mr. Lo Yuen Yat, there is no relationship among the directors of the Company.

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 six board meetings during the year ended 31 December, 2012. Notice of at least 14 days was given for a regular board meeting to which all directors were given an opportunity to attend.

Board of Directors *(Continued)*

Composition *(Continued)*

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 six board meetings for the year ended 31 December, 2012 is set out as follows:

Name of Director	Attendance
Mr. Lo Yuen Yat	6/6
Mr. Chan Suit Khown	5/5
Ms. Lao Yuan Yuan	5/6
Mr. Jiang Wei	2/6
Mr. Yeung Wai Kin	6/6
Mr. Zhao Yu Qiao	2/6
Mr. Fan Jia Yan	6/6
Mr. Wu Ming Yu	5/6
Dr. David William Maguire	6/6

Directors' Professional Development

According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the CG Code on continuous professional development during the year:

	Corporate Governance/Updates on laws, rules and regulations	
Name of Director	Read materials	Attend workshops
Mr. Lo Yuen Yat	✓	✓
Ms. Lao Yuan Yuan	✓	✓
Mr. Jiang Wei	✓	✓
Mr. Yeung Wai Kin	✓	✓
Mr. Zhao Yu Qiao	✓	✓
Mr. Fan Jia Yan	✓	—
Mr. Wu Ming Yu	✓	—
Dr. David William Maguire	✓	✓

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) reviews and approves the management's remuneration proposals with reference to the board's corporate goals and objectives;

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

(iii) fairly and responsibly rewards directors and senior management with regard to the performance of the Company, the performance of the directors and senior management, and the general remuneration environment; and

(iv) 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 2012, 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 Dr. David William Maguire. The Chairman of the Remuneration Committee was Mr. Lo Yuen Yat during the period up to 14 March, 2012. Mr. Fan Jia Yan has been appointed Chairman of the Remuneration Committee effective 15 March, 2012.

The Remuneration Committee held one meeting to discuss remuneration related matters during the year ended 31 December, 2012. The individual attendance of each member at the committee meeting for the year ended 31 December, 2012 is set out as follows:

Name of Director	**Attendance**
Mr. Fan Jia Yan	1/1
Mr. Lo Yuen Yat	1/1
Dr. David William Maguire	1/1

Audit Committee

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

Audit Committee *(Continued)*

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

Since 22 March, 2008, the Audit Committee has comprised 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, 2012. The individual attendance of each member at the committee meetings for the year ended 31 December, 2012 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	3/3

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 makes recommendations on any proposed changes to the board to complement the Company's corporate strategy;

(ii) identifies individuals suitably qualified to become board members and selects or makes 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 comprised of three members, one of whom 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, 2012.

	US$
Annual audit fee	185,050
Non-audit fee	—
	185,050

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 mis-statement 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. The Audit Committee was satisfied that the internal control system during the year under review had been in place and functioned effectively.

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. They 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 out in the Independent Auditor's Report on pages 31 and 32.

Investment Committee

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

The Investment Committee comprised of three members, of whom two are Executive Directors, Mr. Lo Yuen Yat and Ms. Lao Yuan Yuan, and one Non-executive Director, Mr. Yeung Wai Kin.

Communication with Shareholders

The Company endeavors to maintain an on-going dialogue with shareholders and in particular, through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation. The Chairman and members of the Board will make themselves available to answer questions on the Group's business.

The Group values feedback from shareholders on its effort to promote transparency and foster investor relationships. Comments and suggestions are always welcomed.

Report of the Directors

The directors submit their report together with the audited consolidated financial statements for the year ended 31 December, 2012.

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, 2012.

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 the Company's share capital are set out in Note 21 to the consolidated financial statements.

Distributable Reserve

There was no distributable reserve of the Company as at 31 December, 2012 (2011: US$6,505,140).

Five-year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 80.

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 *(resigned on 17 October, 2012)*
Ms. Lao Yuan Yuan
Mr. Jiang Wei
Mr. Yeung Wai Kin
Mr. Zhao Yu Qiao
* Mr. Fan Jia Yan
* Mr. Wu Ming Yu
* Dr. David William Maguire

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

Directors *(Continued)*

In accordance with Articles 87B, 90 and 98 of the Company's Articles of Association, Mr. Jiang Wei and Dr. David William Maguire will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' Service Contracts

No director (whether or not he/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 16 and 17.

Continuing Connected Transaction

New Agreement Supplemental to 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. The Amended Management Agreement was subsequently renewed bi-annually on the same terms and conditions until 31 December, 2012.

On 28 December, 2012 a new agreement dated 25 September, 2012 (the "New Supplemental Agreement") to supplement the Amended Management Agreement for provision of management and advisory services to the Company by CAIML, effective 1 January, 2013 to 31 December, 2015, was approved by shareholders in general meeting.

The Amended Management Agreement and the New Supplemental Agreement (collectively the "New Amended Management Agreement") may be terminated by either party by serving not less than six months' written notice to the other party provided that the Company is required to have approval of its shareholders (by way of ordinary resolution) before giving such notice.

Under the New Amended Management Agreement, CAIML is entitled to receive from the Company a basic 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 subject to the net asset value of the Company for the relevant year being greater than the greatest of all previous net asset values. The annual management fee (including performance bonus, if any) is also subject to the relevant annual cap as approved by shareholders in general meeting.

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 or the New Amended Management Agreement except that (a) Mr. Lo Yuen Yat is a director of CAIML; (b) Mr. Yeung Wai Kin is a shareholder of CAIML; and (c) Mr. Zhao Yu Qiao is an indirect shareholder of CAIML.

Continuing Connected Transaction *(Continued)*

New Agreement Supplemental to Amended Management Agreement *(Continued)*

The Independent Non-executive Directors have reviewed the above continuing connected transaction and have confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of the business of the Company and its subsidiaries;

(2) on normal commercial terms, or on terms no less favorable to the Company than terms available to, or from, independent third parties; and

(3) in accordance with the relevant agreement governing them, on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Company's continuing connected transaction in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information," and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the findings and conclusions in respect of the continuing connected transactions disclosed above by the Company in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange Limited.

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 shares in the Company.

Share Options *(Continued)*

Options in respect of shares in the Company *(Continued)*

Details of the share options granted under the Scheme and that remain outstanding as at 31 December, 2012 are as follows:

	Options held at 1 January 2012	Options lapsed during the year	Options exercised during the year	Options held at 31 December 2012	Exercise price *HK$*	Closing price before the date of grant *HK$*	Date of grant	Exercise period
Directors:								
Lo Yuen Yat	725,000	—	—	725,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
	750,000	—	—	750,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
Xu Xiao Feng*	750,000	(750,000)[1]	—	—	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	400,000	—	—	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	1,100,000			1,100,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
	6,975,000	(750,000)	—	6,225,000				

1. Pursuant to the terms of the Scheme, the options lapsed six months after the resignation of the Director.

* Resigned on 21 October 2011.

Directors' Interests in Contracts of Significance

Save as disclosed in the section headed New Agreement Supplemental to 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, existed at the end of the year or at any time during the year.

Save as disclosed in the section headed New Agreement Supplemental to 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, 2012, 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

Name of director	Number of shares held: Personal interests	Number of shares held: Corporate interests	Number of shares held: Total	% of the issued share capital
Lo Yuen Yat	225,000	0	225,000	0.29%
Yeung Wai Kin	100,000	0	100,000	0.13%
Fan Jia Yan	75,000	0	75,000	0.10%

Apart from the New Agreement Supplemental to 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 been a party to any arrangement to enable the directors and/or chief executives of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

Apart from the above, as at 31 December, 2012, 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, 2012, 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	32.78%
First Shanghai Direct Investments Limited ("FSDI") *(Note 1)*	Corporate	Interest of Controlled Corporation	25,162,866	32.78%
Golad Resources Limited *(Note 1)*	Corporate	Beneficial Owner	25,162,866	32.78%
Deutsche Bank Aktiengesellschaft	Corporate	Security Interest Beneficial owner	17,093,918 3,166,082	22.27% 4.12%
QVT Financial LP *(Note 2)*	Corporate	Investment Manager	17,093,918	22.27%
QVT Financial GP LLC *(Note 2)*	Corporate	Interest of Controlled Corporation	17,093,918	22.27%
QVT Associates GP LLC *(Note 3)*	Corporate	Interest of Controlled Corporation	16,863,526	21.97%
QVT Fund LP *(Note 3)*	Corporate	Beneficial Owner	15,337,878	19.98%
Chen Dayou *(Note 4)*	Personal	Interest of Controlled Corporation	8,075,000	10.52%
Team Assets Group Limited *(Note 4)*	Corporate	Beneficial Owner	8,075,000	10.52%

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 an 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 an interest in the issued share capital of the Company through its interest in QVT Fund LP.

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

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

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 a 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, 2012.

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, 22 March, 2013

pwc 羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
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 79, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888

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 2012, 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, 22 March 2013

Consolidated Income Statement

For The Year Ended 31 December 2012

	Note	2012 US$	2011 US$
Income	6	**845,377**	2,420,614
Other losses — net	7	**(13,692,061)**	(387,360)
Other income — net	8	**—**	65,460
Administrative expenses	9	**(2,737,992)**	(2,699,552)
Operating loss		**(15,584,676)**	(600,838)
Share of losses of associates		**(2,261,480)**	(1,096,055)
Provision for impairment of investment in an associate		**(2,900,776)**	—
Loss before income tax		**(20,746,932)**	(1,696,893)
Income tax expense	11	**(68,328)**	(132,989)
Loss for the year attributable to equity holders of the Company		**(20,815,260)**	(1,829,882)
Losses per share to the equity holders of the Company during the year	13		
— Basic		**(0.271)**	(0.024)
— Diluted		**(0.271)**	(0.024)

The notes on pages 40 to 79 are an integral part of these consolidated financial statements.

Dividend	**—**	—

Consolidated Statement Of Comprehensive Income

For the Year Ended 31 December 2012

	2012 US$	2011 US$
Loss for the year	**(20,815,260)**	(1,829,882)
Other comprehensive (loss)/gain:		
Share of post-acquisition reserves of associates	**660,489**	(468,949)
Exchange differences arising on translation of associates and subsidiaries	**279,184**	1,505,598
Release of investment revaluation reserve upon disposal of an available-for-sale financial asset	**986,794**	(669,456)
Fair value losses of available-for-sale financial assets, net of deferred income tax	**(8,193,169)**	(27,458,437)
Other comprehensive loss for the year, net of tax	**(6,266,702)**	(27,091,244)
Total comprehensive loss for the year attributable to equity holders of the Company	**(27,081,962)**	(28,921,126)

The notes on pages 40 to 79 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2012

	Note	2012 US$	2011 US$
ASSETS			
Non-current assets			
Investments in associates	15	**64,994,838**	66,859,008
Available-for-sale financial assets	16	**49,713,074**	66,115,220
Total non-current assets		**114,707,912**	132,974,228
Current assets			
Loans receivable	17	**4,360,588**	7,331,903
Other receivables, prepayments and deposits	18	**126,133**	2,229,838
Financial assets at fair value through profit or loss	19	**7,040,033**	13,408,379
Cash and cash equivalents	20	**20,337,805**	18,681,992
Total current assets		**31,864,559**	41,652,112
Total assets		**146,572,471**	174,626,340
EQUITY			
Equity attributable to equity holders of the Company			
Share Capital	21	**7,675,816**	7,675,816
Reserves	22	**133,833,658**	160,915,620
Total equity		**141,509,474**	168,591,436
LIABILITIES			
Non-current liability			
Deferred income tax liabilities	23	**2,908,560**	3,998,213
Current liabilities			
Accounts payable		**160,272**	144,683
Accrued expenses		**298,986**	155,700
Amounts due to related companies	26(c)	**312,037**	310,609
Current income tax liabilities		**1,383,142**	1,425,699
Total current liabilities		**2,154,437**	2,036,691
Total liabilities		**5,062,997**	6,034,904
Total equity and liabilities		**146,572,471**	174,626,340
Net current assets		**29,710,122**	39,615,421
Total assets less current liabilities		**144,418,034**	172,589,649

Lo Yuen Yat
Director

Lao Yuan Yuan
Director

The notes on pages 40 to 79 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2012

	Note	2012 US$	2011 US$
ASSETS			
Non-current assets			
Investments in subsidiaries	14	**17,220,153**	20,573,551
Investments in associates	15	**14,719,554**	17,620,330
Available-for-sale financial assets	16	**49,713,074**	59,090,276
Total non-current assets		**81,652,781**	97,284,157
Current assets			
Loans receivable	17	**350,000**	7,331,903
Other receivables, prepayments and deposits	18	**55,865**	2,166,152
Financial assets at fair value through profit or loss	19	**7,040,033**	11,006,841
Cash and cash equivalents	20	**12,236,051**	10,383,172
Total current assets		**19,681,949**	30,888,068
Total assets		**101,334,730**	128,172,225
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	21	**7,675,816**	7,675,816
Reserves	22	**89,256,327**	115,156,442
Total equity		**96,932,143**	122,832,258
LIABILITIES			
Non-current liability			
Deferred income tax liabilities	23	**2,908,560**	3,977,086
Current liabilities			
Accounts payable		**160,272**	144,683
Accrued expenses		**298,986**	155,700
Amounts due to subsidiaries and related companies	26(c)	**374,147**	372,719
Current income tax liabilities		**660,622**	689,779
Total current liabilities		**1,494,027**	1,362,881
Total liabilities		**4,402,587**	5,339,967
Total equity and liabilities		**101,334,730**	128,172,225
Net current assets		**18,187,922**	29,525,187
Total assets less current liabilities		**99,840,703**	126,809,344

Lo Yuen Yat
Director

Lao Yuan Yuan
Director

The notes on pages 40 to 79 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2012

	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 2012	7,675,816	69,107,882	7,367,380	2,663,003	1,826,375	24,939,781	55,011,199	168,591,436
Comprehensive loss								
Loss for the year attributable to equity holders of the Company	–	–	–	–	–	–	(20,815,260)	(20,815,260)
Other comprehensive (loss)/gain								
Share of post-acquisition reserves of associates	–	–	660,489	–	–	–	–	660,489
Exchange differences arising on translation of associates and subsidiaries	–	–	–	279,184	–	–	–	279,184
Release of investment revaluation reserve upon disposal of an available-for-sale financial asset	–	–	–	–	–	986,794	–	986,794
Fair value losses of available-for-sale financial assets	–	–	–	–	–	(9,223,193)	–	(9,223,193)
Deferred income tax on fair value losses of available-for-sale financial assets	–	–	–	–	–	1,030,024	–	1,030,024
Total other comprehensive (loss)/gain for the year, net of tax	–	–	660,489	279,184	–	(7,206,375)	–	(6,266,702)
Total comprehensive (loss)/gain for the year ended 31 December 2012	–	–	660,489	279,184	–	(7,206,375)	(20,815,260)	(27,081,962)
Total contributions by and distributions to equity holders of the Company recognised directly in equity								
Employees share option scheme:								
– transfer of reserve upon lapse of share options	–	–	–	–	(252,494)	–	252,494	–
Total contributions by and distribution to equity holders of the Company	–	–	–	–	(252,494)	–	252,494	–
Balance as at 31 December 2012	7,675,816	69,107,882	8,027,869	2,942,187	1,573,881	17,733,406	34,448,433	141,509,474

The notes on pages 40 to 79 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2012

	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)/gain								
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 an available-for-sale financial asset	—	—	—	—	—	(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)/gain for the year, net of tax	—	—	(658,045)	1,505,598	—	(28,127,893)	189,096	(27,091,244)
Total comprehensive (loss)/gain 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
Balance 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 79 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2012

		Year ended 31 December	
		2012	2011
	Note	***US$***	*US$*
Cash flows from operating activities			
Cash used in operations	*24*	**(2,359,218)**	(9,240,073)
Hong Kong profits tax paid		**(97,487)**	(183,204)
Overseas profit tax paid		**(20,935)**	(80,116)
Net cash used in operating activities		**(2,477,640)**	(9,503,393)
Cash flows from investing activities			
Loan repayment received		**150,000**	933,202
Loan granted to an associate		**(4,010,588)**	—
Interest received		**463,443**	2,202,384
Dividend received from an associate		**—**	318,266
Dividends received from listed investments		**381,934**	218,230
Investments in associates		**(2,447,544)**	(10,233,521)
Purchase of available-for-sale financial assets		**—**	(1,372,956)
Net proceed from disposals of available-for-sale financial assets		**9,564,706**	5,485,575
Net cash generated from/(used in) investing activities		**4,101,951**	(2,448,820)
Cash flows from financing activity			
Proceed from issue of new shares upon exercise of share options		**—**	68,038
Net cash generated from financing activity		**—**	68,038
Net increase/(decrease) in cash and cash equivalents		**1,624,311**	(11,884,175)
Cash and cash equivalents at beginning of year		**18,681,992**	30,247,889
Exchange gains on cash and cash equivalents		**31,502**	318,278
Cash and cash equivalents at end of year	*20*	**20,337,805**	18,681,992

The notes on pages 40 to 79 are an integral part of these consolidated financial statements.

1. General information

China Assets (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") is principally engaged in the investment holding in Hong Kong and the Mainland China.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong.

The Company is listed on The Stock Exchange of Hong Kong Limited.

These financial statements are presented in United States dollars ("US$"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 22 March 2013.

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 ("HKFRSs"). 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 HKFRSs 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 amended standards are mandatory for the first time for the financial year beginning 1 January 2012 but not currently relevant to the Group (although they may affect the accounting for future transactions and events).

- HKAS 12 (Amendment), "Deferred tax: recovery of underlying assets" introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, HK(SIC) 21, "Income taxes — recovery of revalued non-depreciable assets", would no longer apply to investment properties carried at fair value. The amendments also incorporate into HKAS 12 the remaining guidance previously contained in HK(SIC) 21, which is accordingly withdrawn.

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)

- Amendment to HKFRS 1 "Severe hyperinflation and removal of fixed dates" for first-time replaces references to a fixed date of "1 January 2004" with "the date of transition to HKFRSs", thus eliminating the need for companies adopting HKFRSs for the first time to restate derecognition transactions that occurred before the date of transition to HKFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with HKFRSs after a period when the entity was unable to comply with HKFRSs because its functional currency was subject to severe hyperinflation.

- Amendment to HKFRS 7 "Disclosures — transfers of financial assets" promotes transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial asset.

The adoptions of the above new and amended standards have no material impact to the consolidated financial statements.

(2) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2012 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 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)	First-time adoption of Hong Kong Financial Reporting Standards — Government loan	1 January 2013
HKFRS 7 (Amendment)	Disclosures — Offsetting financial assets and financial liabilities	1 January 2013
HKFRS 7 and 9 (Amendment)	Mandatory effective date and transition disclosures	1 January 2015

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 2012 and have not been early adopted. (Continued)

		Effective for accounting periods beginning on or after
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated financial statements, joint arrangements and disclosure of interests in other entities, transition guidance	1 January 2013
HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendments)	Investment entities	1 January 2014
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
Annual Improvements 2009-2011 Cycle	Improvements to HKFRSs	1 January 2013

The Group has already commenced an assessment of the related impact of adopting the above new and amended standards to the Group. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated 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. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise from circumstances where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

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.

2. Summary of significant accounting policies *(Continued)*

(b) Subsidiaries *(Continued)*

(i) Consolidation (Continued)

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.

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.

2. Summary of significant accounting policies *(Continued)*

(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.

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.

(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 US$, which is the Company's functional and the Group's presentation currency.

2. Summary of significant accounting policies *(Continued)*

(e) Foreign currency translation *(Continued)*

(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 — 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.

(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.

2. Summary of significant accounting policies *(Continued)*

(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.

(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", "loan receivable from an associate" 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 o 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.

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 — 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.

(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.

2. Summary of significant accounting policies *(Continued)*

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

(i) Assets carried at amortised cost *(Continued)*

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.

(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).

2. Summary of significant accounting policies *(Continued)*

(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.

(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.

2. Summary of significant accounting policies *(Continued)*

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

(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.

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).

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.

2. Summary of significant accounting policies *(Continued)*

(o) Employee benefits *(Continued)*

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(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.

(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.

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.

3. Financial risk management *(Continued)*

(a) Financial risk factors *(Continued)*

(i) Market risk

(1) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollars ("HK$") and Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group currently does not have a foreign currency hedging policy.

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

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

(2) Price risk

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

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 2012 (2011: 15%), the Group's investment revaluation reserve would increase or decrease by approximately US$7,457,000 (2011: US$9,917,000) and "other losses — net" in the consolidated income statement for the year ended 31 December 2012 would increase or decrease by US$1,056,000 (2011: US$2,011,000) 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 2012 was the amount for the whole year, if the interest rate was 20 (2011: 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 (2011: US$9,000).

3. Financial risk management *(Continued)*

(a) Financial risk factors *(Continued)*

(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.

As at 31 December 2011 and 2012, 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 2011 and 2012, 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 2012.

	Level 1	**Level 3**	**Total**
	US$	***US$***	***US$***
Financial assets at fair value through profit or loss			
— listed equity securities	**4,326,700**	**—**	**4,326,700**
— unlisted equity securities	**—**	**2,713,333**	**2,713,333**
Available-for-sale financial assets			
— listed equity securities	**42,296,470**	**—**	**42,296,470**
— unlisted, quoted equity securities	**2,788,516**	**—**	**2,788,516**
— private investment fund	**—**	**4,628,088**	**4,628,088**
	49,411,686	**7,341,421**	**56,753,107**

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 equity securities	3,689,284	—	3,689,284
— convertible note	—	2,401,538	2,401,538
— unlisted equity securities	—	7,317,557	7,317,557
Available-for-sale financial assets			
— listed equity securities	49,545,911	—	49,545,911
— unlisted, quoted equity 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 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.

The following table presents the changes in level 3 instruments for the year ended 31 December 2012.

	Private investment fund	**Unlisted equity securities**	**Convertible note**	**Total**
	US$	*US$*	*US$*	*US$*
Opening balance	6,814,015	7,317,557	2,401,538	16,533,110
Loss recognised in the investment revaluation reserve	(2,185,927)	—	—	(2,185,927)
Loss recognised in the consolidated income statement	—	(4,604,224)	(2,401,538)	(7,005,762)
Closing balance	4,628,088	2,713,333	—	7,341,421

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

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.

4. Critical accounting estimates and judgements *(Continued)*

(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.

(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 2004 and 31 December 2006, then subsequently renewed biannually on the same terms and conditions until 31 December 2012, 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 2012 amounted to US$1,828,041 (2011: US$1,969,435).

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 2012 (2011: 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:

	2012 US$	2011 US$
Income		
Bank interest income	**432,762**	353,411
Loan interest income	**30,681**	1,848,973
Dividend income from listed investments	**381,934**	218,230
	845,377	2,420,614

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 HKFRSs 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:

	2012 US$	2011 US$
Income		
Hong Kong	**522,947**	2,156,575
Mainland China	**322,430**	264,039
	845,377	2,420,614

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

	2012 US$	2011 US$
Non-current assets, other than available-for-sale financial assets		
Hong Kong	**54,294,872**	55,345,629
Mainland China	**10,699,966**	11,513,379
	64,994,838	66,859,008

7. Other losses — net

	2012 US$	2011 US$
Net gains on disposals of available-for-sale financial assets	**1,458,588**	818,868
Net fair value losses on financial assets at fair value through profit or loss	**(6,268,376)**	(1,918,551)
Provision for impairment of loans and other receivables	**(9,014,947)**	—
Net exchange gains	**132,674**	712,323
	(13,692,061)	(387,360)

8. Other income — net

	2012 US$	2011 US$
Reversal of provision for impairment of an amount due from an associate	**—**	65,460

9. Administrative expenses

Expenses included in administrative expenses are analysed as follows:

	2012 US$	2011 US$
Investment management fee *(Note 5)*	**1,828,041**	1,969,435
Employee benefit expenses (including directors' remuneration) *(Note 10)*	**191,598**	180,554
Auditor's remuneration	**185,050**	148,763
Other expenses	**533,303**	400,800
	2,737,992	2,699,552

10. Employee benefit expenses (including directors' remuneration)

	2012 US$	2011 US$
Wages and salaries	**189,825**	179,057
Pension costs — defined contribution plan	**1,773**	1,497
	191,598	180,554

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 2012 and 2011 is set out below:

	2012 Directors' fee *HK$*	2011 Directors' fee *HK$*
Executive directors		
Mr. Lo Yuen Yat	**89,040**	84,000
Ms. Lao Yuan Yuan	**89,040**	84,000
Mr. Xu Xiao Feng (resigned on 21 October 2011)	**—**	48,904
Mr. Chan Suit Khown (resigned on 17 October 2012)	**74,200**	84,000
Non-executive directors		
Mr. Jiang Wei	**89,040**	84,000
Mr. Yeung Wai Kin	**143,640**	138,600
Mr. Zhao Yu Qiao	**89,040**	84,000
Independent non-executive directors		
Mr. Fan Jia Yan	**200,550**	194,250
Mr. Wu Ming Yu	**165,900**	159,600
Dr. David William Maguire	**111,300**	105,000
	1,051,750	1,066,354
Equivalent to United States dollars	**135,675**	137,296

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2011: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2011: one) individual during the year are as follows:

	2012 *US$*	2011 *US$*
Basic salaries, housing allowances, other allowances and benefits in kind	**54,150**	41,760
Pension costs — defined contribution plan	**1,773**	1,497
	55,923	43,257

The emoluments payable to this employee in 2012 and 2011 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% (2011: 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.

	2012	2011
	US$	*US$*
Current tax:		
— Current tax on profits for the year	**56,763**	153,448
— Adjustments in respect of prior years	**11,565**	(20,459)
Income tax expense	**68,328**	132,989

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

	2012	2011
	US$	*US$*
Loss before tax income	**(20,746,932)**	(1,696,893)
Less: share of loss of associates	**2,261,480**	1,096,055
	(18,485,452)	(600,838)
Calculated at income tax rate of 16.5% (2011: 16.5%)	**(3,050,100)**	(99,138)
Effect of different income tax rates in other countries	**10,643**	18,309
Income not subject to tax	**(522,895)**	(220,554)
Expenses not deductible for tax purposes	**3,619,115**	454,831
Adjustments in respect of prior years	**11,565**	(20,459)
Tax charge	**68,328**	132,989

12. Loss for the year attributable to equity holders of the Company

The loss 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$17,753,608 (2011: profit of US$1,597,076).

13. Losses per share

The calculation of basic and diluted losses per share is calculated by dividing the Group's loss for the year attributable to equity holders of the Company of US$20,815,260 (2011: US$1,829,882). The basic losses per share is based on the weighted average number of 76,758,160 (2011: 76,723,635) ordinary shares in issue during the year.

Diluted losses per share during the year is the same as the basic losses per share as the potential additional ordinary shares are anti-dilutive.

14. Investments in subsidiaries

	Company 2012 US$	2011 US$
Unlisted shares, at cost *(Note c)*	**140,151**	140,151
Amounts due from subsidiaries *(Note a)*	**32,037,981**	33,192,669
Less: provision for impairment *(Note b)*	**(14,957,979)**	(12,759,269)
	17,080,002	20,433,400
	17,220,153	20,573,551

Movements in the provision for impairment of amounts due from subsidiaries are as follows:

	Company 2012 US$	2011 US$
As at 1 January	**(12,759,269)**	(12,759,269)
Provision for impairment	**(2,198,710)**	—
As at 31 December	**(14,957,979)**	(12,759,269)

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

	2012 US$	2011 US$
Renminbi	**17,080,012**	18,234,700
US Dollars	**14,957,969**	14,957,969
	32,037,981	33,192,669

(b) The amounts due from subsidiaries were past due and were fully impaired in 2007, 2008 and 2012.

14. Investments in subsidiaries *(Continued)*

(c) The following is a list of subsidiaries held directly by the Company at 31 December 2012:

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Interest held 2012	Interest held 2011
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	
	2012	2011
	US$	*US$*
As at 1 January	**66,859,008**	65,992,038
Increase in investments in associates	**2,447,544**	10,233,521
Share of associates' losses	**(2,261,480)**	(1,096,055)
Share of post-acquisition reserves of associates	**660,489**	(468,949)
Write off on interest in a fully impaired associate	**—**	(8,043,553)
Dividend received	**—**	(318,266)
Exchange differences	**190,053**	560,272
As at 31 December	**67,895,614**	66,859,008
Provision for impairment of investment in an associate	**(2,900,776)**	—
	64,994,838	66,859,008

	Company	
	2012	2011
	US$	*US$*
Shares listed in Hong Kong, at cost	**13,770,330**	13,770,330
Unlisted investments, at cost	**4,585,627**	4,585,627
	18,355,957	18,355,957
Provision for impairment	**(3,636,403)**	(735,627)
	14,719,554	17,620,330

Movements in the provision for impairment of investment in associates are as follows:

	Group		Company	
	2012	2011	**2012**	2011
	US$	*US$*	***US$***	*US$*
As at 1 January	**—**	(8,043,553)	**(735,627)**	(735,627)
Provision for impairment	**(2,900,776)**	—	**(2,900,776)**	—
Written off during the year as uncollectible	**—**	8,043,553	**—**	—
As at 31 December	**(2,900,776)**	—	**(3,636,403)**	(735,627)

15. Investments in associates *(Continued)*

(a) The following is a list of associates held directly/indirectly by the Company at 31 December 2012:

Name	Particulars of issued shares held	Place of incorporation	Principal activities	Interest held 2012	2011
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%
Hong Kong Strong Profit Limited ("HKSP") *(See note ii 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 iii below)*	RMB 62,500,000 (2011: RMB 50,000,000)	People's Republic of China	Provision of medical service	**25%**[1]	25%[1]
Goldeneye Interactive Limited ("Goldeneye") *(See note iv below)*	Series B Preferred shares of 9,574,330 of US$0.001 each	Cayman Islands	Provision of online real estate information	**22.37%**	22.37%
Shanghai Moxing Environmental Science and Technology Co Ltd ("SMECT") *(See note v below)*	RMB175,600	People's Republic of China	Provision of waste oil recycling	**22.07%**	12.01%

[1] 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 2012: *(Continued)*

Notes:

(i) FSIL is a company listed on The Stock Exchange of Hong Kong Limited with issued share capital of HK$279,782,601 (2011: 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 2012 was approximately US$23,643,000 (2011: US$19,133,000).

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

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

(iv) 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.

(v) SMECT is a company registered in the People's Republic of China with total authorised capital of RMB795,770.

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

	Assets	Liabilities	Revenue	Loss before income tax
	US$'000	*US$'000*	*US$'000*	*US$'000*
Year 2012				
FSIL	**391,165**	**53,066**	**45,032**	**(13,996)**
SIMC	**50,958**	**11,246**	**—**	**(394)**
Goldeneye	**1,971**	**—**	**95**	**(1,441)**
SMECT	**381**	**17**	**61**	**(211)**
Year 2011				
FSIL	376,611	23,391	36,747	(1,422)
SIMC	31,628	6	—	(154)
Goldeneye	3,413	18	200	(1,899)

16. Available-for-sale financial assets

	Group		Company	
	2012	2011	**2012**	2011
	US$	*US$*	***US$***	*US$*
As at 1 January	**66,115,220**	100,112,754	**59,090,276**	91,974,864
Additions	**—**	1,372,956	**—**	1,372,956
Disposals	**(7,178,953)**	(5,336,163)	**—**	(5,336,163)
Fair value change transfer to other comprehensive income	**(9,223,193)**	(30,398,184)	**(9,377,202)**	(28,921,381)
Exchange differences	**—**	363,857	**—**	—
As at 31 December	**49,713,074**	66,115,220	**49,713,074**	59,090,276

Available-for-sale financial assets include the following:

	Group		Company	
	2012	2011	**2012**	2011
	US$	*US$*	***US$***	*US$*
Listed equity securities				
— Canada	**11,724**	26,153	**11,724**	26,153
— Mainland China	**42,284,746**	49,519,758	**42,284,746**	49,519,758
Unlisted equity securities	**2,788,516**	9,755,294	**2,788,516**	2,730,350
Private investment fund	**4,628,088**	6,814,015	**4,628,088**	6,814,015
	49,713,074	66,115,220	**49,713,074**	59,090,276
Market value of listed securities	**42,284,746**	49,519,758	**42,284,746**	49,519,758

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

	Group		Company	
	2012	2011	**2012**	2011
	US$	*US$*	***US$***	*US$*
Canadian dollars	**11,724**	26,153	**11,724**	26,153
HK dollars	**8,288,635**	6,964,940	**8,288,635**	6,964,940
Renminbi	**41,412,715**	59,124,127	**41,412,715**	52,099,183
	49,713,074	66,115,220	**49,713,074**	59,090,276

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

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

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

	Group and Company	
	2012	2011
	US$	*US$*
As at 1 January	**7,967,201**	9,700,528
Written off during the year as unrecoverable	**—**	(1,710,000)
Written off upon disposal	**(6,999,499)**	—
Exchange difference	**14,132**	(23,327)
As at 31 December	**981,834**	7,967,201

At 31 December 2012, the carrying amount of interest in the following company exceeded 10% of total assets of the Company and the Group.

Name	Place of incorporation	Principal activities	Particulars of issued share capital held	Interest held 2012	Interest held 2011
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%

17. Loans receivable

Loans receivable are denominated in the following currencies:

	Group		Company	
	2012	2011	**2012**	2011
	US$	*US$*	***US$***	*US$*
Independent third parties *(Note a)*:				
Renminbi	**6,898,211**	6,831,903	**6,898,211**	6,831,903
US dollars	**350,000**	500,000	**350,000**	500,000
	7,248,211	7,331,903	**7,248,211**	7,331,903
An associate *(Note b)*:				
Renminbi	**4,010,588**	—	**—**	—
Loans receivable — gross	**11,258,799**	7,331,903	**7,248,211**	7,331,903
Provision for impairment	**(6,898,211)**	—	**(6,898,211)**	—
Loans receivable — net	**4,360,588**	7,331,903	**350,000**	7,331,903

The carrying amounts of loans receivable approximate to their fair values as at 31 December 2012. The maximum exposure to credit risk at the reporting date is the fair values (i.e. their carrying amounts) of the loans receivable.

17. Loans receivable *(Continued)*

Notes:

(a) The loans receivable from independent third parties were bearing interest and secured by certain assets of the borrowers as stipulated in the respective loan agreements. The effective interest rates of these loans receivable were as follows:

	Group and Company			
	2012		2011	
	RMB	***US$***	*RMB*	*US$*
Loans receivable from independent third parties	**—**	**7.22%**	23.00%	7.42%

(b) As at 31 December 2012, the loan receivable from an associate was unsecured, bearing interest at 8% per annum. As at 31 December 2012, the loan receivable from an associate was not past due and was not impaired.

As at 31 December 2012 and 2011, the ageing analysis of the loans receivable is as follows:

	Group		Company	
	2012	2011	**2012**	2011
	US$	*US$*	***US$***	*US$*
Current	**4,360,588**	500,000	**350,000**	500,000
Past due over 1 year	**6,898,211**	6,831,903	**6,898,211**	6,831,903
	11,258,799	7,331,903	**7,248,211**	7,331,903

As of 31 December 2012, a loan receivable of US$6,898,211 is fully impaired. It is assessed that the loan receivable is not expected to be recovered.

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

	Group		Company	
	2012	2011	**2012**	2011
	US$	*US$*	***US$***	*US$*
As at 1 January	**—**	6,719,176	**—**	—
Provision for impairment	**(6,897,069)**	—	**(6,897,069)**	—
Written off during the year as uncollectible	**—**	(6,834,879)	**—**	—
Exchange difference	**(1,142)**	115,703	**(1,142)**	—
As at 31 December	**(6,898,211)**	—	**(6,898,211)**	—

The charge and release of provision for impairment of loans receivable have been included in "other losses — net" and in the consolidated income statement (Note 7).

18. Other receivables, prepayments and deposits

	Group		Company	
	2012	2011	**2012**	2011
	US$	*US$*	***US$***	*US$*
Other receivables	**4,825,091**	4,766,465	**2,188,047**	2,160,675
Prepayments and deposits	**25,719**	5,477	**25,719**	5,477
	4,850,810	4,771,942	**2,213,766**	2,166,152
Provision of impairment of other receivables	**(4,724,677)**	(2,542,104)	**(2,157,901)**	—
	126,133	2,229,838	**55,865**	2,166,152

Other receivables are interest-free, except for interest receivable of US$2,158,000 (2011: US$2,137,000) bearing effective interest rate of 0% (2011: 23%) per annum. The balances are either past due or repayable on demand. Accordingly, the fair values of the Group's and the Company's other receivables approximate to their carrying amounts.

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

	Group		Company	
	2012	2011	**2012**	2011
	US$	*US$*	***US$***	*US$*
Renminbi	**4,794,945**	4,742,949	**2,157,901**	2,137,159
HK dollars	**29,407**	8,808	**29,407**	8,808
US dollars	**26,458**	20,185	**26,458**	20,185
	4,850,810	4,771,942	**2,213,766**	2,166,152

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

	Group		Company	
	2012	2011	**2012**	2011
	US$	*US$*	***US$***	*US$*
As at 1 January	**2,542,104**	2,825,941	**—**	—
Provision for impairment	**2,117,878**	—	**2,117,878**	—
Written off during the year as uncollectible	**—**	(399,165)	**—**	—
Exchange difference	**64,695**	115,328	**40,023**	—
As at 31 December	**4,724,677**	2,542,104	**2,157,901**	—

As of 31 December 2012, interest receivable of US$2,158,000 was fully impaired during the year.

The charge and release of provision for impairment of other receivables have been included in "other losses — net" in the consolidated income statement (Note 7).

19. Financial assets at fair value through profit or loss

	Group		Company	
	2012	2011	**2012**	2011
	US$	*US$*	***US$***	*US$*
Listed equity securities held for trading:				
— Hong Kong	**4,326,700**	3,689,284	**4,326,700**	3,689,284
Convertible note	**—**	2,401,538	**—**	—
Unlisted equity securities	**2,713,333**	7,317,557	**2,713,333**	7,317,557
	7,040,033	13,408,379	**7,040,033**	11,006,841
Market value of listed equity securities	**4,326,700**	3,689,284	**4,326,700**	3,689,284

Changes in fair values of these financial assets are recorded in "other losses — 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 changes in working capital in the consolidated 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	
	2012	2011	**2012**	2011
	US$	*US$*	***US$***	*US$*
Cash at bank and on hand	**15,603,404**	14,035,213	**10,012,417**	8,962,487
Short-term bank deposits	**4,734,401**	4,646,779	**2,223,634**	1,420,685
	20,337,805	18,681,992	**12,236,051**	10,383,172
Maximum exposure to credit risk	**20,336,376**	18,681,820	**12,236,051**	10,383,172

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

	Group		Company	
	2012	2011	**2012**	2011
Short-term bank deposits	**0.20%-2.85%**	0.29%-3.10%	**0.20%-0.30%**	0.29%-0.70%

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

	Group		Company	
	2012	2011	**2012**	2011
	US$	*US$*	***US$***	*US$*
US dollars	**207,378**	178,334	**43,402**	6,961
HK dollars	**3,263,635**	1,805,814	**3,263,634**	1,805,814
Renminbi	**16,866,792**	16,697,844	**8,929,015**	8,570,397
	20,337,805	18,681,992	**12,236,051**	10,383,172

Renminbi is not a freely convertible currency.

21. Share capital and premium

	Group and Company	
	2012	2011
	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 2011	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
As at 31 December 2012	76,758,160	7,675,816	69,107,882	76,783,698

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 2011	5.01	7,475
Options lapsed	5.74	(300)
Options exercised	2.65	(200)
As at 31 December 2011	5.05	6,975
Options lapsed	5.74	(750)
As at 31 December 2012	4.97	6,225

During the year, no share option was granted and exercised. During 2011, 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.

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$
Balance 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)/ gain							
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 an available-for-sale financial asset	—	—	—	—	(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)/gain for the year, net of tax	—	(658,045)	1,505,598	—	(28,127,893)	189,096	(27,091,244)
Total comprehensive (loss)/ gain 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
Balance 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)*

Group *(Continued)*

	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 2012	69,107,882	7,367,380	2,663,003	1,826,375	24,939,781	55,011,199	160,915,620
Comprehensive loss							
Loss for the year attributable to equity holders of the Company	—	—	—	—	—	(20,815,260)	(20,815,260)
Other comprehensive (loss)/ gain							
Share of post-acquisition reserves of associates	—	660,489	—	—	—	—	660,489
Exchange differences arising on translation of associates and subsidiaries	—	—	279,184	—	—	—	279,184
Release of investment revaluation reserve upon disposal of an available-for-sale financial asset	—	—	—	—	986,794	—	986,794
Fair value losses of available-for-sale financial assets	—	—	—	—	(9,223,193)	—	(9,223,193)
Deferred income tax on fair value losses of available-for-sale financial assets	—	—	—	—	1,030,024	—	1,030,024
Total other comprehensive (loss)/gain for the year, net of tax	—	660,489	279,184	—	(7,206,375)	—	(6,266,702)
Total comprehensive (loss)/ gain for the year ended 31 December 2012	—	660,489	279,184	—	(7,206,375)	(20,815,260)	(27,081,962)
Total contributions by and distributions to equity holders of the Company recognised directly in equity							
Employees share option scheme:							
— transfer of reserve upon lapse of share options	—	—	—	(252,494)	—	252,494	—
Total contributions by and distribution to equity holders of the Company	—	—	—	(252,494)	—	252,494	—
Balance as at 31 December 2012	69,107,882	8,027,869	2,942,187	1,573,881	17,733,406	34,448,433	133,833,658

22. Reserves *(Continued)*

Company

	Share premium US$	Exchange translation reserves US$	Share-based compensation reserve US$	Investment revaluation reserve US$	Retained earnings/ (accumulated losses) US$	Total US$
Balance 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	—
Balance as at 31 December 2011	69,107,882	1,649,869	1,826,375	36,067,176	6,505,140	115,156,442
Balance at 1 January 2012	**69,107,882**	**1,649,869**	**1,826,375**	**36,067,176**	**6,505,140**	**115,156,442**
Loss for the year	**—**	**—**	**—**	**—**	**(17,753,608)**	**(17,753,608)**
Exchange difference arising on translation of subsidiaries	**—**	**162,169**	**—**	**—**	**—**	**162,169**
Fair value losses of available-for-sale financial assets	**—**	**—**	**—**	**(9,377,202)**	**—**	**(9,377,202)**
Deferred income tax on fair value losses of available-for-sale financial assets	**—**	**—**	**—**	**1,068,526**	**—**	**1,068,526**
Employees share option scheme:						
— transfer of reserve upon lapse of share options	**—**	**—**	**(252,494)**	**—**	**252,494**	**—**
Balance as at 31 December 2012	**69,107,882**	**1,812,038**	**1,573,881**	**27,758,500**	**(10,995,974)**	**89,256,327**

23. Deferred income tax liabilities

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

	Group		Company	
	2012	2011	**2012**	2011
	US$	*US$*	***US$***	*US$*
As at 1 January	**3,998,213**	6,937,960	**3,977,086**	6,638,596
Credited to investment revaluation reserve	**(1,030,024)**	(2,939,747)	**(1,068,526)**	(2,661,510)
Release of deferred income tax liabilities upon disposal of an available-for-sale financial asset	**(59,629)**	—	**—**	—
As at 31 December	**2,908,560**	3,998,213	**2,908,560**	3,977,086

Deferred income tax liabilities represent capital gain tax on unrealised fair value gains 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 2011 and 2012, the Group had no tax losses carry forwards.

Deferred income tax liabilities of US$26,992 (2011: US$52,285) 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 2012, total unremitted earnings amounted to US$539,838 (2011: US$1,045,691).

24. Cash used in operations

	2012	2011
	US$	*US$*
Loss before income tax	**(20,746,932)**	(1,696,893)
Adjustments for:		
Share of losses of associates	**2,261,480**	1,096,055
Bank interest income	**(432,762)**	(353,411)
Loan interest income	**(30,681)**	(1,848,973)
Dividend income from listed investments	**(381,934)**	(218,230)
Net gains on disposals of available-for-sale financial assets	**(1,458,588)**	(818,868)
Provision for impairment of investment in an associate	**2,900,776**	—
Net fair value losses of financial assets at fair value through profit or loss	**6,268,376**	1,918,551
Provision for/(reversal of provision for) impairment, net	**9,014,947**	(65,460)
Changes in working capital:		
Amount due from an associate	**—**	65,460
Other receivables, prepayments and deposits	**(14,173)**	(669,803)
Financial assets at fair value through profit or loss	**99,970**	(6,652,895)
Accounts payable	**15,589**	(5,032)
Accrued expenses	**143,286**	6,862
Amounts due to related companies	**1,428**	2,564
Cash used in operations	**(2,359,218)**	(9,240,073)

25. Capital commitments

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

	Group		Company	
	2012	2011	**2012**	2011
	US$	*US$*	***US$***	*US$*
Investments in associates	**1,906,678**	4,374,817	**1,906,678**	2,388,799
Available-for-sale financial asset	**962,541**	953,289	**962,541**	953,289
	2,869,219	5,328,106	**2,869,219**	3,342,088

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

	2012	2011
	US$	*US$*
Contracted but not provided for	**7,696,241**	7,813,084
Authorised but not contracted	**13,032,517**	13,076,757

26. Related party transactions

(a) Transactions with related parties

	2012	2011
	US$	*US$*
Management fee paid/payable to:		
China Assets Investment Management Limited ("CAIML")	**1,828,041**	1,969,435

Note: The Company has appointed China Assets Investment Management Limited ("CAIML") as the investment manager for all investments. First Shanghai Investments Ltd, an associate and major shareholder of the Company, was a shareholder of CAIML until 24 August 2011. Mr. Lo Yuen Yat, the Chairman and an executive director of the Company, is a director of CAIML. Ms. Lao Yuan Yuan, an executive director of the Company, was a director of CAIML until 21 October 2011. Mr. Yeung Wai Kin, a non-executive director of the Company, is a shareholder and was a director of CAIML until 21 October 2011. Mr. Zhao Yu Qiao, a non-executive director of the Company, is an indirect shareholder of CAIML.

26. Related party transactions *(continued)*

(b) Key management compensation

	2012	2011
	US$	US$
Salaries and other short-term employee benefits	**189,825**	179,057
Pension costs — defined contribution plan	**1,773**	1,497
	191,598	180,554

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

	Group		**Company**	
	2012	2011	**2012**	2011
	US$	*US$*	***US$***	*US$*
Amount due to an associate	**297,663**	298,276	**297,663**	298,276
Amount due to a related company *(Note)*	**14,374**	12,333	**14,374**	12,333
Amounts due to related companies	**312,037**	310,609	**312,037**	310,609
Amounts due to subsidiaries	**—**	—	**62,110**	62,110
Amount due to subsidiaries and related companies	**312,037**	310,609	**374,147**	372,719
Loan receivable from an associate *(Note 17)*	**4,010,588**	—	**—**	—

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

Five Year Financial Summary

	2012	2011	2010	2009	2008
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Consolidated income statement					
Income	**845**	2,421	1,512	1,168	5,004
(Loss)/profit for the year attributable to equity holders of the Company	**(20,815)**	(1,830)	4,098	7,629	(19,474)
Consolidated balance sheet					
Investments in associates	**64,995**	66,859	57,948	54,380	49,264
Available-for-sale financial assets	**49,713**	66,115	100,113	85,601	38,144
Other non-current assets	**—**	—	—	6,471	6,294
Current assets	**31,864**	41,652	48,448	41,889	48,359
	146,572	174,626	206,509	188,341	142,061
Current liabilities	**(2,154)**	(2,037)	(2,126)	(1,349)	(1,380)
Deferred income tax liabilities	**(2,909)**	(3,998)	(6,938)	(3,513)	(1,206)
	141,509	168,591	197,445	183,479	139,475
Financed by:					
Share capital	**7,676**	7,676	7,656	7,656	7,656
Reserves	**133,833**	160,915	189,789	175,823	131,819
	141,509	168,591	197,445	183,479	139,475