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PRIVATE EQUITY INVESTMENT

HOLDING GROUP




ANNUAL REPORT 2011

CPE

CHINA PRIVATE EQUITY
INVESTMENT HOLDINGS LIMITED
福泰中國投資控股有限公司

Contents

Company Information

Directors and Senior Management	Mr. Patrick Macdougall – *Non-executive Chairman* Mr. Jacky Chau Vinh Heng – *Non-executive Vice Chairman* Mr. John Croft – *Executive Director and Chief Executive Officer* Mr. Ernest Wong Yiu Kit – *Executive Director* Mr. Hanson Cheah – *Non-executive Director* Mr. Duncan Chui Tak Keung – *Chief Investment Officer* Mr. Alex Chow Ka Wo – *Chief Financial Officer*
Registered Office	Commerce House, Wickhams Cay 1 P.O. Box 3140 Road Town, Tortola British Virgin Islands VG1110
Principal Place of Business	Unit 1903, 19/F, Bank of East Asia Harbour View Centre 56 Gloucester Road, Wanchai Hong Kong
Nominated Advisor and Broker	Smith & Williamson Corporate Finance Limited 25 Moorgate London EC2R 6AY
Auditors	Crowe Clark Whitehill LLP St Bride's House 10 Salisbury Square London EC4Y 8EH
Legal Advisers ***(as to English law)***	Pinsent Masons LLP 30 Crown Place Earl Street London EC2A 4ES
Legal Advisers ***(as to Hong Kong law)***	Pinsent Masons 50th Floor, Central Plaza 18 Harbour Road Hong Kong

Company Information

Legal Advisers *(as to B.V.I. law)*	Conyers Dill & Pearman Commerce House, Wickhams Cay 1 PO Box 3140 Road Town, Tortola British Virgin Islands VG1110
Public Relations Consultants	First City (part of the Tavistock Group) (London Office) 8th Floor 131 Finsbury Pavement London EC2A 1NT (HK Office) 19th Floor Silver Fortune 1 Wellington Street, Central Hong Kong
Registrars	Computershare Investor Services (BVI) Limited Woodbourne Hall PO Box 3162 Road Town, Tortola British Virgin Islands
Registered Agent	Codan Trust Company (B.V.I.) Ltd. Commerce House, Wickhams Cay 1 PO Box 3140 Road Town, Tortola British Virgin Islands VG1110
Website	www.cpe-invest.com
Stock Code	AIM: CPEH

Chairman's Statement

I am pleased to be able to present my statement to you in respect of the year ended 31 December 2011.

The Company's consolidated net assets at 31 December 2011 increased to US$33.4 million (2010: US$29.3 million), with consolidated net assets per share at that date of US$0.44 (2010: US$0.46).

The consolidated loss for the year at US$2.89 million (2010: US$1.89 million profit) resulted primarily from what we believe will prove to be a short term decrease in fair value of our stake in Enfinium Holdings of US$1.7 million, discussed in detail below, along with the operating expenses incurred during the year.

In line with last year, I have asked one of our Directors, Hanson Cheah, an experienced private equity investor in China, to provide an overview of recent trends and activities in the private equity and venture capital market in China. His report is summarised in the section below that follows my statement and confirms that growth prospects particularly in the internet sector remain very exciting and that with major Venture Capital firms active with ever increasing deal sizes, opportunities at the smaller end of the market where CPEH is focussed remain highly attractive.

2011 was a year of steady progress for the Company characterised primarily by a significant focus from the management team on assisting our investee companies with their development strategies and plans for growth. This has in some cases involved restructuring their operations to optimise potential returns, but in general has meant that the management team has had to concentrate its efforts more on the existing portfolio than on sourcing new investment opportunities.

During the year we did make one significant new investment in Enfinium International Holdings Ltd. a Hong Kong registered company with a global online trading platform enabling clients to trade in stocks, foreign exchange transactions and futures on worldwide exchanges. Enfinium's business has been growing rapidly over the past year, resulting in its need to raise working capital to sustain its rate of growth. The timing of Enfinium's cash raise, at a small discount to our entry price due to current market conditions, precluded us from taking part as we were not comfortable with raising money to invest at the current CPEH share price. This decision resulted in the dilution of CPEH's holding in the company from 30% to 24% during the year. We are currently in discussion with Enfinium's holding company owners to broaden the scope of our investment to include their operations in additional geographies. We remain optimistic that this investment, and any subsequent investments, will prove to be attractive for CPEH shareholders.

Another of our cornerstone investments, China iEducation made good progress during the year moving its business from its database sale and licensing model to one based on online services where customers pay an annual fee. The company recently announced that it had signed a key strategic co-operation agreement with the State-run Hunan Centre of Educational Technology in China's Hunan Province, demonstrating a significant early success for its evolving strategy. The prospects for the company remain very promising and we anticipate that it will be ready for a listing on the Hong Kong Stock Exchange in 2014/15.

Fortel also made good progress during the year, through the gradual migration of its business profile from software sales to an increasing focus on a service based model and has achieved steady revenue growth in the last few years. The preparation and plans for Fortel's IPO on the Hong Kong Stock Exchange remain on track, but the ever increasing demands of the regulators with reference to accounting and audit processes on world markets generally and in Hong Kong in particular have necessitated that we commit greater resources to completing the work required to achieve Fortel's listing. In this regard and as previously announced in January, Duncan Chui has stepped down from the Board in order to devote more time to spearheading this important project.

Chairman's Statement

It is expected that Fortel will submit its application for a listing on the Hong Kong Stock Exchange later this year. The exact timing for submission and for the subsequent IPO will depend on the duration of the vetting process of the regulators and, of course, on market conditions at the time in China and Hong Kong. The Board remains convinced that the successful listing of Fortel will represent a major milestone for your company.

Whilst the past year has been a difficult one for investment markets globally, I am pleased to be able to report that our NAV and share price have been in general relatively stable. With limited resources, we have remained very selective about making new investments, but through our work with our existing investee companies as well as via the extensive network of contacts in the private equity community in the region, we have now built up an exciting pipeline of new investments which present attractive potential returns. In order to be able to move forward and take advantage of these, we plan to raise additional capital in the near future and to develop co-investment partnerships with other prominent investors in the region, with further details of this being announced in due course. Assuming we are successful with our proposals to raise additional capital, we will be announcing a number of new investments in the near future.

Patrick Macdougall
Chairman of the Board

Date: 22 June 2012

An Overview of the Private Equity Market in China

CPE focuses on investments in the technology and financial services sectors predominantly in China and also in the wider Asia Pacific region. In the past year the most attractive sectors in China remain in select areas of Internet and Media as well as in Cleantech.

China is now the world's largest Internet market by every available measure. It is also no coincidence that China has set new highs every year on funds invested by venture capital firms. The Chinese market now has the largest number of users for Internet, mobile, e-commerce and other categories. It has nearly half a billion users and has given birth to some of the world's most vibrant Internet firms, such as Baidu Inc and Tencent Holdings. Venture capitalists have funded these companies and made substantial returns in recent years. However in 2010-2011 a slew of accounting scandals and fears that the corporate structures used by China's Internet firms could face greater scrutiny from Chinese authorities have spooked U.S. investors, dulling their appetite for initial public offerings. Despite having the local ChiNext stock market that was launched in 2009 Chinese Internet firms had always favored the U.S. markets for an exit due to the lack of a profit requirement to list and the high valuations they can command. But from mid-2011, a series of accounting scandals hit Chinese firms listed in North America, leading to trading halts, delistings, lawsuits and regulatory probes in both the United States and Canada. The scandals dampened sentiment for Chinese listed stocks among U.S. investors, and new entrants to the market face skeptical investors and tougher Securities and Exchange Commission rules. Listing documents now also contain more visible disclosures about the structures these companies use, the so-called VIE or variable interest entity, which allows Chinese companies to get around certain rules forbidding foreign investment in sensitive sectors, like the Internet. As a result, there were just six exits through U.S. IPOs in 2011. Venture Capital firms now experience delays for their portfolio companies in this market.

Meanwhile venture capital firms are raising larger and larger funds largely on the promise of China. For example GSR Ventures which was founded with help from Mayfield has gone from an initial fund of US$250 million to managing US$1 billion in less than 8 years. The larger fund sizes and the various IPO delays have resulted in funds for early-stage companies drying up. Venture capital firms are now focused on deploying larger amounts of capital and largely ignoring early-stage companies. As the IPO market becomes uncertain for Internet companies venture capital funds have turned to funding more mature companies or at least companies that are cashflow-positive.

Examples of recent transactions are great illustrations of the market today. Lashou.com, China's answer to Groupon and founded in March 2010, had raised $166 million in venture capital by April 2011, and was then valued at $1.1 billion. Around the same time the most famous VC firm Kleiner Perkins invested US$20 million into Xiu.com, an e-commerce firm selling high end luxury goods. Recent public listings though have failed to dazzle. In March, online retailer Vipshop became the first China tech stock to list since August, but its shares fell as much as 12 percent on its New York debut. Even a sharp cut in the offer price failed to overcome concerns about mounting losses and its complicated corporate structure. With their capital trapped in companies like Lashou and 360buy, venture capitalists have naturally turned cautious. Venture capitalists have not turned away entirely from China Internet firms, but they are far more selective about where they will invest. E-commerce firms that sell everything one can imagine online took the lion's share of 2011 VC money, but that will not be the case any longer.

Thomson Reuters data shows that venture capitalists poured $3.6 billion dollars into China's Internet sector in 2011, more than double the figure of $1.7 billion in 2010. However in the first quarter of 2012, venture capital firms invested just $138.5 million into China's Internet sector, an 84 percent fall from the $866.5 million invested in the same period in 2011. This presents an opportunity for CPE as the funds for investment in early-stage companies dry up and more and more venture capital firms turn to larger deals.

An Overview of the Private Equity Market in China

The first area of interest for CPE would be the Internet companies that take advantage of the growth of the world's largest Internet market. The growth of users in 3G and 4G mobile networks is the main driver. In the past 3 years mobile data transfer in Internet traffic has grown from 1-2% to almost 10% of total traffic. The ubiquity of mobile devices is also driving the switch from e-commerce to mobile commerce. The one difference for mobile internet is that ARPU (Average Revenue per User) is at least 20-30% lower than for regular Internet. This is driven by the smaller purchase amount per user in mobile commerce but also because mobile internet commands less cost per click for advertising platforms.

The reduced cost per click in turn is a result of the advertisers who are demanding better and measurable results for their marketing budget. Advertising to users is no longer as simple as displaying ads on screen when users browse for information. Simultaneously print media advertising is also in sharp decline. Advertisers worldwide are turning to social media networks to get the word out and drive user participation. This is even more evident in China where blogging and social media is the only method for expression in a tightly restrictive country. Social media networks open up a new horizon for targeted advertising, both direct and subliminal. We are investigating companies that have different technology and methods to achieve results. These companies provide customer relationship management tools and dashboard for consumer companies to manage their social media presence. The social media networks have also created a group of thought-leaders which are followed by large fan bases who value their opinion and recommendations. New technology has emerged to mine such user aggregated content and also drive public opinion for the benefit of advertisers. CPE will continue its focus in these areas of large growth.

The second trend is in Internet infrastructure. This area encompasses all aspects of data transmission and storage for the benefit of users that no longer have to lug around storage devices. The area of cloud computing has driven new installation of servers and corresponding technology to support this area. CPE's anchor investment in Fortel will be spearheading efforts in this industry.

The third industry of focus is in Cleantech. The Chinese government in the current 12th 5-year plan is holding local governments accountable for the first time for green targets is investigating the introduction of a carbon tax. On top of this the central government has also pledged to increase the percentage of non-fossil fuel used in energy generation to 20% by the year 2020. These factors are growth catalysts for all aspects of cleantech industries from waste management to new energy saving materials.

According to Lux Research last year over 40% of the venture capital dollars went to industries termed as emerging technology. However on closer examination those industries could also be renamed cleantech because the companies are all developing products in saving energy. These products include advanced materials for better insulation, energy storage devices, LED systems that save power.

One other industry of interest is IT's participation in the growth of the cleantech industry. There is a proliferation of products and devices that not only helps to measure and control energy usage but also collect data and provide analytical tools for users to improve. The data collection and presentation process is now paramount for corporations in the modern era to show that they are socially conscious enterprises intend on projecting an image of caring for the earth and the environment. We believe that CPE has the resources to take advantage of growth in the area of IT data and control for the cleantech industry.

Biographies of Directors and Senior Management

DIRECTORS

Mr. Patrick Macdougall *(aged 73), Non-Executive Chairman*

Mr. Macdougall has over 45 years experience in financial services and general management. At various times he was the Group Executive Director of Standard Chartered Plc, Chairman and Chief Executive of West Merchant Bank; and Chief Executive of Amex Bank. He has also spent 8 years in Hong Kong and Greater China as Executive Director of Jardine Matheson Group, in charge of the Financial Services portfolio and operations in the US, Australia and the Middle East. Mr. Macdougall graduated from Oxford University and is qualified as both a barrister and a chartered accountant. He is a British citizen and resides in the UK.

Mr. Jacky Chau Vinh Heng *(aged 60), Non-Executive Vice Chairman*

Mr. Chau has over 30 years experience in financial services in Greater China, specialising in listed securities dealings, corporate finance, and investment advisory. He held senior management positions with a number of regional institutions such as Chintung Group, Chung Nam Securities and Commodities, Chelac Investment Company Limited, and C.K. Grandfield (Holdings) Limited. Mr. Chau graduated from the University of Toronto with a Bachelor's degree in Commerce.

Mr. John Croft *(aged 59), Chief Executive Officer*

Mr. Croft has extensive experience of the AIM market at London's Stock Exchange having assisted a number of companies from South East Asia and Australasia in raising pre-IPO finance in London and preparing for listings on the London exchanges. He was recently Chairman of e-pay Asia Limited, the largest e-payments company in SE Asia. Mr. Croft has been a Director of CPE since 2008 and has also chaired the company's audit committee. Mr. Croft previously held senior Director level positions in Racal Electronics and NCR Corporation, following an early career in banking with HSBC and Grindlays Bank. Mr. Croft is a British citizen and resides in the UK.

Mr. Ernest Wong Yiu Kit *(aged 44), Executive Director*

Mr. Wong has extensive experience in venture capital, corporate finance, business development, legal, IT, financial and general management. Before joining CPE in 2008, Mr. Wong was the CFO of ASTRI, VP of Vertex and held management positions in other sizeable companies including Guangdong Investment Ltd., Transpac Capital and Andersen Consulting. Mr. Wong holds a B.B.A. degree from the University of Hong Kong, and a M.Sc. degree in investment management from HKUST and a M.Sc. degree in Electronic Engineering from CUHK. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants and is a member of the Institute of Chartered Accountants in England and Wales. He is also a charter-holder of Chartered Financial Analyst.

Mr. Hanson Cheah *(aged 47), Non-Executive Director*

Mr. Cheah has over 20 years of technology management and venture capital investment experience in Asia. He is currently a Managing Partner of Silkroad Capital. Mr. Cheah was a co-founder of AsiaTech Ventures in Hong Kong managing over US$180 million in technology investments since 1998, working closely with corporate investors such as Sun Microsystems, NTT DoCoMo, and Fujitsu. Prior to founding AsiaTech, Mr. Cheah was the Indonesian Country Manager and Regional Portfolio Manager for private equity firm Transpac Capital and was the Chairman of Venture Capital Association in Hong Kong in 2004-2005. Mr. Cheah holds a BSc degree and an MSc degree in Mechanical Engineering from the Massachusetts Institute of Technology and a Certificate in Management Science from Stanford University.

SENIOR MANAGEMENT

Mr. Duncan Chui Tak Keung *(aged 43), Chief Investment Officer*

Mr. Chui is an experienced investor and business manager for direct investment and private equity ventures in Asia. He is the founder and former CEO of the Company and the President of Fortel Technology Holdings Limited, the Company's anchor investment founded by Mr. Chui which operates as a one-stop infrastructure for internet content and media providers to distribute and monetize electronic content in China. Starting his career with Andersen Consulting and A.T. Kearney, Mr. Chui has become one of the earliest venture capital fund managers in Asia when he joined Transpac Capital Group in the late 1990's to focus almost exclusively on software, IT services and the internet sector. Computer & Technologies (HKSE: 0046), IIN International (HKSE: 8128) and Alibaba.com (HKSE: 1688) feature on Mr. Chui's successful investment track record as a venture capitalist. Mr. Chui has been an executive director of Capital VC Limited (formerly known Sino Katalytics Investment Corporation (HKSE: 2324)) since 2005. Mr. Chui received a Bachelor of Science degree (Applied and Engineering Physics) and a Master of Engineering degree (Operations Research and Industrial Engineering) from Cornell University in 1991 and 1992 respectively.

Mr. Alex Chow Ka Wo *(aged 45), Chief Financial Officer*

Mr. Chow has more than 20 years of finance management and corporate finance experience, covering activities in sectors as diverse as M&A, IPOs, and debt and equity advisory work. He is a founder and the managing director of Karl Thomson Financial Advisory Ltd ("Karl Thomson"), a corporate finance advisory group whose parent is listed company Karl Thomson Holdings Ltd. (HKSE: 7). He previously worked with Nomura International Ltd. and Peregrine Capital Ltd. Mr. Chow is an executive director of Shenyang Public Utility Holdings Company Ltd. (HKSE: 747) and was an executive director of Sino Katalytics Investment Corporation (HKSE: 2324). Mr. Chow holds a Bachelor of Arts degree in Applied Mathematics and Economics from the University of California at Berkeley and a Master of Arts degree in Economics from the Cornell University in the United States.

Directors' Report

The board ("the Board") of directors ("the Directors") are pleased to present its report on the affairs of the Company and its subsidiaries (collectively referred to as "the Group"), together with the audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company was incorporated with limited liability under the laws of the British Virgin Islands ("BVI"). The Company's shares were admitted to the AIM Market ("AIM") of the London Stock Exchange on 19 October 2009.

The principal activity of the Company is investment holding. The Group is principally engaged in investing primarily in unlisted assets in the areas of telecommunications, media and technology ("TMT") as well as financial services or listed assets driven by corporate events such as mergers and acquisitions, pre-IPO, or re-structuring of state-owned assets.

RESULTS AND DIVIDENDS

The loss on ordinary activities of the Group for the year ended 31 December 2011 after taxation was US$2.89 million (2010: profit US$1.89 million).

The Directors are not recommending the payment of a dividend for the year.

REVIEW OF THE BUSINESS

The Group's audited consolidated loss for the year ended 31 December 2011 amounted to US$2.89 million (2010: profit: US$1.89 million). The Group's audited net asset value as at 31 December 2011 stood at US$33.42 million (2010: US$29.31 million).

In April 2011, the Company entered into an agreement to acquire a 30% interest in Enfinium for an initial consideration of US$6 million. The consideration was settled by way of issuing 10 million new ordinary shares of no par value of the Company at a price of US$0.60 per share. In November 2011, Enfinium allotted further shares to third parties at a lower price. The Company's interest in Enfinium was thus diluted from 30% to 24%, and based on the lower allotment price, a decrease in fair value of US$1.67 million was recognised during the year ended 31 December 2011.

Fortel Technology Holdings Limited ("Fortel"), a digital media and technology services company operating primarily in China, remained the main component of the Group's net asset value during the year. The Company's equity interests in Fortel were reduced from 37.1% to 33.6%, following a share buyback by Fortel in April 2011. The buyback raised US$3.8 million for the Company.

In view of the promising prospects for the Beijing based China iEducation Holdings Limited ("iEducation"), the Company converted the convertible note issued by iEducation into its ordinary shares, representing a 40% interest in iEducation in December 2011.

In December 2011, the Company entered into a subscription agreement with Max Era Properties Limited relating to the issue of 2,500,000 new ordinary shares in the Company at a subscription price of US$0.40 per share, raising in aggregate approximately US$1 million of new funds for the Company's future investment opportunities and to meet working capital requirements.

DIRECTORS AND DIRECTORS' INTERESTS

The Directors who served during the year and up to the date of this report were as follows:

Mr. Patrick Macdougall – *Non-executive Chairman*
Mr. Jacky Chau Vinh Heng – *Non-executive Vice Chairman*
Mr. Duncan Chui Tak Keung – *Resigned as Executive Director and Chief Executive Officer and appointed as Chief Investment Officer on 9 January 2012*
Mr. John Croft – *Redesignated from Non-executive Director to Executive Director and also appointed as Chief Executive Officer on 9 January 2012*
Mr. Ernest Wong Yiu Kit – *Executive Director; ceased to be Chief Financial Officer on 21 December 2011*
Mr. Hanson Cheah – *Non-executive Director*

The directors retiring by rotation are Mr. John Croft and Mr. Hanson Cheah, who, being eligible, offer themselves for re-election at the Company's forthcoming annual general meeting.

With the exception of the related party transactions stated in Note 21 to the Financial Statements, there were no other significant contracts, other than Executive Directors' contracts of service, in which any Director had a material interest.

Directors' Report

The Directors who held office as at 31 December 2011 had no beneficial interests in any of the shares of the Company and Group companies other than as follows:

	Number of ordinary shares of no par value as at 31 December			
	2011		2010	
	Direct	**Indirect**	Direct	Indirect
Mr. Duncan Chui Tak Keung ("Mr. Chui")	**–**	**11,727,926^**	–	20,301,890^
Mr. Patrick Macdougall ("Mr. Macdougall")	**294,120**	**300,000^^**	294,120	300,000^^
Mr. John Croft	**70,590**	**–**	70,590	–
Mr. Chau Vinh Heng ("Mr. Chau")	**6,114,180**	**–**	11,114,180	–

^ As at 31 December 2011 the ordinary shares were held by Mr. Chui, then an Executive Director and the Chief Executive Officer of the Company, through Imperia Capital Investment Holdings Limited, of which Mr. Chui is a director and 25% shareholder.

^^ Mr. Macdougall is a trustee, but not a beneficiary, of family trust registered in the name of Macdougall Nominees Limited, which held 300,000 shares as at 31 December 2011.

	Number of options held as at 31 December		Exercise price as at 31 December	
	2011	2010	**2011**	2010
Mr. Chau	**4,355,750**	4,355,750	**US$0.36**	US$0.36

(a) The expiry date of these share options is 16 October 2012.
(b) There is no vesting condition for these share options.

SUBSTANTIAL SHAREHOLDINGS IN THE COMPANY

As of the date of this report, the following were the holders of 3% or more of the issued ordinary share capital of the Company as it was constituted on that date according to the register kept:

	Number of ordinary shares of no par	Percentage
Imperia Capital Investment Holdings Limited #	11,727,926	15.37%
Max Era Properties Limited	8,500,000	11.14%
Evergreen Solar, Inc.	7,573,964	9.93%
Red Deer Corporation	7,300,000	9.57%
Mr. Chau	6,114,180	8.01%
Long Term Aim Holdings Limited	4,818,515	6.32%
Mr. Tang Yue Nien, Martin	4,818,515	6.32%

Mr. Chui is a director and 25% shareholder of Imperia Capital Investment Holdings Limited.

The Directors have not been made aware of any other beneficial shareholdings of 3% or more of the issued share capital of the Company as of the date of this report.

FINANCIAL INSTRUMENTS

The Group's use of financial instruments is described in Note 19.

FINANCIAL RISK MANAGEMENT OBJECTIVES

Management has adopted certain policies on financial risk management with the objective of ensuring that appropriate funding strategies are adopted to meet the Group's short-term and long-term funding requirements, taking into consideration the cost of funding, gearing levels and cash flow projections. The policies are also set to ensure that appropriate strategies are adopted to manage related interest and currency risk funding; and to ensure that credit risks on receivables are properly managed. In addition, Note 19 to the financial statements include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk, interest rate risk, liquidity risk, price risk and currency risk.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The Group seeks to maintain good terms with all of its trading partners. In particular, it is the Group's policy to agree appropriate terms and conditions for its transactions with suppliers and, provided the supplier has complied with its obligations, to abide by the terms of payment agreed.

SHARE CAPITAL

The Company has a single class of shares which is divided into ordinary shares of no par value.

At 31 December 2011, the number of ordinary shares in issue was 76,284,645 (at 31 December 2010: 63,784,645). Details of movements in the issued share capital during the year are set out in Note 18 to the financial statements.

DIRECTORS' INDEMNITY

The Company's Articles of Association provide, subject to the provisions of BVI legislation, an indemnity for directors and officers of the Company in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them which relate to anything done or omitted, or alleged to have been done or omitted, by them as officers or employees of the Company.

Appropriate directors' and officers' liability insurance cover is in place in respect of all of the Directors.

EMPLOYEE INFORMATION

As at 31 December 2011, the Group had 5 (2010: 3) employees excluding Directors. They perform clerical, research, business development, and administrative functions for the Group.

It is the Group's policy that the selection of employees for recruitment, training, development and promotion should be determined solely on their skills, abilities and other requirements which are relevant to the job, regardless of their sex, race, religion or disability. The Group recognises the value of its employees and seeks to create an energetic, dynamic and creative environment in which to work.

Directors' Report

CHARITABLE DONATIONS

The Group has not made any charitable donation during the year (2010: Nil).

ANNUAL GENERAL MEETING

The Company's forthcoming annual general meeting ("Annual General Meeting") will be held on Monday, 30 July 2012 at 2:00 p.m. (Hong Kong time) at Unit 1903, 19/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong. The notice of the Annual General Meeting is enclosed with the financial statements.

GOING CONCERN

The Group has considerable financial resources at its disposal. Hence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The Directors have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

AUDITORS

A resolution to re-appoint Crowe Clark Whitehill LLP as the Company's auditors will be proposed at the Annual General Meeting.

On behalf of the Board

John Croft
Executive Director and Chief Executive Officer

Date: 22 June 2012

Corporate Governance Statement

THE BOARD

The Board is committed to raising the standard of corporate governance within the Group in order to enhance the transparency in disclosure of material information. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of shareholders and comply with increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance.

COMPOSITION OF THE BOARD

The Board consists of two executive and three non-executive Directors. The non-executive Directors' role is to bring independent judgement to Board discussions and decisions.

The composition of the Board as at the date of this report is as follows:

Mr. Patrick Macdougall – *Non-executive Chairman*
Mr. Chau Vinh Heng – *Non-executive Vice Chairman*
Mr. John Croft – *Executive Director and Chief Executive Officer (since 9 January 2012)*
Mr. Wong Yiu Kit – *Executive Director*
Mr. Hanson Cheah – *Non-executive Director*

The Board meets regularly throughout the year. The Board reviews financial performance, regulatory compliance and will consider any matters of significance to the Group including corporate activity.

INTERNAL CONTROL

The Board is responsible for overseeing the Group's system of internal control. To facilitate the effectiveness and efficiency of operations and to ensure compliance with relevant laws and regulations, the Group emphasises on the importance of a sound internal control system which is also indispensable for mitigating the Group's risk exposure. The Group's system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of the business objectives.

The internal control system is reviewed on an ongoing basis by the Board in order to make it practical and effective in providing reasonable assurance in relation to protection of material assets and identification of business risks.

The Group is committed to identifying, monitoring and managing risks associated with its business activities and has implemented a practical and effective control system which includes a defined management structure with proper approval process, a sound cash management system and periodic review of the Group's performance by the audit committee and the Board.

Corporate Governance Statement

AUDIT COMMITTEE

The audit committee was composed of Mr. John Croft (Chair), Mr. Patrick Macdougall and Mr. Hanson Cheah throughout the year under review and up to 18 January 2012, and thereafter it comprises Mr. Hanson Cheah (Chair) and Mr. Patrick Macdougall. The audit committee, inter alia, determines and examines matters relating to the financial affairs of the Group including the terms of engagement of the Group's auditor and, in consultation with the auditor, the scope of the audit. It receives and reviews reports from management and the Group's auditor relating to the half year and annual accounts and the accounting and the internal control systems in use throughout the Group, in addition to ensuring that the Group complies with the AIM Rules for companies. The audit committee met two times during the year and will meet at least twice a year in the future.

REMUNERATION COMMITTEE

The remuneration committee, comprising Mr. Patrick Macdougall (Chair), Mr. John Croft and Mr. Hanson Cheah, reviews the performance of the executive directors and determine their remuneration and the basis of their service agreements with due regard to the interests of the shareholders. The remuneration committee also determines the payment of any bonuses to Directors and any grant of options to Directors and employees, under any share option scheme adopted by the Group in due course.

The remuneration committee reviews and makes recommendations in respect of the Directors' remuneration and benefits packages, including staff incentivisation and the terms of their appointment. The remuneration committee also makes recommendations to the Board concerning the allocation of incentivisation payments to employees and the grant of options to directors and employees.

INVESTMENT COMMITTEE

The investment committee comprises Mr. Patrick Macdougall (Chair), Mr. Hanson Cheah and Mr. Duncan Chui Tak Keung. The investment committee decides whether or not to proceed with any investment opportunity. It is also responsible for reviewing existing investments and deciding on divestment issues. The investment committee also needs to approve any investment in a company where any Director is already interested, subject to provisions of the AIM Rules for Companies and applicable law and regulations.

RELATIONS WITH SHAREHOLDERS

The Group values the views of its shareholders and recognises their interest in the Group's strategy and performance. The investors are encouraged to participate in annual general meetings and the Board will present a review of the results and comments on current business activity.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the financial statements for each financial period. These non-statutory financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and are presented in accordance with AIM requirements. The financial statements are required by IFRSs to present fairly the financial position and performance of the Company and the Group. In preparing these financial statements the Directors should:

- select suitable accounting policies and apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume the Company and the Group will continue in business.

The Directors are responsible for keeping proper accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements prepared by the Company comply with the requirements of applicable law and regulations. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Independent Auditor

Independent auditor's report to the members of China Private Equity Investment Holdings Limited
For the year ended 31 December 2011

We have audited the non-statutory financial statements ("the financial statements") of China Private Equity Investment Holdings Limited for the year ended 31 December 2011, which comprise the consolidated and company statement of financial position, the consolidated and company statement of comprehensive income, the consolidated and company statement of changes in equity and consolidated and company statement of cash flows for the year then ended, and related notes.

These financial statements have been prepared under the group's accounting policies set out therein. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRSs) as issued by the IASB. This report is made solely to the company's members as a body. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by English law, we do not accept or assume responsibility to anyone other than the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

We read all the financial and non-financial information in the Directors' Report and Chairman's Statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION

In our opinion:

- the financial statements give a true and fair view, of the state of the company and group's affairs as at 31 December 2011, and of their results for the year then ended; and

- the financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

Crowe Clark Whitehill LLP
Registered Auditor

St Bride's House
10 Salisbury Square
London ECAY 8EH

Date: 22 June 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Fair value changes on financial assets at fair value through profit or loss	3	**(1,730)**	2,869
Administrative expenses		**(1,426)**	(1,056)
Operating (loss)/profit	5	**(3,156)**	1,813
Finance income	6	**274**	140
(Loss)/profit before taxation		**(2,882)**	1,953
Taxation	8	**–**	–
(Loss)/profit for the year		**(2,882)**	1,953
Other comprehensive expense			
Currency translation differences		**(3)**	(68)
Total comprehensive (loss)/income for the year		**(2,885)**	1,885
(Loss)/earnings per share			
Basic	22	**(4.11 cents)**	3.06 cents
Diluted	22	**(4.11 cents)**	2.98 cents

The results reflected above relate to continuing operations.

The accompanying notes on pages 27 to 50 are an integral part of these financial statements.

Company Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Fair value changes on financial assets at fair value through profit or loss	3	**(1,671)**	–
Administrative expenses		**(484)**	(402)
Operating loss	5	**(2,155)**	(402)
Finance income	6	**274**	139
Loss before taxation		**(1,881)**	(263)
Taxation	8	**–**	–
Loss for the year		**(1,881)**	(263)
Other comprehensive expense			
Currency translation differences		**(3)**	(58)
Total comprehensive loss for the year		**(1,884)**	(321)

The results reflected above relate to continuing operations.

The accompanying notes on pages 27 to 50 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital US$'000	Share based payment reserve US$'000	Foreign translation reserve US$'000	Retained earnings US$'000	Total US$'000
Group balance at 1 January 2010	24,572	799	–	2,052	27,423
Profit for the year	–	–	–	1,953	1,953
Other comprehensive expense					
Currency translation differences	–	–	(68)	–	(68)
Total comprehensive income for the year	–	–	(68)	1,953	1,885
Group balance at 31 December 2010 and 1 January 2011	**24,572**	**799**	**(68)**	**4,005**	**29,308**
Loss for the year	**–**	**–**	**–**	**(2,882)**	**(2,882)**
Other comprehensive expense					
Currency translation differences	**–**	**–**	**(3)**	**–**	**(3)**
Total comprehensive expense for the year	**–**	**–**	**(3)**	**(2,882)**	**(2,885)**
Issue of shares	**7,000**	**–**	**–**	**–**	**7,000**
Group balance at 31 December 2011	**31,572**	**799**	**(71)**	**1,123**	**33,423**

Company Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital US$'000	Share based payment reserve US$'000	Foreign translation reserve US$'000	Accumulated losses US$'000	Total US$'000
Company balance at 1 January 2010	24,572	799	–	(1,487)	23,884
Loss for the year	–	–	–	(263)	(263)
Other comprehensive expense					
Currency translation differences	–	–	(58)	–	(58)
Total comprehensive expense for the year	–	–	(58)	(263)	(321)
Company balance at 31 December 2010 and 1 January 2011	**24,572**	**799**	**(58)**	**(1,750)**	**23,563**
Loss for the year	**–**	**–**	**–**	**(1,881)**	**(1,881)**
Other comprehensive expense					
Currency translation differences	**–**	**–**	**(3)**	**–**	**(3)**
Total comprehensive expense for the year	**–**	**–**	**(3)**	**(1,881)**	**(1,884)**
Issue of shares	**7,000**	**–**	**–**	**–**	**7,000**
Company balance at 31 December 2011	**31,572**	**799**	**(61)**	**(3,631)**	**28,679**

The following describes the nature and purpose of each reserve within owners' equity.

Share capital	Amount subscribed for share capital at no par value
Share based payment reserve	The share based payment reserve represents amounts recognised directly in the statement of comprehensive income, in previous and the current periods, relating to share based payment transactions granted as options and under the Group's share option scheme.
Foreign translation reserve	Foreign translation reserve comprises foreign exchange differences arising from the translation of the financial statements of the Company and its subsidiaries
Retained earnings/(accumulated loss)	Represents the cumulative net gains and losses recognised in the income statement

The accompanying notes on pages 27 to 50 are an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Non-current assets			
Fixtures, fittings and equipment	9.1	7	8
Unquoted financial assets at fair value through profit or loss	10	29,248	28,718
Deposit	11	–	8
Total non-current assets		29,255	28,734
Current assets			
Loans and other receivables	13.1	3,363	45
Quoted financial assets at fair value through profit or loss	14	176	–
Cash and cash equivalents		1,159	851
Total current assets		4,698	896
Total assets		33,953	29,630
Current liabilities			
Other payables and accruals	15.1	494	308
Shareholder's loan	16.1	36	14
Total liabilities		530	322
Net current assets		4,168	574
Net assets		33,423	29,308
Equity and reserves			
Share capital	18	31,572	24,572
Share based payment reserve		799	799
Foreign translation reserve		(71)	(68)
Retained earnings		1,123	4,005
Total equity and reserves attributable to owners of the parent		33,423	29,308

The financial statements were approved by the Board of Directors and authorised for issue on 22 June 2012 and signed on its behalf by:

John Croft
Executive Director & Chief Executive Officer

The accompanying notes on pages 27 to 50 are an integral part of these financial statements.

Company Statement of Financial Position

As at 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Non-current assets			
Investment in subsidiaries	12	18,225	21,434
Unquoted financial assets at fair value through profit or loss	10	6,329	2,000
Fixtures, fittings and equipment	9.2	6	8
Total non-current assets		24,560	23,442
Current assets			
Loans and other receivables	13.2	3,345	45
Cash and cash equivalents		898	147
Total current assets		4,243	192
Total assets		28,803	23,634
Current liabilities			
Other payables and accruals	15.2	115	57
Shareholder's loan	16.2	9	14
Total liabilities		124	71
Net current assets		4,119	121
Net assets		28,679	23,563
Equity and reserves			
Share capital	18	31,572	24,572
Share based payment reserve		799	799
Foreign translation reserve		(61)	(58)
Accumulated losses		(3,631)	(1,750)
Total equity and reserves		28,679	23,563

The financial statements were approved by the Board of Directors and authorised for issue on 22 June 2012 and signed on its behalf by:

John Croft
Executive Director & Chief Executive Officer

The accompanying notes on pages 27 to 50 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	2011 US$'000	2010 US$'000
Cash generated from operating activities		
(Loss)/profit before taxation	(2,882)	1,953
Adjustments for:		
Depreciation	2	1
Financing income	(274)	(140)
Fair value changes on unquoted financial assets at fair value through profit or loss	1,671	(2,869)
Fair value changes on quoted financial assets at fair value through profit or loss	59	–
Increase in receivables	(10)	(14)
Increase in other payables and accruals	186	133
Net cash used in operating activities	**(1,248)**	(936)
Cash flows from investing activities		
Acquisition of fixtures, fittings and equipment	(2)	(7)
Finance income received	185	142
(Purchase)/sale proceeds of quoted financial assets at fair value through profit or loss	(235)	179
Realised quoted financial assets at fair value through profit or loss	–	679
Sale proceeds of unquoted financial assets at fair value through profit or loss	3,800	–
Loans granted	(6,266)	–
Purchase of convertible bonds	–	(1,502)
Proceeds from repayment of loan granted	3,055	578
Net cash generated from investing activities	**537**	69
Cash flows from financing activities		
Net proceeds from issue of shares	1,000	–
Loan from shareholders	22	5
Net cash generated from financing activities	**1,022**	5
Net increase/(decrease) in cash and cash equivalents	**311**	(862)
Cash and cash equivalent at the beginning of the year	**851**	1,717
Effect of foreign exchange	**(3)**	(4)
Cash and cash equivalent at the end of the year	**1,159**	851

The accompanying notes on pages 27 to 50 are an integral part of these financial statements.

Company Cash Flow Statement

For the year ended 31 December 2011

	2011 US$'000	2010 US$'000
Cash generated from operating activities		
Loss before taxation	(1,881)	(263)
Adjustments for:		
Depreciation	1	1
Finance income	(274)	(139)
Fair value changes on unquoted financial assets at fair value through profit or loss	1,671	–
Increase in other receivables	–	(12)
Increase/(decrease) in other payables and accruals	58	(38)
Net cash used in operating activities	(425)	(451)
Cash flows from investing activities		
Acquisition of fixtures, fittings and equipment	–	(7)
Repayment from (advances to) subsidiaries	3,209	(300)
Finance income received	185	139
Loans granted	(6,266)	–
Purchase of convertible bonds	–	(1,502)
Proceeds from repayment of loan granted	3,055	575
Net cash generated from/(used in) investing activities	183	(1,095)
Cash flows from financing activities		
Net proceeds from issue of shares	1,000	–
(Repayment)/advance of loan from shareholders	(5)	5
Net cash generated from financing activities	995	5
Net increase/(decrease) in cash and cash equivalents	753	(1,541)
Cash and cash equivalent at the beginning of the year	147	1,691
Effect of foreign exchange	(2)	(3)
Cash and cash equivalent at the end of the year	898	147

The accompanying notes on pages 27 to 50 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2011

1. GENERAL INFORMATION

The Company is a limited company incorporated in the British Virgin Islands ("BVI") under the BVI Business Companies Act 2004 on 18 January 2008. The address of the registered office is Commerce House, Wickhams Cay 1, PO Box 3140, Road Town, Tortola, British Virgin Islands VG1110 and its principal place of business is Unit 1903, 19/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong. The Company was set up with an intention to position itself to be a Chinese and Asian focused AIM listed private equity investment holding group. The Company will seek to identify suitable private equity investment opportunities in China.

The Company is listed on AIM of the London Stock Exchange (code: CPEH).

2. ACCOUNTING POLICIES

a) Basis of Preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below.

The Company's and the Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) as issued by the IASB. The financial statements have been prepared under the historical cost convention, as modified by revaluation of financial assets and financial liabilities at fair value through the income statement.

The accounting policies adopted by the Company and the Group are consistent with those of the previous financial year except as follows:

The Company and Group have adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2011.

		Effective Date Accounting periods beginning on or after
Amendment to IFRSs	Improvements to IFRSs issued in 2010	01/01/2011
IAS 24 (Revised)	Related party disclosures	01/01/2011
Amendments to IAS 32	Classification of rights issues	01/02/2010
Amendments to IFRIC – INT 14	Prepayments of a minimum funding requirement	01/01/2011
IFRIC – INT 19	Extinguishing financial liabilities with equity instruments	01/07/2010

The following standards and interpretations have been issued but are not yet effective and have not been early adopted in these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2011

2. ACCOUNTING POLICIES (continued)

a) Basis of Preparation (continued)

		Effective Date Accounting periods beginning on or after
Amendment to IFRS 7	Disclosures – Transfers of financial assets	01/07/2011
Amendment to IFRS 7	Disclosures – Offsetting financial assets and financial liabilities	01/01/2013
Amendment to IFRS 9 and IFRS 7	Mandatory effective date of IFRS 9 and transition disclosures	01/01/2015
IFRS 9	Financial instruments	01/01/2015
IFRS 10	Consolidated financial statements	01/01/2013
IFRS 11	Joint arrangements	01/01/2013
IFRS 12	Disclosure of interests in other entities	01/01/2013
IFRS 13	Fair value measurement	01/01/2013
Amendment to IAS 1	Presentation of items of other comprehensive income	01/07/2012
Amendment to IAS 12	Deferred tax – Recovery of underlying assets	01/01/2012
Amendment to IAS 32	Offsetting financial assets and financial liabilities	01/01/2014
IAS 19 (Revised 2011)	Employee benefits	01/01/2013
IAS 27 (Revised 2011)	Separate financial statements	01/01/2013
IAS 28 (Revised 2011)	Investments in associates and joint ventures	01/01/2013
IFRIC – INT 20	Stripping costs in the production phase of a surface mine	01/01/2013

The initial application of IFRS 10, 11, 12 and IAS 27 and 28 could have a material effect on the financial statements of the Group. The key impact is the potential consolidation of portfolio investments and funds managed by the Company in the Group financial statements. The development of these standards and industry interpretation is being closely monitored including the recent issue of an Investment Entity exposure draft which potentially exempts qualifying entities from consolidation under IFRS 10.

The directors do not currently expect any other standards to have any material impact on accounting policies or disclosures.

b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating activities. Investments that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value even though the Group may have significant influence over those companies. This treatment is permitted by IAS 28 – Investment in Associates, which requires investment held by venture organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the statement of comprehensive income in the period of change. The Group has no interests in associates through which it carries on its business.

2. ACCOUNTING POLICIES (continued)

c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the senior management and executive Board members. The senior management and executive Board members, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the senior management and executive Board members that make strategic decisions. The Group is principally engaged in investment business, the directors consider there is only one business activity significant enough for disclosure. However, this activity consists of three entities which operate in two geographical locations. Each location represents a single cash generating unit.

d) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue and costs, if applicable, can be measured reliably and on the following basis:

- Dividend income is recognised when the Company's right to receive payment is established.
- Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.
- Fair value changes on financial assets represents the overall changes in net assets from the investment portfolio net of deal-related costs but excluding exchange movements.
- Other income comprised management recharges from the parent company to one of its subsidiaries, which are eliminated on consolidation.

e) Fixtures, fittings and equipment and depreciation

Fixtures, fittings and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of fixtures, fittings and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the income statement during the year in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of fixtures, fittings and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Fixtures, fittings and equipment	20%

f) Impairment of non-financial assets

At each balance sheet date, the Group reviews internal and external sources of information to determine whether its fixtures, fittings and equipment and investment in subsidiaries have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income immediately.

2. ACCOUNTING POLICIES (continued)

g) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Unquoted financial assets at fair value through profit or loss

Unquoted:

Classification

The Group classifies its unquoted financial assets (including convertible note) as financial assets at fair value through profit or loss. These financial assets are designated by the directors as at fair value through profit or loss at inception.

Financial assets designated as at fair value through profit or loss at inception are those that are managed as part of an investment portfolio and their performance evaluated on a fair value basis in accordance with the Group's Investment Strategy.

Recognition/derecognition

Regular-way purchases and sales of investments are recognised on the trade date – the date on which the Group commits to purchase or sell the investment.

A fair value through profit or loss asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when rights are realised, expire or are surrendered and the rights to receive cash flows from the investments have expired or the Group has transferred substantially all risks and rewards of ownership. Realised gains and losses on fair value through profit or loss assets sold are calculated as the difference between the sales proceeds and cost. Fair value through profit or loss assets that are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Group has transacted an unconditional disposal of the assets.

Measurement

Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed through the profit or loss. Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value in accordance with International Private Equity and Venture Capital Valuation ("IPEVCV") guidelines, as the Group's business is to invest in financial assets with a view to profiting from their total return in the form of capital growth and income. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the period in which they arise.

2. ACCOUNTING POLICIES (continued)

g) Financial instruments (continued)

Quoted:

The fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices and are classified as current assets. Purchases and sales of quoted investments are recognised on the trade date where a contract of sale exists whose terms require delivery within a time frame determined by the relevant market.

In the opinion of the Directors, cash flows arising from transactions in equity investments represent cash flows from investing activities.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are stated at cost less impairments loss. Amortised cost is calculated by taking into account any discount premium on acquisition, over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in the income statement. The Group's loans and receivables comprised "loans and other receivables" and "cash and cash equivalents" in the statement of financial position.

Other payables

Other payables are not interest bearing and are stated at their nominal value. The Group's other payables include shareholders' loan.

Cash and cash equivalents

For the purpose of the cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts.

Impairment of financial assets

At each balance sheet date, the Group assesses whether there is objective evidence that financial assets are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate.

Financial liabilities

The Group's financial liabilities include other payables and accruals and amount due to related parties. All financial liabilities except for derivatives are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

2. ACCOUNTING POLICIES (continued)

h) Investment in subsidiaries

Investments in subsidiaries are stated at cost less provision for any impairment in value.

Foreign currency translation

– **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 ("functional currency"), which is Hong Kong Dollar. The financial statements are presented in United States Dollars and rounded to the nearest thousand dollars, except when otherwise indicated.

The financial statements have been translated into US$ at the exchange rate prevailing on 31 December 2011, being US$1 = HK$7.78.

– **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 income statement.

– **Group companies**

The results and financial position of all the group entities, including the parent company, (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each 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 rate on the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

No material reserve is expected as the HK Dollar is linked to the US Dollar.

i) Provisions

Provision is 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 embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation.

Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

2. ACCOUNTING POLICIES (continued)

j) Taxation

The charge for current income tax is based on the results for the period as adjusted for items that are nonassessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax 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 the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

k) Leasing

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

l) Employee benefits

Salaries, annual bonuses, paid annual leave, leave passage and the costs of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Company. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to defined contribution retirement plans are recognised as expense in the income statement as incurred.

m) Dividends

Dividends payable are recorded in the financial statements in the period in which they are declared.

n) Share based payments

The Group has applied the requirements of IFRS 2 “Share Based Payments”. The Group issues share options as an incentive to certain key management and staff (including directors). The fair value of options granted to directors, management personnel and employees under the Company’s share option scheme is recognised as an expense with a corresponding credit to the share based payment reserve. The fair value is measured at grant date and spread over the period during which the awards vest. The fair value is measured using the Black Scholes Option pricing model.

The Group, on special occasions as determined by the directors, may issue options to key consultants, advisers and suppliers in payment or part payment for services or supplies provided to the Group. The fair value of options granted is recognised as an expense with a corresponding credit to the share based payment reserve. The fair value is measured at grant date and spread over the period during which the options vest. The fair value is measured using the Black Scholes Option pricing model.

Notes to the Financial Statements

For the year ended 31 December 2011

2. ACCOUNTING POLICIES (continued)

n) Share based payments (continued)

The options issued by the Group are subject to both market-based and non-market based vesting conditions.

Non-market vesting conditions are not taken into account when estimating the fair value of awards as at grant date; such conditions are taken into account through adjusting the equity instruments that are expected to vest.

The proceeds received, net of any attributable transaction costs, are credited to share capital when options are converted into ordinary shares.

o) Earnings per share

The Group calculates both basic and diluted earnings per share in accordance with IAS 33 "Earnings per Share". Under IAS 33, basic earnings per share is computed using the weighted average number of shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of shares during the period plus the period dilutive effect of options outstanding during the period.

p) Share issue expenses

Share issue expenses are written off against the share capital account arising on the issue of share capital.

q) Critical accounting estimates and judgements

Preparation of Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

In particular, significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the Financial Statements are in the following areas:

Assessment of accounting treatment under IAS 28 – Investment in Associates

The Group has the exemption under IAS 28 Investments in Associates whereby IAS 28's requirements do not apply to investments in associates held by venture capital organisations. This exemption is conditional on the investments being designated as at fair value through profit and loss or being classified as held-fortrading upon initial recognition. Such investments are measured at fair value with changes in fair value being recognised in the income statement.

The Group considers that the equity or proportionate consolidation methods for investments held by the Group produce information that is not relevant to the management and shareholders. The business of our respective investee companies is different in nature to that of ours and it is not our strategy to hold the interest of these investments on a perpetual basis. Therefore, the Group considers that the fair value measurement produces more relevant information to us. Moreover, the level of ownership in our investments will have frequent changes. So the financial statements of the portfolio companies are less useful than the fair value from the point of view of the management, shareholders and investors.

2. ACCOUNTING POLICIES (continued)

q) Critical accounting estimates and judgements (continued)

Valuation of unquoted investments

In estimating the fair value for an investment, the Group applies a methodology that is appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio using observable market-data. Any changes in the above data will affect the fair value of an investment which may lead to the recognition of an impairment loss in the statement of comprehensive income if an impairment exists. Carrying values are dealt with in note 10.

The Group adopted price of recent investment methodology prescribed in the IPEVCV guidelines to value its investments at fair value through profit and loss.

If there was no investment event involving third parties during the year, or if suitable alternative valuation evidence is not available, the Group would then appoint an independent professional qualified valuer to estimate the value of the investment using an appropriate valuation methodologies as prescribed in IPEVCV guidelines.

3. FAIR VALUE CHANGES ON FINANCIAL ASSETS AT FAIR VALUE

	Group		Company	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
Change in fair value of unquoted financial assets (note 10)	**(1,671)**	2,869	**(1,671)**	–
Change in fair value of quoted financial assets (note 14)	**(59)**	–	**–**	–
Total	**(1,730)**	2,869	**(1,671)**	–

4. SEGMENT INFORMATION

The operating segment has been determined and reviewed by the senior management and executive Board members to be used to make strategic decisions. The senior management and executive Board members consider there to be a single business segment, being that of investing activity, which is reportable in two cash generating units (see note 2c).

The reportable operating segment derives its revenue primarily from debt investment in several companies and unquoted investments.

The senior management and executive Board members assess the performance of the operating segments based on a measure of adjusted Earnings Before Interest, Taxes, Depreciation and Amortisation ("EBITDA"). This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs. The measure also excludes the effects of equity-settled share-based payments and unrealised gains/losses on financial instruments.

The segment information provided to the senior management and executive Board members for the reportable segments for the year ended 31 December 2011 is as follows:

Notes to the Financial Statements

For the year ended 31 December 2011

4. SEGMENT INFORMATION (continued)

Revenue attributed by reference to each company's country of domicile:

	BVI US$'000	Hong Kong US$'000
Fair Value changes on financial assets at fair value through profit or loss	–	(1,730)
Total financial income	274	–
Non-current assets attributed by reference to their location		
Non-current assets	23,248	6,007
Additions to non-current assets	–	6,002

The segment information provided to the senior management and executive Board members for the reportable segments for the year ended 31 December 2010 is as follows:

	BVI US$'000	Hong Kong US$'000
Fair Value changes on financial assets at fair value through profit or loss	2,869	–
Total financial income	139	1
Non-current assets attributed by reference to their location		
Non-current assets	28,718	16
Additions to non-current assets	2,000	7

IFRS 8 has been amended so that a measure of segment assets is only required to be disclosed if the measure is regularly provided to the chief operating decision maker. The amendment is effective for periods beginning on or after 1 January 2010.

The amounts provided to the senior management and executive Board members with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the strategic operations of the segment.

The amounts provided to the senior management and executive Board members with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the strategic operations of the segment.

5. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging:

	Group		Company	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
Depreciation	**2**	1	**2**	1
Fees payable to the Group's auditor for audit of the Company	**64**	28	**59**	28
Operating lease rentals – land on buildings	**98**	43	**–**	7

6. FINANCE INCOME

	Group		Company	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
Interest from bank and other loans	**274**	138	**274**	138
Gain on disposal of quoted financial assets *(Note 14)*	**–**	1	**–**	–
Gain on foreign exchange	**–**	1	**–**	1
	274	140	**274**	139

7. DIRECTORS' REMUNERATION

	Group		Company	
	2011	2010	**2011**	2010
	US$	US$	**US$**	US$
Short term employment benefits				
Patrick Macdougall	**77,121**	77,121	**77,121**	77,121
Duncan Chui	**154,242**	154,242	**–**	–
Wong Yiu Kit	**156,812**	169,666	**–**	–
John Croft	**46,272**	46,272	**46,272**	46,272
Hanson Cheah	**38,560**	38,560	**–**	–
Chau Vinh Heng	**30,848**	30,848	**–**	–
	503,855	516,709	**123,393**	123,393

There was no pension cost incurred.

Directors' benefit-in-kind of US$43,702 (2010: US$43,188) was included in directors' remuneration.

The Directors have received no benefits other than those stated above.

Notes to the Financial Statements

For the year ended 31 December 2011

8. TAXATION

No charge to taxation arises in the years ended 31 December 2010 and 2011 as there were no taxable profits in either year. The Company and one of its subsidiaries, CPE TMT Holdings Limited, are both incorporated in the BVI and are not subject to any income tax.

Tax reconciliation:

	Group	
	2011	2010
	US$'000	US$'000
(Loss) profit before taxation	**(2,882)**	1,953
Effective tax charge at 16.5% (2010: 16.5%)	**(476)**	322
Effect of:		
Differences in overseas taxation rates	**476**	(322)
Effective tax rate	**–**	–

As at 31 December 2011, the Group has no unused tax losses (2010: US$210,000) available for offset against future profits.

No related deferred tax asset has been recognised on the losses due to the unpredictability of future profit streams. Losses may be carried forward indefinitely and may be recoverable if relevant taxable profit arises in future periods.

9. FIXTURES, FITTINGS AND EQUIPMENT

9.1 Group

	Fixtures, fittings and equipment US$'000
Cost:	
At 1 January 2010	3
Exchange adjustment	1
Additions	7
At 31 December 2010 and 1 January 2011	11
Exchange adjustment	(1)
Additions	2
At 31 December 2011	12
Depreciation:	
At 1 January 2010	2
Charge for the year	1
At 31 December 2010 and 1 January 2011	3
Charge for the year	2
At 31 December 2011	5
Net book value:	
At 31 December 2011	7
At 31 December 2010	8

9. FIXTURES, FITTINGS AND EQUIPMENT (continued)

9.2 Company

	Fixtures, fittings and equipment US$'000
Cost:	
At 1 January 2010	3
Effect of foreign exchange	1
Additions	7
At 31 December 2010 and 1 January 2011	11
Exchange adjustment	(1)
At 31 December 2011	10
Depreciation:	
At 1 January 2010	2
Charge for the year	1
At 31 December 2010 and 1 January 2011	3
Charge for the year	1
At 31 December 2011	4
Net book value:	
At 31 December 2011	6
At 31 December 2010	8

10. UNQUOTED FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group 2011 US$'000	Company 2011 US$'000
Balance as at 1 January 2010	23,911	–
Fair value changes through profit or loss	2,869	–
Additions	2,000	2,000
Effect of foreign exchange	(62)	–
Balance as at 31 December 2010 and 1 January 2011	28,718	2,000
Fair value changes through profit or loss	(1,671)	(1,671)
Additions	6,000	6,000
Disposals	(3,800)	–
Effect of foreign exchange	1	–
Balance as at 31 December 2011	29,248	6,329

Notes to the Financial Statements

For the year ended 31 December 2011

10. UNQUOTED FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

On 8 September 2008, the Group through CPE TMT Holdings Limited ("CPE TMT") acquired 37.1% of the issued share capital of Fortel Technology Holdings Limited ("Fortel"). This has been accounted for as financial assets at fair value through profit or loss as it is to be held as part of an investment portfolio. The Group will dispose of the shareholding upon approval by the investment committee who monitors the investment/divestment decision on an ongoing basis.

During the year ended 31 December 2011, Fortel repurchased 5,503 of the ordinary shares of US$0.01 in Fortel held by CPE TMT. CPE TMT retains a 33.6% stake in Fortel, from 37.1% previously.

The Company also entered into an agreement to acquire a 30% interest in Hong Kong-based Enfinium International Holdings Limited ("Enfinium"), for an initial consideration of US$6 million during the year ended 31 December 2011. The consideration was settled by way of issuing 10 million new ordinary shares of no par value of the Company.

The Group adopted the recent investment methodology prescribed in the IPEVCV guidelines to value its investments at fair value through profit or loss. Applying the methodology, the Group has used the purchase consideration paid by third parties in the acquisition of new shares in Fortel and Enfinium as the basis to estimate the fair value of the investment in Fortel and Enfinium.

In November 2011, Enfinium allotted further shares to third parties ("Corporate Events"). Following the Corporate Events of Enfinium, the Company's interest in Enfinium was diluted from 30% to 24% and based on the above allotment price, decrease in fair value of US$1,671,000 was recognised in the statement of comprehensive income for the year ended 31 December 2011.

There have been no further transactions occurring since the repurchase of Fortel's shares, which, in the opinion of the directors, provides evidence for the year end valuation.

During the year ended 31 December 2010, the Company entered into a subscription agreement with China iEducation Holdings Limited ("iEducation") to subscribe its guaranteed convertible note (the "Note") at a consideration of US$2,000,000. The major shareholder of iEducation is the guarantor of the Note. The Note was converted into 6,666 ordinary shares of iEducation in December 2011, represented a 40% interest in iEducation. As the Directors are not aware of any adverse elements that would materially affect the value of the shares, they consider the original cost is an appropriate valuation as at 31 December 2010 and 2011.

11. DEPOSIT

	2011	2010
	US$'000	US$'000
Rental deposit	**–**	8

12. INVESTMENT IN SUBSIDIARIES

	2011 US$'000	2010 US$'000
Investment in subsidiaries at cost	1	1
Amount due from subsidiaries	18,224	21,433
	18,225	21,434

The subsidiaries of the Company are as follows:

Name of Company	Country of Incorporation	Percentage owned 2011	Percentage owned 2010	Principal activities
CPE TMT Holdings Limited	BVI	100%	100%	Investment for TMT deals
China Private Equity Investment Group Limited	Hong Kong	100%	100%	Financial investments in Hong Kong

Amount due from subsidiaries are unsecured, interest free and have no fixed term of repayment.

13. LOANS AND OTHER RECEIVABLES

13.1 Group

	2011 US$'000	2010 US$'000
Loans	3,211	–
Other receivables and prepayments	152	45
	3,363	45

13.2 Company

	2011 US$'000	2010 US$'000
Loans	3,211	–
Other receivables and prepayments	134	45
	3,345	45

As at 31 December 2011, loans and other receivables predominantly represent loans made to and interest receivable from Orbrich Group Limited ("Orbrich") and iEducation. The amount due from Orbrich is interest bearing at 8% per annum and repayable on demand. The amount due from iEducation is interest bearing at 5% per annum and repayable on demand.

As at 31 December 2010, other receivables represent interest receivable from Orbrich, IIN Network Education (BVI) Ltd. and UCCTV Holdings Limited. Loans made to the above companies were fully repaid during the year to 31 December 2010.

Other receivables of the Group and Company have been reviewed and are considered not to be impaired nor are they past due and all amounts held are considered to be fully recoverable in value.

Notes to the Financial Statements

For the year ended 31 December 2011

14. QUOTED FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2011	2010
	US$'000	US$'000
Market value at 1 January	**–**	860
Currency translation difference	**–**	(2)
Additions	**235**	–
Gain on disposal during the year	**–**	1
Amounts realised during the year	**–**	(180)
Reclassified to cash and cash equivalents	**–**	(679)
Decrease in fair value recognised in profit or loss	**(59)**	–
Market value at 31 December	**176**	0

The quoted financial assets at fair value through profit or loss amounting to US$176,000 (2010: Nil) were pledged under a securities margin account.

15. OTHER PAYABLES AND ACCRUALS

15.1 Group

	2011	2010
	US$'000	US$'000
Other payables	**190**	38
Amount due to directors	**154**	252
Accruals	**150**	18
	494	308

15.2 Company

	2011	2010
	US$'000	US$'000
Other payables	**46**	32
Amount due to directors	**10**	10
Accruals	**59**	15
	115	57

Amount due to directors are unsecured, interest free and has no fixed terms of repayment.

16. SHAREHOLDER'S LOAN

16.1 Group

	2011	2010
	US$'000	US$'000
Shareholder's loan	**36**	14

16.2 Company

	2011	2010
	US$'000	US$'000
Shareholder's loan	**9**	14

Shareholder's loan is an amount due to Imperia Capital International Holdings Limited and is unsecured, interest free and payable on demand.

17. OTHER FINANCIAL COMMITMENTS UNDER OPERATING LEASES

The company has entered into commercial leases for land and buildings. These leases have an average life of one to five years and there are no restrictions placed on the lessee by entering into the leases. The minimum future lease payments for the non-cancellable operating leases are as follows:

	2011	2010
	US$'000	US$'000
Land and buildings:		
One year	**287**	36
Two to five years	**88**	–
	375	36

Notes to the Financial Statements

For the year ended 31 December 2011

18. SHARE CAPITAL

	Number of Shares	Amount US$'000
Authorised, called-up and fully paid ordinary shares of no par value each at 1 January 2010	12,756,929	24,572
Bonus issue on 4 June 2010	51,027,716	–
Authorised, called-up and fully paid ordinary shares of no par value each at 31 December 2010 and 1 January 2011	63,784,645	24,572
Ordinary shares issued on 17 May 2011 for acquisition of Enfinium	10,000,000	6,000
Ordinary shares issued in cash on 21 December 2011	2,500,000	1,000
Authorised, called-up and fully paid ordinary shares of no par value each at 31 December 2011	76,284,645	31,572

On 17 May 2011, 10 million new ordinary shares of no par value of the Company were issued by the Company at a price of US$0.60 per share for the acquisition of a 30% interest in Enfinium.

The Company entered into a subscription agreement with Max Era Properties Limited relating to the issue of 2,500,000 new ordinary shares in the Company at a subscription price of US$0.40 per share on 21 December 2011.

Pursuant to the specific mandate obtained from shareholders to issue new ordinary shares by way of a bonus issue of 51,027,716 new ordinary shares of no par value on a general meeting held on 3 June 2010, 51,027,716 new ordinary shares of no par value were issued by the Company to its shareholders on 4 June 2010.

As at 31 December 2011, the Company was authorised to issue up to a maximum of 100,000,000 ordinary shares of a single class without par value.

The Company was incorporated in the BVI under the BVI Business Companies Act 2004. Under the BVI laws and registration, there is no concept of "share premium", and all proceeds from the sale of no par value equity shares is deemed to be share capital of the Company.

19. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

Management has adopted certain policies on financial risk management with the objective of:

(i) ensuring that appropriate funding strategies are adopted to meet the Company's and Group's short-term and long-term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections;

(ii) ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding; and

(iii) ensuring that credit risks on receivables are properly managed.

Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Loans and receivables

	Group		Company	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
Non-financial instruments	**34**	8	**16**	–
Loans	**3,211**	–	**3,211**	–
Other receivables	**118**	45	**118**	45
Cash and cash equivalents	**1,159**	851	**898**	147
	4,522	904	**4,243**	192

Other financial liabilities

	Group		Company	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
Non-financial instruments	**150**	18	**59**	15
Other payables and accruals	**344**	290	**56**	42
Shareholder's loan	**36**	14	**9**	14
	530	322	**124**	71

Notes to the Financial Statements

For the year ended 31 December 2011

19. FINANCIAL INSTRUMENTS (continued)

Financial assets at fair value through profit or loss

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 2 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly or indirectly; and

	Group	
	2011	2010
	US$'000	US$'000
Level 1		
Quoted financial assets at fair value through profit or loss (note 14)	**176**	–
Level 2		
Unquoted financial assets at fair value through profit or loss (note 10)	**29,248**	28,718
	29,424	28,718

Carrying values of all financial assets and liabilities approximate to fair values.

Credit risk

The Company's and the Group's credit risk is primarily attributable to other receivables. Management has a credit policy in place and the exposure to credit risks is monitored on an ongoing basis.

In respect of other receivables, individual credit evaluations are performed whenever necessary. The other receivables included above were not due at the year end. None of the loans and receivables was impaired in the current or prior year.

The Company's and the Group's maximum exposure to credit risk is represented by the total financial assets held by the Company and the Group. The Company and the Group do not hold any collateral over these balances.

Interest rate risks

The Company and the Group currently operates with positive cash and cash equivalents as a result of issuing share capital in anticipation of future funding requirements. As the Group has no borrowings from the bank and the amount of deposits in the bank are not significant, the exposure to interest rate risk is not significant to the Company and the Group. The effect of a 10% increase or fall in interest rates obtainable on cash and on short-term deposits would be to increase or decrease the Group's operating results by not more than US$1,000 (2010: US$1,000).

Other receivables bear interest at a fixed annual rate, therefore there is no exposure to market interest rate risk on these financial asset.

19. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

The Company and the Group manages its liquidity requirements by the use of both short-term and long-term cash flow forecasts. The Company's and the Group's policy to ensure facilities are available as required is to issue equity share capital in accordance with long-term cash flow forecasts.

The Group's financial liabilities are primarily other payables and operational costs. All amounts are due for payment in accordance with agreed settlement terms with professional firms, and all are due within one year. The shareholder's loan is interest free and repayable on demand. A maturity analysis is not provided because it is immaterial.

Price risks

The Group's securities are susceptible to price risk arising from uncertainties about future values of the investment securities. This price risk is the risk that the fair value or future cash flows will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual investment or financial instrument or its holder or factors affecting all similar financial instruments or investments traded in the market. The Group's investment committee provides the Board of Directors with investment recommendations that are consistent with the Group's objectives. The investment committee recommendations are carefully reviewed by the Board of Directors before the investment decisions are implemented.

During the year under review, the Group did not hedge against movements in the value of its investments. A 10% increase/decrease in the fair value of investments would result in US$2,925,000 (2010: US$2,872,000) increase/decrease in the net asset value.

While investments in companies whose business operations are based in China may offer the opportunity for significant capital gains, such investments also involve a degree of business and financial risk, in particularly for unquoted investment.

Generally, the Group prepares to hold the unquoted investments for middle to long time frame, in particularly if an admission to trading on a stock exchange has not yet been ready. Sales of securities in unquoted investments may result in discount to the book value.

Currency risks

Since the Company and the Group operate primarily within its local currency with little exposure to currency fluctuations, management considers that foreign currency exposure is not significant to the Group and as such, there is no hedging in the foreign currencies. As the HK Dollar is linked to the US Dollar, there is no significant exchange risk.

Capital management

The Company's and the Group's financial strategy is to utilise its resources to further grow the Group's portfolio. The Group keeps investors and the market informed of its progress with its portfolio through regular announcements and raises additional equity finance at appropriate times.

The Company and the Group regularly reviews and manages its capital structure for the portfolio companies to maintain a balance between the higher shareholder returns that might be possible with certain levels of borrowings for the portfolio and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure of the portfolio in the light of changes in economic conditions.

The capital structure of the Company and the Group consists of borrowings disclosed in Note 16, cash and cash equivalents and equity comprising issued capital and reserves.

Notes to the Financial Statements

For the year ended 31 December 2011

20. SHARE BASED PAYMENTS

The Group has an ownership-based compensation scheme for senior executives of the Group. In accordance with the provisions of the plan, senior executives may be granted options to purchase ordinary shares. Each share option converts into one ordinary share of China Private Equity Investment Holdings Limited on exercise. No amounts are paid or payable by the recipient of the options. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

During the year ended 31 December 2009, a total of 871,150 share options exercisable at US$1.80 were granted to one of the Directors. During the year ended 31 December 2010, as a result of a bonus issue on 4 June 2010, number of share options granted was increased by 3,484,600 and its exercise price was adjusted to US$0.36 according to the terms of share options granted.

Furthermore, the Company issued 1,026,789 options to subscribe for ordinary shares in the Company during the year ended 31 December 2009 in respect of services provided to the Group. 1,020,554 of these options are exercisable at US$1.80 and the remaining 6,235 are exercisable at US$1.40. The options may be exercised at any time from the date of vesting to the date of their expiry.

During the year ended 31 December 2011, the Company did not grant any new share options nor were any exercised. Historic information relating to the fair values of the options in issue can be found in the financial statements for the year ended 31 December 2009.

	2011		2010	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance at beginning of the financial year	**5,382,539**	**0.63**	1,897,939	1.80
Effect of bonus issue on 4 June 2010	**–**	**–**	3,484,600	0.36
Forfeited during the financial year	**–**	**–**	–	–
Exercised during the financial year	**–**	**–**	–	–
Expired during the financial year	**–**	**–**	–	–
Balance at end of financial year	**5,382,539**	**0.63**	5,382,539	0.63
Exercisable at end of the financial year	**5,382,539**	**0.63**	5,382,539	0.63

21. RELATED PARTY TRANSACTIONS

During the year, the Company and the Group entered into the following transactions with related parties and connected parties:

	Notes	2011 US$'000	2010 US$'000
Imperia Capital International Holdings Limited			
Amount due to	(i)	**36**	14
UCCTV Holdings Limited			
Amount due from	(ii)	**–**	2
Amount due to Directors	(iii)		
– Duncan Chui		**3**	71
– Hanson Cheah		**39**	35
– Chau Vinh Heng		**21**	12
– Wong Yiu Kit		**82**	127
– John Croft		**4**	4
– Patrick Macdougall		**6**	6
Fortel Solutions Limited			
Business centre services expenses	(iv)	**54**	–
Amount due to		**53**	–
Capital VC Limited			
Professional services expenses	(v)	**93**	93
Amount due to		**54**	54
China iEducation Holdings Limited	(vi)		
Interest income		**2**	–
Amount due from		**631**	–

(i) As at 31 December 2011 and 2010, the Group owed approximately US$35,700 (2010: US$14,400) to Imperia Capital International Holdings Limited ("Imperia"), a shareholder of the Company. The loan is repayable on demand and does not bear interest.

(ii) Duncan Chui was the director of UCCTV Holdings Limited ("UCCTV") as at 31 December 2011 and 2010. The amount due is fully guaranteed by the major shareholder of UCCTV, interest bearing at 5% per annum and repayable on demand.

(iii) All key management personnel are Directors and appropriate disclosure with respect to them is made in note 7 to the financial statements. There are no other contracts of significance in which any director has or had during the year a material interest.

(iv) Fortel Solutions Limited is a subsidiary of Fortel Technology Holdings Limited ("Fortel"). As at 31 December 2011, CPE TMT retains a 33.6% stake in Fortel. Please refer to note 10 to the financial statements for details of shareholding in Fortel.

(v) Duncan Chui is a director of Capital VC Limited as at 31 December 2011 and 2010.

(vi) The Company had a 40% interest in iEducation after the conversion of its convertible note in December 2011. Please refer to note 10 to the financial statements for details of the shareholdings in iEducation and note 13 for the terms of the amount due therefrom.

22. (LOSS)/EARNINGS PER SHARE – CONTINUING OPERATIONS

The calculation of the basic and diluted (loss)/earnings per share attributable to the ordinary equity holders of the Group is based on the following:

		2011	2010
		US$'000	US$'000
Numerator			
Basic/Diluted:	Net (Loss)/Profit	**(2,882)**	1,953
		No. of shares	No. of shares
		'000	'000
Denominator			
Basic:	Weighted average shares	**70,134**	12,757
	Effect of bonus issue on 4 June 2010	**–**	51,028
		70,134	63,785
	Effect of diluted securities:		
	Share options	**1,336**	1,718
Diluted:	Adjusted weighted average shares	**71,470**	65,503

In the current year the share options are anti-dilutive and therefore the weighted average shares in issue are 70,134,000.