CHINA INNOVATION INVESTMENT LIMITED
中國創新投資有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 1217)

ANNUAL REPORT 2008

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Xiang Xin *(Chief Executive Officer)*
Mr. Chan Cheong Yee
Mr. Wong Chak Keung

Non-executive Directors

Mr. Wang Qing Yu *(Chairman)*
Mr. Ng Kwong Chue Paul

Independent non-executive Directors

Mr. David Wang Xin
Mr. Zang Hong Liang
Mr. Lee Wing Hang

AUTHORIZED REPRESENTATIVES

Mr. Xiang Xin
Mr. Wong Chak Keung

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Mr. David Wang Xin *(Chairman)*
Mr. Zang Hong Liang
Mr. Lee Wing Hang

COMPANY SECRETARY

Mr. Wong Chak Keung

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

26/F
No. 9 Des Voeux Raod West Road
Sheung Wan, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman
Cayman Islands KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Room 1901-02
Fook Lee Commercial Centre
Town Place
33 Lockhart Road
Wanchai, Hong Kong

INVESTMENT MANAGER

China Everbright Securities (HK) Limited

AUDITORS

Graham H.Y. Chan & Co.
Certified Public Accountants (Practising)

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited
Hang Seng Bank

CUSTODIAN

China Everbright Securities (HK) Limited
Hang Seng Bank

STOCK CODE

1217

WEBSITE

www.1217.com.hk

Chairman's Statement

BUSINESS REVIEW

The Company is an investment holding company and the Company's shares were listed on The Main Board of The Stock Exchange of Hong Kong Limited on 28 August 2002 pursuant to Chapter 21 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

For the year under review, the Company continued to hold investments in three unlisted companies namely Jinan LuGu (HK) Technology Development Limited, SNG Hong Kong Limited and Takenaka Investment Company Limited which amounting to total cost and carrying value of approximately HK$33.1 million and HK$28.6 million respectively. As at 31 December 2008, the Company held listed equity securities in Hong Kong in the fair value of HK$53,168,990. The Company also held foreign currency-linked notes at the fair value of approximately HK$47,096,000. The foreign currency-linked notes will be redeemed by cash only.

REVIEW ON POTENTIAL INVESTMENTS

In early January 2008, the Company completed its 30% acquisition in Takenaka Investment Company Limited ("Takenaka Investment"). Takenaka Investment has 65% indirect equity interest in a joint venture company in the PRC principally engaged in the manufacture and sale of copper foil materials for both civil and military uses.

On 7 January 2008, the Company entered into a non-legally binding memorandum of understanding with the Optoelectronic Bureau of China North Industries Group Corporation* (中國兵器工業集團公司) ("CNGC"), pursuant to which the Company has been granted the first right of refusal to invest in two optoelectronic projects under CNGC in the PRC, namely LED lighting project and solar cell project. In addition, the Company has also been granted a first right of refusal to invest in the projects of the overall capital restructuring of CNGC's other investments in optoelectronic industry and a right to introduce strategic investor(s) for such projects.

On 28 January 2008, the Company entered into a non-legally binding memorandum of understanding with China Trends Holdings Limited (formerly known as QUASAR Communication Technology Holdings Limited) ("China Trends"), a company listed on The Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, for the establishment of a strategic co-operation in the civil and military dual-use optoelectronic industry in the PRC.

On 13 March 2008, the Company entered into a co-operation letter of intent with China Trends and a wholly-owned subsidiary of CNGC to participate and make a joint investment in the share restructuring of Nanjing North Weihaw Optics Electronics Co., Ltd.* (南京北方慧華光電有限公司) principally engaged in civil and military dual-use optoelectronic products.

On 21 May 2008, the Company entered into the cooperation framework agreement with Beijing Guanhua Glory AV System Integration Co., Ltd. ("Beijing Guanhua") pursuant to which the Company shall invest in Beijing Guanhua subject to the fulfillment of certain conditions in the cooperation framework agreement. The Company has engaged Beijing Xinghua Accounting Firm Co., Ltd. (北京興華會計師事務所) to conduct a due diligence on Beijing Guanhua and the Company later believed that it was in the interest of the shareholders of the Company to invest in 北京冠華天視數碼科技有限公司 ("北京冠華天視"), a subsidiary of Beijing Guanhua. Specific negotiation in connection with the possible investment in 北京冠華天視 was currently underway between the Company and Beijing Guanhua.

On 18 June 2008, China Opto-Electro Industries Co., Ltd* (北京北方光電有限公司) ("COEI"), a wholly-owned subsidiary of CNGC, the Company and China Trends entered into a cooperation framework agreement, pursuant to which the Company and China Trends had been granted a first right of refusal to acquire not more than 30% equity interests or not more than 30 million shares in COEI under the capital restructuring of COEI. The Company and China Trends had also agreed to contribute to COEI the first right of refusal to invest in SMOTL (New LED Lighting Project), Yunnan Tianda (New Solar Energy Project) and NNWO (New Media LCD Project) to avoid potential competition.

Chairman's Statement

On 3 October 2008, the Company entered into a legally binding agreement with Morgan Strategic Limited ("MSL"), a company incorporated in the British Virgin Islands, pursuant to which the Company committed to acquire convertible note with face value of HK$40,000,000 from MSL. The convertible note will mature on the fifth anniversary date from the first payment requisition notice issued by MSL to the Company with an interest rate of 5% per annum. In accordance with the terms and conditions of the agreement, upon maturity of the convertible note, the Company has the right to convert the convertible note to an equity interest of 80% of the then issued share capital of MSL, excluding the voting right of the respective shares. Up to the date of this report, HK$20,000,000 was paid by the Company on 16 January 2009 as requested by MSL.

With a view to seizing the opportunities, as a minority shareholder and participate, as a financial investor, in the state-owned enterprises engaged in military industry (particularly, those engaged in the commercialization and development of technologies used in military for civil and commercial applications), the Company would continue to dedicate additional resources on investment in those PRC enterprises engaged in the military industry in the PRC. The Company will make further announcement(s) in respect of any material development on each of above possible transaction and action.

PROSPECTS

2009 would be a difficult year for China and Hong Kong, given the severe challenges facing the global economy. With the Chinese government eased fiscal and monetary policies to support the economy, there are signs that business conditions might have stablised for the moment and investor confidence restored. China would most likely be the region that will be able to maintain its stable economic performance in the global market. The Board of the Company would meet the challenges in 2009 and is optimistic to capture any opportunities. The Company will continue to explore the investment opportunities especially in China to achieve medium-term capital appreciation.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my appreciation and heartfelt thanks to those who have given their utmost support and contribution to the Company during the year.

Wang Qing Yu
Chairman

Hong Kong, 27 April 2009

Management Discussion and Analysis

RESULTS

Revenue for the year ended 31 December 2008 amounted to HK$17,921,507, representing a 337% increase when compared with the revenue of HK$4,102,283 (as restated) for the year ended 31 December 2007. The increase was attributable to the growth in the gain on disposal of financial assets at fair value through profit or loss and the dividend income.

Loss attributable to shareholders for the year amounted to HK$28,164,843, representing a 453% increase from the loss attributable to shareholders of approximately HK$5,089,915 for the year ended 31 December 2007. The increase in loss for the year was mainly due to share-based payment transactions measured at fair value on the date of granting the share options in the year and fair value change of financial assets at fair value through profit or loss.

INVESTMENT PORTFOLIOS

For the year under review, the Company hold the following investments:

Jinan LuGu (HK) Technology Development Limited ("Jinan LuGu") is incorporated in Hong Kong and principally engaged in investment holding. At 31 December 2008, it indirectly held 59.5% interest in a company incorporated in the PRC, of which the principal activity will be manufacturing and trading of 陶瓷微電路基板，微電路模塊，陶瓷電子元(組)件. The Company holds 250 ordinary shares in Jinan LuGu, representing 25% interest in the issued share capital of Jinan LuGu. The Company did not receive any dividend from this investment during the year.

SNG Hong Kong Limited ("SNG") is incorporated in Hong Kong and principally engaged in investment holding. At 31 December 2008, SNG indirectly held 38.5% interest in a company incorporated in the PRC, of which the principal activity is manufacturing and trading of 發光二極管芯片. The Company holds 3,750 ordinary shares in SNG, representing 30% interest in the issued share capital of SNG. The Company did not receive any dividend from SNG during the year.

Takenaka Investment Company Limited ("Takenaka Investment") is incorporated in the British Virgin Islands and principally engaged in investment holding. Its principal assets mainly comprises its 65% indirect equity interest in Zhengjiang Fujieda Copper Foil Company Limited* (鎮江藤枝銅箔有限公司), a sino-foreign joint venture company established in the PRC with limited liability and will be principally engaged in the manufacture and sale of copper foil materials for both civil and military uses. The acquisition of Takenaka Investment was completed in January 2008 in the aggregate amount of HK$38.7 million by cash payment of HK$11.61 million and the remaining balance of HK$27.09 million by the issue of the consideration shares of the Company at the issue price of HK$0.15. It represented (i) 30% of the issued share capital in the amount of HK$15,124,500 and (ii) the shareholders' loan in the amount of HK$23,575,500 in Takenaka Investment. The Company did not receive any dividend from Takenaka Investment during the year.

As at 31 December 2008, the Company held listed equity securities in Hong Kong in the fair value of HK$53,168,990. The Company also held foreign currency-linked notes at the fair value of approximately HK$47,096,000. The foreign currency-linked notes will be redeemed by cash only.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL POSITION

As at 31 December 2008, the Company had cash and bank balances of approximately HK$104,819,000. All the cash and bank balances were mainly placed as short-term deposits in Hong Kong dollars with banks and a securities house in Hong Kong.

For the year under review, the Company financed its operations with its own available funding and did not have any banking facilities excluding zero-coupon convertible bonds. In this regard, the Company had a net cash position and its gearing ratio is zero (net debt to shareholders' funds) as at 31 December 2008. Taking into consideration the existing financial resources to the Company, it is anticipated that the Company should have adequate financial resources to meet its ongoing operating and development requirements.

CAPITAL STRUCTURE

Details in the changes of capital structure of the Company during the year are set out in the statement of changes in equity on pages 28. The capital of the Company comprises only ordinary shares as at 31 December 2008.

FOREIGN CURRENCY FLUCTUATION

The Company mainly operates its business transactions in Hong Kong dollars and thus is not exposed to foreign currency risk. No hedging or other alternatives have been implemented.

CHARGE ON COMPANY ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2008, the Company has not pledged its assets and the Company did not have significant contingent liabilities.

EMPLOYEE INFORMATION

As at 31 December 2008, the Company had 5 (2007: 2) employees. The Company ensured that its employees are remunerated according to the prevailing manpower market condition, and individual performance with its remuneration policies reviewed on a regular basis.

Corporate Governance Report

The Board of Directors (the "Board") of the Company is committed to establishing and maintaining high standards of corporate governance so as to enhance corporate transparency and protect the interests of the Company's shareholders. The Company devotes to best practice on corporate governance, and to comply with the extent practicable, with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

During the year ended 31 December 2008 and up to the date of this report, the Company has complied with the code provisions in the Code, save for deviation from Code A4.1.

- The non-executive Directors of the Company are not appointed for a specific term, but are subject to retirement by rotation in accordance with the Company's Articles of Association and shall be eligible for re-election.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, the Directors of the Company have complied with the required standard set out in the Model Code.

BOARD OF DIRECTORS

The Board currently consists of three executive Directors, two non-executive Directors and three independent non-executive Directors. One of the independent non-executive Directors has the appropriate professional and accounting qualifications required by Rule 3.10(2) of the Listing Rules. Composition of the Board is set out on page 15 of this annual report.

The non-executive Directors of the Company are not appointed for a specific term. All Directors (including independent non-executive Directors) are subject to retirement by rotation in accordance with the Company's Articles of Association and shall be eligible for re-election. Any Director appointed as an addition to the Board or to fill a casual vacancy on the Board shall hold office until the next general meeting after their appointment and shall be eligible for re-election.

The Board is responsible for the leadership and control of the Company and oversees the Company's businesses, strategic decisions and performance. Approval of the Board is required for the strategy of the Company, major acquisition and disposal, major capital investment, dividend policy, appointment and retirement of directors, remuneration policy and other major operational and financial matters.

The Directors may have access to the advice and services of the company secretary of the Company with the view to ensuring that the board procedures, and all applicable rules and regulations, are followed.

In addition, the Directors may, upon reasonable request, seek independent professional advice in appropriate circumstance at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties.

The attendance of individual members at board meetings and executive committee meetings held during the year ended 31 December 2008 are set out as below:

Name of Directors	Board meetings Attendance	Executive Committee meetings Attendance
Executive Directors:		
Mr. Xiang Xin	3/3	14/14
Mr. Chan Cheong Yee	1/3	13/14
Mr. Wong Chak Keung	3/3	14/14
Non-executive Directors:		
Mr. Wang Qing Yu	3/3	N/A
Mr. Ng Kwong Chue Paul	1/3	N/A
Independent non-executive Directors:		
Mr. David Wang Xin	1/3	N/A
Mr. Lee Wing Hang	0/3	N/A
Mr. Zang Hong Liang	0/3	N/A

The biographical details of the Directors are set out on pages 12 to 13 of this annual report.

To the best knowledge of the Company, none of the Directors above has any financial, business and family or other material/relevant relationship with any of the other Directors.

All independent non-executive Directors are financially independent from the Company. The Company confirmed with all independent non-executive Directors as to their independence with reference to the factors as set out in Rule 3.13 of the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman and Chief Executive Officer of the Company are Mr. Wang Qing Yu and Mr. Xiang Xin respectively.

The Board recognises power is not concentrated in any one individual both on the management of the Board and the day-to-day management of the Company's business. In order to meet this aim, the responsibilities between the Chairman and the Chief Executive Officer are separate.

The Chairman is responsible for the leadership and effective running of the Board, and ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner.

Corporate Governance Report

Management is responsible for the day-to-day operations of the Company under the leadership of the Chief Executive Officer. The Chief Executive Officer, working with other executive Directors, is responsible for managing the business of the Company, including implementation of the strategies and decisions approved by the Board and assuming full responsibility to the Board for operation of the Company.

EXECUTIVE COMMITTEE

An executive committee (the "Executive Committee") was established by the Board on 3 August 2007 and delegated with powers from the Board to deal with all matters relating to the daily operations of the Company. The Executive Committee currently comprises three members, including all executive Directors of the Company.

The Executive Committee held periodical meetings during the year ended 31 December 2008 to review, discuss and evaluate the business performance and other business and operational matters of the Company.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company was established in the year 2006 with terms of reference as set out in the Code. The Remuneration Committee consists of three independent non-executive Directors. As at the date of this report, the members of the Remuneration Committee are as follows:

Mr. David Wang Xin *(Chairman)*
Mr. Zang Hong Liang
Mr. Lee Wing Hang

The principal duties of the Remuneration Committee include formulation of the remuneration policy; review and recommending to the Board the annual remuneration; make recommendation to the Board of the remuneration of non-executive directors; and determination of the remuneration of executive directors and members of the senior management. One meeting of the Remuneration Committee was held by all the members on 14 January 2008 in relation to the granting of share option to the Directors of the Company.

NOMINATION COMMITTEE

A nomination committee (the "Nomination Committee") was set up on 3 August 2007. In considering the new appointment of Directors, the Nomination Committee will make reference to certain criteria such as integrity, independent mindedness, experience, skill and the ability to commit time and effort to carry out his duties and responsibility effectively.

During the year ended 31 December 2008, there was no meeting held by the Nomination Committee in resolving the appointment of a new Director.

AUDIT COMMITTEE

The audit committee (the "Audit Committee") was established by the Board since the listing of the Company's shares on the Stock Exchange on 28 August 2002. The Audit Committee has its written terms of reference adopted since its establishment in compliance with the Code as set out in Appendix 14 of the Listing Rules. As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely Mr. David Wang Xin, Mr. Zang Hong Liang and Mr. Lee Wing Hang.

Mr. David Wang Xin is the chairman of the Audit Committee. Each member of the Audit Committee shall abstain from voting on any resolutions in respect of matter in which he is interested. The Audit Committee met at least twice during the year and the respective attendance at such meeting during the year ended 31 December 2008 was:

Name of Directors	Attendance
Mr. David Wang Xin	2/2
Mr. Lee Wing Hang	2/2
Mr. Zang Hong Liang	2/2

The Audit Committee is responsible for reviewing the Company's interim and annual financial statements and making recommendation as to the approval of the Company's interim and annual financial statements by the Board. Members of the Audit Committee have complete and unrestricted access to the external auditors.

The Audit Committee has reviewed both the half year results for the period ended 30 June 2008 and the annual results for the year ended 31 December 2008 of the Company before announcement of both results.

INTERNAL CONTROL

The Company conducted an annual review for the need of setting up an internal audit department. Given the Company's simple operating structure, it was decided that the Board would be directly responsible for the internal control system of the Company and for reviewing its effectiveness.

Procedures have been designed to safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance of applicable laws, rules or regulations. However, such a system is designed to manage the Company's risk within an acceptable risk profile, rather than to eliminate the risk of failure, to achieve the business objectives of the Company. Accordingly, it can provide only reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or frauds.

The Board has conducted a review of the effectiveness of the Company's internal control system, and is of the view that the system of internal controls in place for the year under review and up to the date of issuance of annual report and financial statements is sound and is sufficient to safeguard the interests of shareholders, employees, and the Company's assets.

The Audit Committee of the Company agreed with the Board that the adequacy and effectiveness of the Company's internal control systems is sufficient.

Corporate Governance Report

FINANCIAL REPORTING

The Directors are responsible for the preparation and the true and fair presentation of the financial statements which give a true and fair view of the state of affairs and of the results and cash flow of the Company for each financial year. In preparing the financial statements for the year ended 31 December 2008, the Directors have:

- based on a going concern basis;
- approved the adoption of the applicable Hong Kong Financial Reporting Standards;
- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that were prudent, fair and reasonable;
- ensured that the financial statements are prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and the applicable accounting standards.

EXTERNAL AUDITORS

The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Independent Auditor's Report" on page 25.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid and payable to the Company's auditors, Messrs. Graham H.Y. Chan & Co., is set out as follow:

Audit fee for the year	HK$100,000
Non-audit services	
– tax compliance	HK$2,500
– others	HK$5,000

Biographical Details of Directors

EXECUTIVE DIRECTORS

Mr. Xiang Xin, aged 46, an executive Director and the Chief Executive Officer, joined the Company in January 2003. He has worked for quite a few large organisations in the PRC and engaged in technology project management and corporate strategy research for a long time. He also has many years of experience in project investment and telecommunications network businesses. Mr. Xiang holds a bachelor degree in Science and a master degree in Engineering from Nanjing University of Science & Technology. Mr. Xiang is also an executive director of China Trends Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange, with effect from 25 February 2008.

Mr. Chan Cheong Yee, aged 45, an executive Director, joined the Company in June 2003. Mr. Chan has obtained a bachelor of science degree from the College of Business Administration of The University of South Florida in the United States. Mr. Chan was appointed as an independent non-executive director of Eccom International Limited, a company listed on the Growth Enterprise Market of the Stock Exchange, on 28 August 2007. Mr. Chan has been promoted to executive director of Eccom International Limited since 17 April 2009. On top of the directorships mentioned above, from 2004 to 2006, Mr. Chan was an independent non-executive director of Cosmopolitan International Holdings Limited, a company listed on the Stock Exchange, and from 1 June 2002 to 30 June 2003, he was an executive director of Haywood Investments Limited (currently Apex Capital Limited), an investment company listed on the Stock Exchange under Chapter 21 of the Listing Rules. From May 2004 to February 2005, he was an independent non-executive director of GP Nano Technology Group Limited, a company listed on the Growth Enterprise Market of the Stock Exchange until 9 June 2005. Mr. Chan was an independent non-executive director of Aurum Pacific (China) Group Limited (formerly known as S&D International Development Group Limited), a company listed on the Growth Enterprise Market of the Stock Exchange during the period from 27 March 2007 to 14 July 2008. Mr. Chan is a licensed person under the SFO for regulated activities in dealing in securities, dealing in futures contracts, leveraged foreign exchange trading and asset management and is a responsible officer of China Everbright Securities (HK) Limited, which is licensed corporations under the SFO.

Mr. Wong Chak Keung, aged 42, an executive Director and company secretary, joined the Company in November 2007. Mr. Wong holds a bachelor's degree in business from The University of Southern Queensland in Australia. He is also a member of Hong Kong Institute of Certified Public Accountants and CPA Australia. Mr. Wong has been in the accounting profession for over 15 years. Mr. Wong worked in various positions in an international accounting firm, corporate finance, educational business and manufacturing sector in Hong Kong. Mr. Wong is also an executive director of China Trends Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange, with effect from 25 February 2008.

Biographical Details of Directors

NON-EXECUTIVE DIRECTORS

Mr. Wang Qing Yu, aged 65, a non-executive Director and Chairman of the Company, joined the Company in December 2005. Mr. Wang graduated from Optical Equipment Faculty of Changchun University of Science and Technology, majoring in Precision Mechanics. He had previously taught optical precision mechanical technology and optical cold processing and conducted related scientific research. He was Schoolmaster of Changchun University of Science and Technology, professor and secretary of the Party Committee, Head President of China South Industries Group Corporation and Director of the General Office. He was awarded National Science Conference Group Award Grade A. Mr. Wang was recognised as a science expert by the State Council of the PRC, and is entitled to perpetual government allowances.

Mr. Ng Kwong Chue Paul, aged 38, a non-executive Director, joined the Company as executive Director in April 2003 and re-designated as non-executive Director in May 2006. He has more than 12 years of experience in audit, taxation and corporate finance areas. Mr. Ng was one of the founders of the Company. He is also the company secretary and chief investment officer of JLF Investment Company Limited, a company listed on the main board of the Hong Kong Stock Exchange. Mr. Ng also manage a private equity funds with total fund size over HK$700 million. He holds a bachelor degree in Commerce from The University of Melbourne. He is a member of CPA Australia, Hong Kong Institute of Certified Public Accountants and a certified management consultant with Australia Institute of Management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. David Wang Xin, aged 46, an independent non-executive Director and is a chairman of the audit committee of the Company, joined the Company in October 2002. He is the founder and the president of Sun & Sun group of companies, a Singapore-based investment and consultancy group. Mr. Wang graduated with a bachelor's degree in Mechanical Engineering in 1982 and a master's degree in Business Administration in 1985.

Mr. Zang Hong Liang, aged 41, an independent non-executive Director and is a member of the audit committee of the Company, joined the Company in September 2004. He is at present a partner of Global Law Office, a large law firm in the PRC. He graduated from the Faculty of Law of Xiamen University in 1991 and Postgraduate Institute of China University of Political and Law Science in 1994. He holds a bachelor degree in International Economic Law and a master degree in Commercial Law. Mr. Zang's area of practice includes laws on commercial litigation, arbitration, investment and anti-dumping.

Mr. Lee Wing Hang, aged 40, an independent non-executive Director and a member of the audit committee of the Company, joined the Company in December 2006. He is the partner of Tony W. H. Lee & Co., Certified Public Accountants (Practising). He holds a bachelor degree in accountancy from Australia. He has over 15 years of experience in corporate finance, accounting, auditing and taxation sectors. Mr. Lee is a member of Hong Kong Institute of Certified Public Accountants and CPA Australia.

Report of the Directors

The directors of the Company (the “Directors”) have pleasure to present their report and the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITY

The principal activity of the Company is investment holding.

The entire turnover, contribution to operating results, assets and liabilities of the Company are attributable to investment activities carried out or originated principally in Hong Kong and the People’s Republic of China (“PRC”).

RESULTS AND APPROPRIATIONS

The results of the Company for the year are set out in the income statement on page 26.

The Board has resolved not to declare any dividend (2007: nil) for the year under review.

RESERVES

Details of movements in the reserves of the Company during the year are set out in the statement of changes in equity on page 28.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, the share premium of the Company is available for distribution of dividends to the shareholders subject to the provisions of the Articles of Association of the Company and a statutory solvency test. Under the Articles of Association of the Company, dividend may be declared or payable out of the profits and reserves of the Company lawfully available for distribution with the sanction of an ordinary resolution.

As at 31 December 2008, the Company had distributable reserves amounting to approximately HK$171,140,000 (2007: approximately HK$155,232,000).

Report of the Directors

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Company for the last five financial years, as extracted from the audited financial statements, is set out below:–

	2008	2007	2006	2005	2004
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Revenue *(note)*	**17,921,507**	4,102,283	428,041	7,474,554	1,176,294
Loss attributable to shareholders	**(28,164,843)**	(5,088,915)	(1,187,183)	(9,511,663)	(9,078,931)
Total assets	**258,881,724**	201,960,939	29,562,554	27,175,992	36,656,073
Total liabilities	**7,339,881**	(1,600,971)	(434,577)	(154,540)	(122,958)
Net assets	**251,541,843**	200,359,968	29,127,977	27,021,452	36,533,115

Note: Revenue for 2004 to 2007 were restated to conform with current year presentation.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 18 to the financial statements.

ZERO COUPON CONVERTIBLE BONDS

Details of movement in zero-coupon convertible bonds of the Company during the year are set out in note 19 to the financial statements.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

Mr. Xiang Xin *(Chief Executive Officer)*
Mr. Chan Cheong Yee
Mr. Wong Chak Keung

Non-executive Directors:

Mr. Wang Qing Yu *(Chairman)*
Mr. Ng Kwong Chue Paul

Independent non-executive Directors:

Mr. David Wang Xin
Mr. Zang Hong Liang
Mr. Lee Wing Hang

In accordance with Article 99(1) of the Articles of Association of the Company, Mr. Zang Hong Liang, Mr. Chan Cheong Yee and Mr. Wang Qing Yu shall retire and, being eligible, shall offer themselves for re-election at the forthcoming annual general meeting of the Company.

The independent non-executive directors are not appointed for specific term and are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association of the Company.

None of the directors being proposed for re-election at the forthcoming annual general meeting has service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the Directors are set out on pages 12 to 13 of this annual report.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2008, the following Directors and the chief executive of the Company or any of their respective associates had the following interests and short positions in the ordinary shares of HK$0.01 each in the capital of the Company (the "Share"), underlying shares, and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules (the "Model Code").

(i) Long position in the Shares

Name	Interest in Shares	Capacity	Approximate percentage of interests
Xiang Xin	1,523,335,379	Corporate interests *(note 1)*	29.47%
Chan Cheong Yee	17,040,000	Beneficiary	0.33%
Wong Chak Keung	10,656,000	Beneficiary	0.21%
Lee Wing Hang	1,000,000	Beneficiary	0.01%

Note:

1. The 1,523,335,379 shares are held by Harvest Rise Investments Limited, a private company wholly and beneficially owned by Mr. Xiang Xin. Mr. Xiang is the sole director of Harvest Rise Investments Limited.

(ii) **Long position in the underlying shares – share options**

Name	Date of grant	Exercise period	Number of share options outstanding as at 31 December 2008	Exercise price per share	Number of total underlying Shares	Approximate percentage of interests
Xiang Xin	18.10.2007	18.10.2007 to 15.10.2010	17,040,000	0.0500	22,040,000	0.43%
	14.1.2008	1.2.2008 to 31.1.2011	5,000,000	0.2000		
Chan Cheong Yee	14.1.2008	1.2.2008 to 31.1.2011	20,000,000	0.2000	20,000,000	0.39%
Wong Chak Keung	18.10.2007	18.10.2007 to 15.10.2010	6,384,000	0.0500	26,384,000	0.51%
	14.1.2008	1.2.2008 to 31.1.2011	20,000,000	0.2000		
Wang Qing Yu	18.10.2007	18.10.2007 to 15.10.2010	8,520,000	0.0500	13,520,000	0.26%
	14.1.2008	1.2.2008 to 31.1.2011	5,000,000	0.2000		
Ng Kwong Chue Paul	29.1.2003	28.8.2003 to 27.8.2013	10,244,262	0.0244	23,764,262	0.46%
	18.10.2007	18.10.2007 to 15.10.2010	8,520,000	0.0500		
	14.1.2008	1.2.2008 to 31.1.2011	5,000,000	0.2000		
David Wang Xin	29.1.2003	28.8.2003 to 27.8.2013	4,097,704	0.0244	26,137,704	0.51%
	18.10.2007	18.10.2007 to 15.10.2010	17,040,000	0.0500		
	14.1.2008	1.2.2008 to 31.1.2011	5,000,000	0.2000		
Zang Hong Liang	18.10.2007	18.10.2007 to 15.10.2010	17,040,000	0.0500	22,040,000	0.43%
	14.1.2008	1.2.2008 to 31.1.2011	5,000,000	0.2000		
Lee Wing Hang	18.10.2007	18.10.2007 to 15.10.2010	10,000,000	0.0500	15,000,000	0.29%
	14.1.2008	1.2.2008 to 31.1.2011	5,000,000	0.2000		

Note:

1. On 14 January 2008, pursuant to the Share Option Scheme of the Company, each of Mr. Chan Cheong Yee and Mr. Wong Chak Keung was granted share options to subscribe for 20,000,000 shares, and each of other Directors was granted share options to subscribe for 5,000,000 shares. The options are exercisable at the subscription price of HK$0.20 per share during the period from 1 February 2008 to 31 January 2011.

(iii) Long position in the unlisted warrants ("2008 Warrants") of the Company

Name	Number of underlying Shares (in respect of the 2008 Warrants) held	Capacity	% to the issued share capital of the Company
Xiang Xin	800,000,000	Corporate interest *(note 1)*	15.47%

Note:

1. The underlying Shares are held by Harvest Rise Investments Limited, a private company wholly and beneficially owned by Mr. Xiang Xin. Mr. Xiang is the sole director of Harvest Rise Investments Limited.

The 2008 Warrants entitle the holders to subscribe for new Shares at the subscription price of HK$0.20 per Share (subject to adjustment) until 29 January 2013.

(iv) Long position in the zero-coupon convertible bonds ("CB") of the Company

Name	Principal amount of CBs HK$	Number of underlying Shares to be held	Capacity	% to the issued share capital of the Company
Xiang Xin	10,000,000	200,000,000	Corporate interest *(note 1)*	3.87%

Note:

1. The underlying Shares are held by Harvest Rise Investments Limited, a private company wholly and beneficially owned by Mr. Xiang Xin. Mr. Xiang is the sole director of Harvest Rise Investments Limited.

Holders of the CBs are entitled to elect to convert the CBs into Shares at the conversion price of HK$0.05 per Share (subject to adjustment) until 29 January 2013.

Save as disclosed above, none of the Directors or the chief executive of the Company or any of their respective associates had, as at 31 December 2008, any interests and short positions in the shares, underlying shares, and debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

SHARE OPTION SCHEME

Under the share option scheme approved by the sole shareholder of the Company on 18 July 2002 (the "Scheme"), the board of directors of the Company may, at their discretion, invite any full-time employee, director (including non-executive director and independent non-executive director), any part time employee with weekly working hours of 15 hours and above of the Company or its subsidiaries, any advisor or consultant to the Company or to any of its subsidiaries and adviser, consultant, agent or business affiliates who has contributed to the Company to subscribe for shares in the Company.

Pursuant to the Scheme, the overall limit on the number of shares which may be issued upon exercise of all options granted and yet to be exercised under the Scheme and other share options schemes of the Company must not exceed 30% of the shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each eligible participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue at any time. Any further grant of options in excess of this limit is subject to the shareholders ' approval of the Company in a general meeting with such participant(s) and his associate(s) abstaining from voting.

The offer of a grant of share options may be accepted within 7 days from the date of the offer, upon payment of a consideration of HK$1.00 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a specified date and ends on a date which is not later than 10 years from the date of the offer of the share options.

The exercise price of the share options is determinable by the directors of the Company, but may not be less than the highest of (a) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (b) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and (c) the nominal value of a share on the date of grant.

As at the date of this report, a total of 434,447,183 share options (representing approximately 8% of the existing issued share capital of the Company at the date of this annual report) have been granted and outstanding pursuant to the Scheme.

Details of the options granted under the Scheme and outstanding at 31 December 2008 are as follows:

			Number of share options					
Name	Date of grant	Exercise period	Outstanding as at 1 January 2008	Granted during the year	Lapsed during the year	Exercise during the year	Outstanding as at 31 December 2008	Price per share to be paid on exercise of options *HK$*
Xiang Xin	18.10.2007	18.10.2007 to 15.10.2010	17,040,000	–	–	–	17,040,000	0.0500
	14.1.2008	1.2.2008 to 31.1.2011	–	5,000,000	–	–	5,000,000	0.2000
Chan Cheong Yee	14.1.2008	1.2.2008 to 31.1.2011	–	20,000,000	–	–	20,000,000	0.2000
Wong Chak Keung	18.10.2007	18.10.2007 to 15.10.2010	8,520,000	–	–	2,136,000	6,384,000	0.0500
	14.1.2008	1.2.2008 to 31.1.2011	–	20,000,000	–	–	20,000,000	0.2000
Wong Qing Yu	18.10.2007	18.10.2007 to 15.10.2010	8,520,000	–	–	–	8,520,000	0.0500
	14.1.2008	1.2.2008 to 31.1.2011	–	5,000,000	–	–	5,000,000	0.2000
Ng Kwong Chue Paul	29.1.2003	28.8.2003 to 27.8.2013	10,244,262	–	–	–	10,244,262	0.0244
	18.10.2007	18.10.2007 to 15.10.2010	8,520,000	–	–	–	8,520,000	0.0500
	14.1.2008	1.2.2008 to 31.1.2011	–	5,000,000	–	–	5,000,000	0.2000
David Wang Xin	29.1.2003	28.8.2003 to 27.8.2013	4,097,704	–	–	–	4,097,704	0.0244
	18.10.2007	18.10.2007 to 15.10.2010	17,040,000	–	–	–	17,040,000	0.0500
	14.1.2008	1.2.2008 to 31.1.2011	–	5,000,000	–	–	5,000,000	0.2000
Zang Hong Liang	18.10.2007	18.10.2007 to 15.10.2010	17,040,000	–	–	–	17,040,000	0.0500
	14.1.2008	1.2.2008 to 31.1.2011	–	5,000,000	–	–	5,000,000	0.2000
Lee Wing Hang	18.10.2007	18.10.2007 to 15.10.2010	10,000,000	–	–	–	10,000,000	0.0500
	14.1.2008	1.2.2008 to 31.1.2011	–	5,000,000	–	–	5,000,000	0.2000

Name	Date of grant	Exercise period	Number of share options: Outstanding as at 1 January 2008	Granted during the year	Lapsed during the year	Exercise during the year	Outstanding as at 31 December 2008	Price per share to be paid on exercise of options
								HK$
Others								
Business advisors	29.1.2003	28.8.2003 to 27.8.2013	104,901,217	–	–	–	104,901,217	0.0244
	18.10.2007	18.10.2007 to 15.10.2010	99,150,000	–	–	14,916,000	84,234,000	0.0500
	14.1.2008	1.2.2008 to 31.1.2011	–	50,000,000	5,000,000	–	45,000,000	0.2000
Employees	18.10.2007	18.10.2007 to 15.10.2010	4,260,000	–	1,426,000	1,408,000	1,426,000	0.0500
Steering committee members	14.1.2008	1.2.2008 to 31.1.2011	–	30,000,000	–	–	30,000,000	0.2000
			309,333,183	150,000,000	6,426,000	18,460,000	434,447,183	

Notes:

1. On 14 January 2008, pursuant to the Share Option Scheme of the Company, an aggregate of 150,000,000 share options were granted to each respective eligible participants at the exercise price per share of HK$0.20. The share options are exercisable during the period from 1 February 2008 to 31 January 2011. The closing price of the Company's shares immediately before the date of grant was HK$0.183.

2. The estimated fair value of the share options granted during the year was approximately HK$0.153 per share option. The Company recognised total expenses of approximately HK$22,186,740 for the year ended 31 December 2008 in relation to the fair value of the options granted on 14 January 2008.

   The following significant assumptions were used to derive the fair value using the Binominal option pricing model:

Expected volatility:	193.6%
Expected dividend yield:	Nil
Expected life:	1.55 years
Risk free interest rate:	1.921% (being the yield of 1.55-year Exchange Fund Note as at the date of grant sourced from Bloomberg)

   Based on the above assumptions, the estimated fair value under the options granted on 14 January 2008 was approximately HK$0.153 per share option.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the persons/companies, other than a Director or chief executive of the Company, who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

(i) Long positions of substantial shareholders in the Shares of the Company

Name	Capacity	Number of issued shares held	Approximate percentage of interests
Harvest Rise Investments Limited *(note 1)*	Corporate	1,523,335,379	29.47%
Kung Ching *(note 2)*	Family Corporate	1,523,335,379	29.47%
Tat Fai Enterprises Ltd.	Beneficiary	660,383,891	12.78%
Cheung Chung Kit *(note 3)*	Deemed	660,383,891	12.78%

(ii) Long position in the unlisted warrants ("2008 Warrants") of the Company

Name	Number of underlying Shares (in respect of the 2008 Warrants) held	Capacity	% to the issued share capital of the Company
Harvest Rise Investments Limited *(note 1)*	800,000,000	Beneficiary	15.47%
Kung Ching *(note 2)*	800,000,000	Family corporate	15.47%

The 2008 Warrants entitle the holders to subscribe for new Shares at the subscription price of HK$0.20 per Share (subject to adjustment) until 29 January 2013.

(iii) Long position in the zero-coupon convertible bonds ("CB") of the Company

Name	Principal amount of CBs *HK$*	Number of underlying Shares to be held	Capacity	% to the issued share capital of the Company
Harvest Rise Investments Limited *(note 1)*	10,000,000	200,000,000	Beneficiary	3.87%
Kung Ching *(note 2)*	10,000,000	200,000,000	Family corporate	3.87%

Holders of the CBs are entitled to elect to convert the CBs into Shares at the conversion price of HK$0.05 per Share (subject to adjustment) until 29 January 2013.

Notes:

1. Harvest Rise Investments Limited is a private company wholly and beneficially owned by Mr. Xiang Xin. Mr. Xiang is the sole director of Harvest Rise Investments Limited.

2. Ms. Kung Ching, the spouse of Mr. Xiang, is deemed to have interest in the Shares and underlying Shares held by Harvest Rise Investment Limited as mentioned in note 1 above.

3. Tat Fai Enterprises Ltd. is a private company wholly and beneficially owned by Mr. Cheung Chung Kit. Mr. Cheung Chung Kit is deemed to have interest in 660,383,891 shares held by Tat Fai Enterprises Ltd.

Save as disclosed above, as at 31 December 2008, the Company has not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTOR'S RIGHT TO ACQUIRE SHARES AND DEBENTURES

Other than the share option scheme as disclosed under the heading "Share Option Scheme" above, at no time during the year was the Company a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors or the chief executive or any of their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or exercised any such right.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company had not purchased, sold or redeemed any of its listed securities.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 26 to the financial statements, no contracts of significance in relation to the Company's business to which the Company was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

Save as disclosed in note 26 to the financial statements, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CONNECTED TRANSACTIONS

All significant connected transactions entered by the Company during the year ended 31 December 2008 are disclosed in note 26 to the financial statements.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors of the Company or their respective associates have any interests in a business which competes or may compete with the business of the Company.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association nor is there any restriction against such rights under the laws of the Cayman Islands, being the jurisdiction under which the Company is incorporated.

RETIREMENT BENEFITS SCHEME

The Company operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Company in an independently-administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme. The Company's contributions to the MPF Scheme are recognised as an expense in the income statement as incurred.

For the year ended 31 December 2008, no forfeited contribution to the retirement benefits scheme was credited to the income statement (2007: nil).

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 7 to 11.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2008.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events of the Company are set up in note 23 to the financial statements.

AUDITORS

A resolution for the re-appointment of Messrs. Graham H.Y. Chan & Co. as auditors of the Company until the conclusion of the next annual general meeting is to be proposed at the forthcoming annual general meeting.

By order of the Board

Xiang Xin
Executive Director and Chief Executive Officer

Hong Kong, 27 April 2009

Independent Auditor's Report

事會陳
務計浩
所師賢

GRAHAM H.Y. CHAN & CO.
CERTIFIED PUBLIC ACCOUNTANTS
HONG KONG

TO THE SHAREHOLDERS OF CHINA INNOVATION INVESTMENT LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of China Innovation Investment Limited (the "Company") set out on pages 26 to 60, which comprise the balance sheet as at 31 December 2008, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2008 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Graham H. Y. Chan & Co.
Certified Public Accountants (Practising)
Unit 1, 15/F., The Center,
99 Queen's Road Central,
Hong Kong

27 April 2009

Income Statement

For the year ended 31 December 2008

	Notes	2008 HK$	2007 HK$ (restated)
Revenue	5	**17,921,507**	4,102,283
Gross sales proceeds of financial assets at fair value through profit or loss		**237,251,972**	54,704,781
Interest income		**2,110,612**	966,014
Dividend income		**1,409,319**	–
Gain on disposal of financial assets at fair value through profit or loss		**14,401,576**	3,136,269
Depreciation		**(62,729)**	–
Investment manager's fee		**(300,000)**	(155,139)
Directors' fees	6	**(35,000)**	(46,806)
Salaries and allowance	6	**(1,015,005)**	(186,581)
Equity-settled share options expenses		**(22,186,740)**	(5,536,800)
Fair value change of financial assets at fair value through profit or loss		**(18,572,769)**	(165,000)
Other operating expenses	7	**(2,720,872)**	(3,100,872)
Finance costs	8	**(1,193,235)**	–
Loss before taxation		**(28,164,843)**	(5,088,915)
Income tax expense	9	**–**	–
Loss attributable to shareholders		**(28,164,843)**	(5,088,915)
Basic loss per share (HK cents)	11	**(0.58)**	(0.56)

Balance Sheet

As at 31 December 2008

	Note	2008 HK$	2007 HK$
Non-current assets			
Property, plant and equipment	13	**945,929**	–
Available-for-sale investments	14	**81,793,715**	13,500,225
Loan receivables	14	**23,575,500**	–
Deposit for acquisition of available-for-sale investment		**–**	1,000,000
		106,315,144	14,500,225
Current assets			
Trade and other receivables	15	**–**	8,925,202
Deposits and prepayment		**650,987**	566,657
Financial assets at fair value through profit or loss	16	**47,096,316**	29,088,000
Cash and cash equivalents	17	**104,819,277**	148,880,855
		152,566,580	187,460,714
Current liabilities			
Accruals		**262,515**	1,600,971
Net current assets		**152,304,065**	185,859,743
Total assets less current liabilities		**258,619,209**	200,359,968
Capital and reserves			
Share capital	18	**51,687,358**	41,696,758
Reserves		**199,854,485**	158,663,210
Total equity		**251,541,843**	200,359,968
Non-current liabilities			
Zero-coupon convertible bonds	19	**7,077,366**	–
		258,619,209	200,359,968
Net asset value per share	21	**HK$0.05**	HK$0.05

The financial statements on pages 26 to 60 were approved and authorised for issue by the Board of Directors on 27 April 2009 and are signed on its behalf by:

Xiang Xin
Director

Wong Chak Keung
Director

Statement of Changes in Equity

For the year ended 31 December 2008

	Share capital	Share premium	Share option reserve	Investment revaluation reserve	Convertible bond equity reserve	Accumulated losses	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
At 1 January 2007	2,999,160	46,714,093	–	–	–	(20,585,276)	29,127,977
Changes in equity for 2007							
Loss for the year and total recognised income and expense	–	–	–	–	–	(5,088,915)	(5,088,915)
Issue of rights shares	36,335,520	109,006,560	–	–	–	–	145,342,080
Rights shares issuing expense	–	(2,873,477)	–	–	–	–	(2,873,477)
Issue of shares upon exercise of warrants	599,832	19,794,456	–	–	–	–	20,394,288
Issue of shares upon exercise of share options, and option fee	1,762,246	6,158,969	–	–	–		7,921,215
Equity-settled share option scheme	–	–	5,536,800	–	–	–	5,536,800
Transfer to reserves upon exercise of share options	–	2,105,364	(2,105,364)	–	–	–	–
At 31 December 2007 and 1 January 2008	41,696,758	180,905,965	3,431,436	–	–	(25,674,191)	200,359,968
Changes in equity for 2008							
Fair value change of available-for-sale investments	–	–	–	(14,968,912)	–	–	(14,968,912)
Loss for the year	–	–	–	–	–	(28,164,843)	(28,164,843)
Total recognised income and expense	–	–	–	(14,968,912)	–	(28,164,843)	(43,133,755)
Issue of shares for acquisition of available-for-sale investments	1,806,000	25,284,000	–	–	–	–	27,090,000
Issue of shares for conversion of convertible bonds	8,000,000	32,000,000	–	–	–	–	40,000,000
Issue of shares upon exercise of share options and option fee	184,600	738,421	–	–	–	–	923,021
Equity-settled share option scheme	–	–	22,186,740	–	–	–	22,186,740
Transfer to reserves upon exercise/lapse of share options	–	333,233	(358,975)	–	–	25,742	–
Issue of zero-coupon convertible bonds					17,278,904	–	17,278,904
Transfer to reserves upon share conversion of convertible bonds	–	660,088	–	–	(13,823,123)	–	(13,163,035)
At 31 December 2008	51,687,358	239,921,707	25,259,201	(14,968,912)	3,455,781	(53,813,292)	251,541,843

Statement of Changes in Equity

For the year ended 31 December 2008

Notes:

(i) Under the Companies Law of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to the shareholders subject to the provisions of the Articles of Association of the Company and a statutory solvency test. Under the Articles of Association of the Company, dividend may be declared or payable out of the profits and reserves of the Company lawfully available for distribution with the sanction of an ordinary resolution. Dividend may also be declared out of share premium account of the Company. As at 31 December 2008, the Company's reserve available for distribution amounted to HK$171,139,503 (2007: approximately HK$155,232,000).

(ii) The share option reserve comprises the fair value of unexercised share options granted to directors, employees and business advisors of the Company recognised in accordance with HKFRS 2. Further information about share-based payments is set out in note 20.

(iii) The investment revaluation reserve arises on the revaluation of available-for-sale financial assets. When a revalued financial asset is sold, the portion of the reserve related to that financial asset, and is effectively realised, is recognised in profit or loss.

(iv) The convertible bond equity reserve arises on the issue of convertible bond by the Company. It represents the option to convert the liability component into ordinary shares of the Company and will remain in convertible bond equity reserve until the conversion option is exercised (in which case the balance stated in convertible bond equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bond equity reserve will be released to retained profits.

Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 HK$	2007 HK$
Operating activities			
Loss before taxation		**(28,164,843)**	(5,088,915)
Adjustments for:			
Equity-settled share option expenses		**22,186,740**	5,536,800
Fair value change of financial assets at fair value through profit or loss		**18,572,769**	165,000
Interest expenses for convertible bonds		**1,193,235**	–
Depreciation		**62,729**	–
Interest income		**(2,110,612)**	(966,014)
Operating cash flow before changes in working capital		**11,740,018**	(353,129)
Decrease/(increase) in interest receivables		**2,932**	(2,932)
Decrease/(increase) in trade and other receivables		**8,922,270**	(8,922,270)
Increase in deposits and prepayment		**(84,330)**	(222,430)
(Decrease)/increase in accruals		**(1,338,456)**	1,166,394
Net cash from/(used in) operating activities		**19,242,434**	(8,334,367)
Investing activities			
Payment for acquisition of financial assets at fair value through profit or loss		**(49,984,000)**	(29,253,000)
Payment for acquisition of available-for-sale investments		**(65,344,987)**	(1,000,000)
Payment for acquisition of property, plant and equipment		**(1,008,658)**	–
Interest received		**2,110,612**	966,014
Net cash used in investing activities		**(114,227,033)**	(29,286,986)
Financing activities			
Issue of rights shares, net of expenses		**–**	142,468,603
Issue of shares upon exercise of warrants		**–**	20,394,288
Issue of shares upon exercise of share options, and option fee		**923,021**	7,921,215
Issue of convertible bonds, net of expenses		**50,000,000**	–
Net cash from financing activities		**50,923,021**	170,784,106
Net (decrease)/increase in cash and cash equivalents		**(44,061,578)**	133,162,753
Cash and cash equivalents at 1 January		**148,880,855**	15,718,102
Cash and cash equivalents at 31 December	*17*	**104,819,277**	148,880,855

Notes to the Financial Statements

1 GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands and the Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The Company is an investment holding company. Its principal investment objective is to achieve medium-term capital appreciation by investing in listed and unlisted companies mainly in Hong Kong and the People's Republic of China (the "PRC").

The financial statements are presented in Hong Kong dollars ("HK$") which is the functional currency of the Company.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), (which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the significant accounting policies adopted by the Company is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as financial assets at fair value through profit or loss and available-for-sale investments, which are measured at their fair value as explained in the accounting policies set out below.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant 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. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

2 **SIGNIFICANT ACCOUNTING POLICIES** *(Cont'd)*

(c) **Property, plant and equipment** *(Cont'd)*

Depreciation of property, plant and equipment, is provided to write off their cost, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

– Leasehold improvement	over the lease terms – 5 years
– Office equipment	5 years
– Furniture and fixtures	5 years

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on derecognition of the asset is included in the income statement in the year in which the item is derecognised.

(d) **Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Company has become 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 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 liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Company's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases and sales of financial assets are recognised and derecognised on the trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form any integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Investments in securities held for trading are classified as current assets and are initially stated at fair value. Equity linked notes and foreign currency linked notes have been designated at fair value through profit or loss upon initial recognition as they are contained embedded derivatives which are not closely related to the host contracts.

2 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(d) Financial instruments *(Cont'd)*

Financial assets at fair value through profit or loss (Cont'd)

At each balance sheet date the fair value is re-measured, with any resultant gain or loss being recognised in profit or loss. Upon disposal, the difference between the net sales proceeds and the carrying value is included in the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale investments or not classified under in any of the other categories.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Unrealised gains and losses (including transaction costs on acquisition) arising from changes in the fair value are recognised in fair value reserve. When the financial assets are sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in the investment revaluation reserve are treated as gains or losses on disposal.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, such investments are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including dividend, interest and other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of financial asset, the estimated future cash flows of the financial assets have been impacted.

For available-for-sale investments, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or
– default or delinquency in interest or principal payments; or
– it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivable could include the Company's past experience of collecting payments.

2 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(d) Financial instruments *(Cont'd)*

Impairment of financial assets (Cont'd)

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return of a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed that the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for sale securities will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at FVTPL, of which the interest expenses is included in net gains or losses.

Convertible bonds

Convertible bonds issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

2 **SIGNIFICANT ACCOUNTING POLICIES** *(Cont'd)*

(d) **Financial instruments** *(Cont'd)*

Convertible bonds (Cont'd)

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (convertible bonds equity reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the conversion option is exercised (in which case the balance stated in convertible bonds equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds equity reserve will be released to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction cost that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible bonds using the effective interest method.

Financial liabilities other than at fair value through profit or loss

Financial liabilities (including other payables, bank and other borrowings) are initially recognised at fair value and thereafter stated at amortised cost using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or when the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Company retains substantially all the risk and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(e) **Impairment of assets**

At each balance sheet date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

2 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(e) Impairment of assets *(Cont'd)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(f) Revenue recognition

Net realised gain on sales of investment held for trading are recognised on a trade-date basis when contracts are executed.

Dividend income from investments is recognised when the Company's right to receive payment has been established.

Interest income is recognised as it accrues using the effective interest method.

(g) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the accounting profit nor the tax profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(h) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure to settle the obligation.

2 **SIGNIFICANT ACCOUNTING POLICIES** *(Cont'd)*

(h) Provisions and contingent liabilities *(Cont'd)*

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(i) Foreign currencies

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

(j) Related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Company where those parties are individuals, and post-employment benefits plans which are for the benefit of employees of the Company or of any entity that is a related party of the Company.

(k) Employee benefits

(i) Short term employee benefits in the form of leave

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlement to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefit costs

The Company operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the company in an independently-administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme. The Company's contributions to the MPF Scheme are recognised as an expense in the income statement as incurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

(k) Employee benefits *(Cont'd)*

(iii) Share-based payments

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Company's operations. Employees (including directors) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transaction is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date of which the relevant employees became fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settlement transactions at each balance sheet date until the vesting date reflects the extent to which (i) the vesting period has expired, and (ii) the Company's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movements in cumulative expense recognised as at the beginning and end of the period.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

3 ADOPTION OF NEW AND REVISED STANDARDS

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Company.

HKAS 39 and HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC) – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required. However, the adoption of the amendments to HKAS 39 and the HKFRS 7 "Reclassification of Financial Assets" which were issued in October 2008 and effective from 1 July 2008 has the following impact to the Company's result and financial position in current year:

An increase in fair value loss directly recognised in the investment revaluation reserve in equity by HK$14,968,912 and a decrease in fair value loss that would have been recognised in profit or loss for the year by the same amount.

The Company has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRSs (Amendments)	Improvements to HKFRSs[7]
HKAS 1 (Revised)	Presentation of financial statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and separate financial statements[3]
HKAS 32 and 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation[1]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 and HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate[1]
HKFRS 1 (Revised)	First-time adoption of Hong Kong Financial Reporting Standard[3]
HKFRS 2 (Amendment)	Share-based payment-vesting conditions and cancellations[1]
HKFRS 3 (Revised)	Business combinations[3]
HKFRS 7 (Amendment)	Improving disclosures about financial instruments[1]
HKFRS 8	Operating segments[1]
HK(IFRIC) – INT 9 and HKAS 39 (Amendments)	Embedded derivatives[5]
HK(IFRIC) – INT 13	Customer loyalty programmes[2]
HK(IFRIC) – INT 15	Agreements for the construction of real estate[1]
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation[4]
HK(IFRIC) – INT 17	Distribution of non-cash assets to owners[3]
HK(IFRIC) – INT 18	Transfer of assets from customers[6]

3 ADOPTION OF NEW AND REVISED STANDARDS *(Cont'd)*

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2008
[3] Effective for annual periods beginning on or after 1 July 2009
[4] Effective for annual periods beginning on or after 1 October 2008
[5] Effective for annual periods ending on or after 30 June 2009
[6] Effective for transfer on or after 1 July 2009
[7] Effective for annual periods beginning on or after 1 January 2009, except for the amendments to HKFRS 5, which is effective for annual periods beginning on or after 1 July 2009.

The directors anticipate that the adoption of these new and revised HKFRSs in future periods will have no material financial impact on the financial statements of the Company.

4 CRITICAL ACCOUNTING JUDGMENT AND ESTIMATES

In the process of applying the Company's accounting policies, the Company's management is required to make judgments and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are based on past experiences, expectations of the future and other information. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only the period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key sources of estimation and critical judgments that may significantly affect the amounts recognised in the financial statements are disclosed below:

Estimate of impairment of investment in listed and unlisted debts and securities

In the absence of information of an active market for unlisted debts and securities, the directors of the Company determine the amount within a range of reasonable impairment estimates by considering information from a variety of sources including:

(i) Bi-annual review on the operating results and net asset value of an invested entity on balance sheet date;

(ii) Historical operating performance and dividend distribution of the invested entity; and

(iii) Gearing position and liquidity to meet working capital requirement of an invested entity.

Share-based payment expenses

The share-based payment expense is subject to the limitations of the Trinomial Pricing Model and the uncertainty in estimates used by management in the assumptions. The estimates include limited early exercise behaviour, expected interval and frequency of open exercise periods in the share option life, and other relevant parameters of the share option model.

Value of zero-coupon convertible bonds

As described in note 19, the fair value of the liability component was calculated based on discounted cash flow over the remaining contractual term of the convertible bonds and the residual amount represented the value of the equity conversion component. It is based on the significant inputs into calculation included interest rate, risk free rate and terms and conditions of the convertible bonds.

5 REVENUE

	2008 HK$	2007 HK$ (restated)
Interest income	**2,110,612**	966,014
Dividend income	**1,409,319**	–
Gain on disposal of financial assets at fair value through profit or loss	**14,401,576**	3,136,269
	17,921,507	4,102,283

In prior year, revenue included sales proceeds of held for trading investments. In current year, the Company has revised the presentation of revenue. The net gain on disposal of held for trading investments are presented within revenue in the income statement. These changes does not have any impact on the results of the Company in respect of the current or prior year. The comparative figures for the year of 2007 have been reclassified to conform with current year presentation.

No segment information is presented as the Company has only one business activity, namely investment holding, which is principally operating in Hong Kong and the PRC.

6 STAFF COSTS

	2008 HK$	2007 HK$
Directors' fees	**35,000**	46,806
Salaries and allowances	**1,015,005**	186,581
Equity-settled share options expenses	**10,710,840**	2,537,700
Contribution to retirement benefits scheme	**35,408**	6,079
	11,796,253	2,777,166

The staff costs include directors' emoluments.

7 OTHER OPERATING EXPENSES

	2008 *HK$*	2007 *HK$*
Other operating expenses include the following:		
Auditors' remuneration	**100,000**	85,000
Licence fee	**306,000**	612,000
Listing fee	**464,500**	197,750
Legal and professional fee	**472,277**	911,643
Printing and stationery	**491,226**	767,176
Operating lease charge for land and buildings	**320,000**	–
Contribution to retirement benefits scheme	**35,408**	6,079
Others	**531,461**	521,224
	2,720,872	3,100,872

8 FINANCE COSTS

	2008 *HK$*	2007 *HK$*
Imputed interest expense from zero-coupon convertible bonds	**1,193,235**	–

9 INCOME TAX EXPENSE

(a) No provision for Hong Kong profits tax has been made in the financial statements as the Company has no assessable profit for both years.

(b) The taxation on the Company's loss before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong, the principal place of Company's operations, as follows:

	2008 *HK$*	2007 *HK$*
Loss before taxation	**(28,164,843)**	(5,088,915)
Tax at the domestic income tax rate of 16.5% (2007: 17.5%)	**(4,647,199)**	(890,560)
Tax effect of non-taxable income	**(374,732)**	(128,666)
Tax effect of non-deductible expense	**3,661,209**	985,145
Deferred tax assets not recognised	**1,360,722**	34,081
Income tax expense for the year	**–**	–

9 INCOME TAX EXPENSE *(Cont'd)*

As at 31 December 2008, the Company had unused tax losses of approximately HK$20,698,000 (2007: HK$12,305,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit stream. The tax losses may be carried forward indefinitely. There were no other significant temporary differences arising during the year or at the balance sheet date.

10 DIVIDENDS

No dividend has been paid or declared by the Company during the year (2007: nil).

11 LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$28,164,843 (2007: HK$5,088,915) and the weighted average number of 4,870,192,742 (2007: 904,702,921) ordinary shares in issue during the year.

No diluted loss per share has been presented by the Company for the years ended 31 December 2008 and 2007 as the exercise of some of the share options and convertible bonds will give rise to an antidilutive effect.

The other share options and warrants had no dilutive effect as the average market price of ordinary shares during the year did not exceed the exercise price of these share options and warrants.

12 DIRECTORS' EMOLUMENTS

An analysis of remuneration paid and payable to directors of the Company for the year ended 31 December 2008 and 2007 is set as follows:

	Fee *HK$*	Salaries, allowances and benefits in kind *HK$*	Employee share option benefits *HK$*	Retirement scheme contribution *HK$*	Total *HK$*
2008					
Executive directors					
Xiang Xin	**5,000**	**–**	**765,060**	**–**	**770,060**
Chan Cheong Yee	**5,000**	**–**	**3,060,240**	**–**	**3,065,240**
Wong Chak Keung *(note c)*	**–**	**510,000**	**3,060,240**	**12,000**	**3,582,240**
Non-executive directors					
Wang Qing Yu	**5,000**	**–**	**765,060**	**–**	**770,060**
Ng Kwong Chue, Paul	**5,000**	**–**	**765,060**	**–**	**770,060**
Independent non-executive directors					
Wang Xin, David	**5,000**	**–**	**765,060**	**–**	**770,060**
Zang Hong Liang	**5,000**	**–**	**765,060**	**–**	**770,060**
Lee Wing Hang	**5,000**	**5,000**	**765,060**	**–**	**775,060**
	35,000	**515,000**	**10,710,840**	**12,000**	**11,272,840**

12 DIRECTORS' EMOLUMENTS *(Cont'd)*

	Fee *HK$*	Salaries, allowances and benefits in kind *HK$*	Employee share option benefits *HK$*	Retirement scheme contribution *HK$*	Total *HK$*
2007					
Executive directors					
Xiang Xin	5,000	–	307,600	–	312,600
Chan Cheong Yee	5,000	–	307,600	–	312,600
Kwok Chi Hung *(note a)*	4,167	–	153,800	–	157,967
Ng Tin Sang *(note a)*	4,167	–	153,800	–	157,967
Lin Zhiqun Brett *(note b)*	3,472	–	–	–	3,472
Wong Chak Keung *(note c)*	–	65,217	307,600	1,630	374,447
Non-executive directors					
Wang Qing Yu	5,000	–	153,800	–	158,800
Ng Kwong Chue, Paul	5,000	–	153,800	–	158,800
Independent non-executive directors					
Wang Xin, David	5,000	–	307,600	–	312,600
Zang Hong Liang	5,000	–	307,600	–	312,600
Lee Wing Hang	5,000	5,000	307,600	–	317,600
	46,806	70,217	2,460,800	1,630	2,579,453

Notes:

(a) Mr. Kwok Chi Hung and Mr. Ng Tin Sang resigned executive directors on 1 November 2007
(b) Mr. Lin Zhiqun Brett resigned executive director on 10 September 2007
(c) Mr. Wong Chak Keung was appointed as executive director on 12 November 2007

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2008 and 2007.

During the year, certain directors were granted share options, in respect of their services to the Company, under the share options schemes of the Company, further details of which are set out in note 20 to the financial statements. The fair value of such options, which has been amortised to the income statement, was determined as at the date of the grant and included in the above directors' remuneration disclosures.

Of the five individuals with the highest emoluments in the Company, all (2007: all) are directors of the Company whose emoluments are included in the disclosure set out above.

Other than the granting of share options to certain directors and employees during the year ended 31 December 2008, no emoluments were paid by the Company to any of the directors or the five highest paid individuals, as an inducement to join or upon joining the Company or as compensation for loss of office during the years ended 31 December 2008 and 2007.

13 PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvement HK$	Office Equipment HK$	Furniture and Fixtures HK$	Total HK$
Cost				
Additions and at 31 December 2008	**838,702**	**34,000**	**135,956**	**1,008,658**
Depreciation and impairment				
Charge for the year and at 31 December 2008	**51,398**	**2,267**	**9,064**	**62,729**
Carrying amounts				
At 31 December 2008	**787,304**	**31,733**	**126,892**	**945,929**

14 AVAILABLE-FOR-SALE INVESTMENTS

	2008 HK$	2007 HK$
Unlisted equity securities (a)	**28,624,725**	13,500,225
Listed equity securities, Hong Kong, at fair value (b)	**53,168,990**	–
	81,793,715	13,500,225

(a) The following is a list of the Company's unlisted investments as at 31 December 2008:

Unlisted equity securities

	2008				2007
Name of invested company	**Cost** *HK$*	**Impairment loss recognised** *HK$*	**Carrying amount** *HK$*	**% of total assets of the Company**	Carrying amount *HK$*
Jinan LuGu (HK) Technology Development Limited *(note (i))*	**9,000,225**	**–**	**9,000,225**	**3.5%**	9,000,225
SNG Hong Kong Limited *(note (ii))*	**9,000,000**	**4,500,000**	**4,500,000**	**1.7%**	4,500,000
Takenaka Investment Company Limited *(note (iii))*	**15,124,500**	**–**	**15,124,500**	**5.8%**	–

14 AVAILABLE-FOR-SALE INVESTMENTS *(Cont'd)*

(a) *(Cont'd)*

Notes:

(i) Jinan LuGu (HK) Technology Development Limited ("LuGu")

LuGu is incorporated in Hong Kong and principally engaged in investment holding. It indirectly holds 59.5% interest in a company incorporated in the People's Republic of China ("PRC"), of which the principal activity will be manufacturing and trading of 陶瓷微電路基板，微電路模塊，陶瓷電子元(組)件.

The Company holds 250 ordinary shares in LuGu, representing 25% interest in the issued share capital of LuGu. The investment in LuGu is measured at cost less impairment loss because the range of reasonable fair estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reasonably.

LuGu is not treated as an associate as, in the opinion of the directors, the Company is not in a position to exercise any significant influence over its financial and operating decisions. Accordingly, investment in LuGu is classified as available-for-sale investment in the financial statements. No dividend was received during the year (2007: nil).

(ii) SNG Hong Kong Limited ("SNG")

SNG is incorporated in Hong Kong and principally engaged in investment holding. At 31 December 2008, SNG indirectly held 38.5% interest in a company incorporated in the PRC, of which the principal activity is manufacturing and trading of 發光二極管芯片.

The Company holds 3,750 ordinary shares in SNG, representing 30% interest in the issued share capital of SNG. The investment in SNG is measured at cost less impairment loss because the range of reasonable fair estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reasonably.

SNG is not treated as an associate as, in the opinion of the directors, the Company is not in a position to exercise any significant influence over its financial and operating decisions. Accordingly, investment in SNG is classified as available-for-sale investment in the financial statements. No dividend was received during the year (2007: nil).

(iii) Takenaka Investment Company Limited ("Takenaka")

Takenaka is incorporated in the British Virgin Islands and principally engaged in investment holding. At 31 December 2008, Takenaka indirectly held 65% interest in a company incorporated in the PRC, of which the principal activity will be manufacturing and distribution of copper foils for civil and military uses.

The Company holds 30 ordinary shares in Takenaka, representing 30% interest in the issued share capital of Takenaka. The investment in Takenaka is measured at cost less impairment loss because the range of reasonable fair estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reasonably.

Takenaka is not treated as an associate as, in the opinion of the directors, the Company is not in a position to exercise any significant influence over its financial and operating decisions. Accordingly, investment in Takenaka is classified as available-for-sale investment in the financial statements. No dividend was received during the year.

Along with the acquisition of 30% interest in the issued share capital of Takenaka, the Company acquired a shareholder's loan in Takenaka with the amount of US$3,022,500 (equivalent to approximately HK$23,575,500). The shareholders' loan is unsecured, interest-free and not repayable in 12 months.

(b) During the period from 16 January 2008 to 3 October 2008, the Company acquired some Hong Kong listed equity securities amounting to HK$83,987,987. The investments were classified as financial assets at fair value through profit or loss ("FVTPL") upon initial recognition as they were held for trading purpose.

14 AVAILABLE-FOR-SALE INVESTMENTS *(Cont'd)*

(b) *(Cont'd)*

Pursuant to the amendments to HKAS 39 and HKFRS 7 "Reclassification of Financial Assets" (the "Amendments") the Company selected to reclassify the Hong Kong listed equity securities out of the FVTPL to available-for-sale investment ("AFS") on 30 October 2008 as these shares were no longer held for the trading purpose but for strategic investment purpose as a result of the exceptional turbulence in the world's financial market. The Amendments permitted the Company to reclassify financial assets on a partially retrospective basis from 1 July 2008, this retrospective basis did not extend to a date before 1 July 2008. The Company has applied the transitional provision of the Amendments to reclassify these shares prospectively on 1 July 2008 or the date of its acquisition, which ever is later (the "Reclassification"). The financial assets being reclassified from FVTPL to AFS amounting to HK$68,137,902.

Prior to the Reclassification, a fair value loss on the financial assets being reclassified amounting to HK$15,850,085 has been recognised in profit or loss during the year. The fair value loss recognised in profit or loss to the Reclassification cannot be reversed. Subsequent to the Reclassification, a fair value loss on the financial assets being reclassified amounting to HK$14,968,912 has been recognised in the investment revaluation reserve in equity. This Reclassification has resulted in an increase in fair value loss directly recognised in the investment revaluation reserve in equity for the year by HK$14,968,912. Had there been no such Reclassification, HK$14,968,912 fair value loss would have been recognised in profit or loss for the year. The total fair value loss that would have been recognised in profit or loss for the year if the financial assets had not been reclassified amounted to HK$30,818,997.

As at 31 December 2008, the carrying amount which was also the fair value of the financial assets being reclassified amount to HK$53,168,990.

15 TRADE AND OTHER RECEIVABLES

The following is an aging analysis of trade receivables at the balance sheet date, based on the invoice date.

	2008	2007
	HK$	*HK$*
Trade receivables		
0 to 30 days	–	8,922,270
	–	8,922,270
Interest receivables	–	2,932
	–	8,925,202

Trade receivables related to unsettled transactions for securities trading of the Company. There was no trade receivables past due but not impaired as at 31 December 2007.

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008 HK$	2007 HK$
Foreign currency-linked notes	**47,096,316**	–
Equity-linked notes	**–**	29,088,000
	47,096,316	29,088,000

Terms of the foreign currency-linked notes outstanding as at 31 December 2008 are as follows:

Notional amount	USD6,400,000
Maturity	22 June 2009

The foreign currency-linked notes will be redeemed by cash only.

The foreign currency-linked notes are measured at fair value. Their fair values were determined based on the quoted prices provided by the financial institutions at the balance sheet date.

Terms of the equity linked notes outstanding as at 31 December 2007 are as follows:

Notional amount	HK$30,000,000
Maturity	23 January 2008
Range of coupon rates	0% to 25.89%

The equity-linked notes will be redeemed either by cash or by delivering the relevant number of shares as set out in the relevant notes.

The equity-linked notes are measured at fair value. Their fair values were determined based on the quoted prices provided by the financial institutions at the balance sheet date.

17 CASH AND CASH EQUIVALENTS

	2008 HK$	2007 HK$
Cash at banks	**103,998,984**	20,010,268
Cash on hand	**500**	500
Cash held in the securities account of securities companies	**819,793**	128,870,087
	104,819,277	148,880,855

Cash at banks and held in the securities account of securities companies earns interest at floating rates based on daily bank deposit rates. Short term deposits during the year are made for various periods from 1 day to 1 month depending on the immediate cash requirements of the Company and earn interest at respective short term time deposits rates. The carrying amount of the cash and cash equivalent approximate to their fair value.

18 SHARE CAPITAL

(a) Authorised and issued share capital

	2008		2007	
	Number of shares	**Amount**	Number of shares	Amount
		HK$		*HK$*
Ordinary shares of HK$0.01 each				
Authorised:				
At 1 January	**5,000,000,000**	**50,000,000**	2,000,000,000	20,000,000
Increase during the year	**10,000,000,000**	**100,000,000**	3,000,000,000	30,000,000
At 31 December	**15,000,000,000**	**150,000,000**	5,000,000,000	50,000,000
Issued and fully paid:				
At 1 January	**4,169,675,753**	**41,696,758**	299,916,000	2,999,160
Issue of rights shares	**–**	**–**	3,633,552,000	36,335,520
Issue of shares upon exercise of warrants	**–**	**–**	59,983,200	599,832
Issue of shares upon exercise of share options	**18,460,000**	**184,600**	176,224,553	1,762,246
Issue of shares upon acquisition of investment	**180,600,000**	**1,806,000**	–	–
Issue of shares upon conversion of convertible bonds	**800,000,000**	**8,000,000**	–	–
At 31 December	**5,168,735,753**	**51,687,358**	4,169,675,753	41,696,758

Details of the movements in the Company's share capital during the year ended 31 December 2008 are as follows:

(i) Pursuant to an ordinary resolution passed on 21 January 2008, the authorised share capital of the Company was increased from HK$50,000,000 to HK$150,000,000 by the creation of 10,000,000,000 shares of HK$0.01 each.

(ii) During the year, part of the share options granted were exercised for 18,460,000 shares of HK$0.01 each at exercise price of HK$0.05 per share, which raised gross proceeds of approximately HK$923,000.

(iii) On 15 December 2007, the Company entered into an acquisition agreement with Mr. Guo Yi Jun (the "Vendor"), pursuant to which, among other things, the Company had conditionally agreed to purchase from the Vendor (i) 30% of the issued share capital of Takenaka Investment Company Limited and (ii) the shareholder's loan in the amount of US$3,022,500 (equivalent to approximately HK$23,575,500), for an aggregate consideration of HK$38.70 million. The consideration would be satisfied as to (i) HK$11.61 million by cash and (ii) the remaining balance of HK$27.09 million by the issue of the consideration shares at the issue price of HK$0.15 per share. Accordingly, 180,600,000 shares of HK$0.01 each at the issue price of HK$0.15 were allotted and issued as fully paid on 7 January 2008.

18 SHARE CAPITAL *(Cont'd)*

(a) Authorised and issued share capital *(Cont'd)*

(iv) On 19 November 2007, the Company entered into a subscription agreement with Harvest Rise Investment Limited ("Harvest Rise"), a company wholly and beneficially owned by Mr. Xiang Xin, an executive director and a substantial shareholder of the Company, for the subscription by Harvest Rise of zero coupon convertible bonds in an aggregate principal amount of HK$50,000,000 (the "CB") to be issued by the Company. In consideration of Harvest Rise's agreeing to subscribe for or procure the subscription of the CB, the Company would issue 800,000,000 unlisted warrants ("Warrants") to Harvest Rise at the exercise price of HK$0.20 per warrant share (subject to adjustment). The CB and the Warrants were issued on 30 January 2008.

On 13 May 2008, convertible bonds amounting to HK$40,000,000 were converted into 800,000,000 ordinary shares of the Company at the conversion price of HK$0.05 per share.

(b) Capital management

The Company's objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital using gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowing (including current and non current borrowings) less cash and cash equivalents. Capital includes equity attributable to equity shareholders.

During 2008, the Company's strategy, which was unchanged from 2007, was to maintain the gearing ratio of zero. The gearing ratios at 31 December 2008 and 2007 were zero as the Company has net cash at 31 December 2008 and has no borrowing or debt at 31 December 2007.

	2008 ***HK$***	2007 *HK$*
Total borrowings	**7,077,366**	–
Less: cash and cash equivalents *(note 17)*	**104,819,277**	148,880,855
Net cash	**(97,741,911)**	(148,880,855)

19 ZERO-COUPON CONVERTIBLE BONDS

On 30 January 2008, the Company issue zero-coupon convertible bonds due on 29 January 2013 in the aggregate principal amount of HK$50,000,000 with a conversion price of HK$0.05 per ordinary share (subject to adjustment) of the Company.

The fair values of the liability component and equity conversion component were determined upon the issuance of the convertible bonds.

19 ZERO-COUPON CONVERTIBLE BONDS *(Cont'd)*

The fair value of the liability component, included in non-current liabilities, was calculated based on the estimated discounted cash flow over the remaining contractual terms of the convertible bonds and discounted using a market interest rate for an equivalent non-convertible bond. The discounted rate of the liabilities component of the convertible bonds was 8.85%. The residual amount, representing the value of equity conversion component, was included in shareholders' equity under "convertible bonds equity reserve".

The convertible bonds recognised in the balance sheet are calculated as follows:

	HK$
Face value of convertible bonds	50,000,000
Equity component	(17,278,904)
Liability component at date of issue	32,721,096
Converted into ordinary shares	(26,836,965)
Imputed interest expense	1,193,235
Liability component at 31 December 2008	7,077,366

During the year, convertible bonds with a face value of HK$40,000,000 were converted into 800,000,000 ordinary shares of the Company at a conversion price of HK$0.05 per share.

Interest on the bond is calculated on the effective yield basis by applying the effective interest rate for an equivalent non-convertible bond to the liability component of the convertible bond.

The fair value of the liability component of the convertible bonds as at 31 December 2008 amounted to approximately HK$5,400,000, based on the interest rate for an equivalent non-convertible bond of 19.19% at 31 December 2008.

Pursuant to the terms and conditions of the convertible bonds, so long as any bond remains outstanding, the Company will not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest upon the whole or any part of its undertaking, assets or revenues, present or future, to secure, guarantee or indemnify in respect of any present or future indebtedness of the Company other than loans from banks or licensed or registered financial institutions unless, at the same time or prior thereto, the Company's obligations under the bonds (a) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as the bondholders shall approve by an ordinary resolution.

20 SHARE OPTIONS

Under the share option scheme approved by the sole shareholder of the Company on 18 July 2002 (the "Scheme'), the board of directors of the Company may, at their discretion, invite any full-time employee, director (including non-executive director and independent non-executive director), any part time employee with weekly working hours of 15 hours and above of the Company or its subsidiaries, any advisor or consultant to the Company or to any of its subsidiaries and adviser, consultant, agent or business affiliates who has contributed to the Company to subscribe for shares in the Company.

Pursuant to the Scheme, the overall limit on the number of shares which may be issued upon exercise of all options granted and yet to be exercised under the Scheme and other share options schemes of the Company must not exceed 30% of the shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each eligible participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue at any time. Any further grant of options in excess of this limit is subject to the shareholders' approval of the Company in a general meeting with such participant(s) and his associate(s) abstaining from voting.

The offer of a grant of share options may be accepted within 7 days from the date of the offer, upon payment of a consideration of HK$1.00 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a specified date and ends on a date which is not later than 10 years from the date of the offer of the share options.

The exercise price of the share options is determinable by the directors of the Company, but may not be less than the highest of (a) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (b) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and (c) the nominal value of a share on the date of grant.

Details of the options granted under the Scheme and outstanding at 31 December 2008 are as follows:

		Number of share options					
Date of grant	**Exercise period**	**Outstanding as at 1 January 2008**	**Granted during the year**	**Lapsed during the year**	**Exercise during the year**	**Outstanding as at 31 December 2008**	**Price per share to be paid on exercise of options**
							HK$
29.1.2003	28.8.2003 to 27.8.2013	119,243,183	–	–	–	119,243,183	0.0244
18.10.2007	18.10.2007 to 15.10.2010	190,090,000	–	1,426,000	18,460,000	170,204,000	0.0500
14.1.2008	1.2.2008 to 31.1.2011	–	150,000,000	5,000,000	–	145,000,000	0.2000
		309,333,183	150,000,000	6,426,000	18,460,000	434,447,183	

20 SHARE OPTIONS *(Cont'd)*

Details of the share options offered and accepted under the Scheme during the year ended 31 December 2008 are as follows:

Participants	Date of grant	Exercise period	Exercise price per share	No. of options granted during the year	Closing price before date of grant
			HK$		*HK$*
Directors					
Mr. Xiang Xin	14.1. 2008	1.2.2008 to 31.1.2011	0.200	5,000,000	0.183
Mr. Chan Cheong Yee	14.1. 2008	1.2.2008 to 31.1.2011	0.200	20,000,000	0.183
Mr. Wong Chak Keung	14.1. 2008	1.2.2008 to 31.1.2011	0.200	20,000,000	0.183
Mr. Wang Qing Yu	14.1. 2008	1.2.2008 to 31.1.2011	0.200	5,000,000	0.183
Mr. Ng Kwong Chue, Paul	14.1. 2008	1.2.2008 to 31.1.2011	0.200	5,000,000	0.183
Mr. Wang Xin, David	14.1. 2008	1.2.2008 to 31.1.2011	0.200	5,000,000	0.183
Mr. Zang Hong Liang	14.1. 2008	1.2.2008 to 31.1.2011	0.200	5,000,000	0.183
Mr. Lee Wing Hang	14.1. 2008	1.2.2008 to 31.1.2011	0.200	5,000,000	0.183
Others					
Business advisors	14.1. 2008	1.2.2008 to 31.1.2011	0.200	50,000,000	0.183
Steering committee members	14.1. 2008	1.2.2008 to 31.1.2011	0.200	30,000,000	0.183
				150,000,000	

As at 31 December 2008, the number of shares issuable under the Scheme represented approximately 8% (2007: approximately 7%) of the Company's shares in issue as at that date.

20 SHARE OPTIONS *(Cont'd)*

Note:

i. The options are measured using the Trinomial Pricing Model (the "Model") which was performed by an independent valuer, RHL Appraisal Limited. The inputs into the Model are summarised as follows:

Date of grant	14.1.2008
Expected volatility	193.6%
Expected life (year)	1.55
Risk-free interest rate	1.921%
Expected annual dividend yield	Nil
Fair value per option (HK$)	0.153

ii. The volatility is based on weekly historical volatility of the Company sourced from Bloomberg.

iii. The risk free rate is based on yield of 1.55-year Exchange Fund Note at the date of grant sourced from Bloomberg.

iv. The Company recognised total expenses of approximately HK$22,186,740 for the year ended 31 December 2008 in relation to share options granted.

21 NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on the net asset value of the Company as at 31 December 2008 of HK$251,541,843 (2007: HK$200,359,968) and 5,168,735,753 (2007: 4,169,675,753) ordinary shares in issue at that date.

22 COMMITMENT

(a) Operating lease

	2008	2007
	HK$	*HK$*
Minimum lease payments paid under operating leases in respect of rented premises during the year	**320,000**	–

At the balance sheet date, the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	2008	2007
	HK$	*HK$*
Within one year	**906,667**	–
After one but within five years	**1,493,333**	–
	2,400,000	–

Operating lease payments represent rental payable by the Company for its office premises. Leases are negotiated for the term of three years.

22 COMMITMENT *(Cont'd)*

(b) Capital commitment

On 3 October 2008, the Company entered into a legally binding agreement with Morgan Strategic Limited ("MSL"), a company incorporated in the British Virgin Islands, pursuant to which the Company committed to acquire convertible note with face value of HK$40,000,000 from MSL. The convertible note will mature on the fifth anniversary date from the first payment requisition notice issued by MSL to the Company with an interest rate of 5% per annum. In accordance with the terms and conditions of the agreement, upon maturity of the convertible note, the Company has the right to convert the convertible note to an equity interest of 80% of the then issued share capital of MSL, excluding the voting right of the respective shares. Up to the date of this report, HK$20,000,000 was paid by the Company on 16 January 2009 as requested by MSL.

23 POST BALANCE SHEET EVENTS

(i) On 2 January 2009, the Company acquired a 3 months equity-link-note for the face value of HK$50,000,000 with interest rate of 20% per annum that matured on 17 April 2009. The principal was fully recovered with respective interest income.

(ii) On 13 February 2009, the Company entered into a preliminary sale and purchase agreement with Man Yue Electronics Company Limited for the acquisition of a property at the consideration of HK$30,000,000.

(iii) On 2 March 2009, the Company entered into a subscription agreement with Moral Glory Limited ("MGL"), a company incorporated in Hong Kong, pursuant to which the Company committed to acquired convertible note with face value of HK$50,000,000 from MGL. The convertible note will mature on the fifth anniversary date from the first payment requisition notice issued by MGL to the Company. The total interest to be charged is composed of a fixed rate interest of 1% per annum on the principal and a participating interest of 50% on the annual post tax profit of MGL and its subsidiary of which the participating interest will be capped at no more than 59% on the principal per annum. In accordance with the terms and conditions of the agreement, upon maturity of the convertible note, the Company has the right to convert the convertible note to an equity interest of 90% of the then issued share capital of MGL, excluding the voting right of the respective shares. Up to the date of this report, the acquisition has not been completed which is subject to the fulfilling of those prerequisite stated in the agreement.

24 MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2008, 180,600,000 new shares of HK$0.01 each of the Company were issued at HK$0.15 per share (total sharing consideration HK$27,090,000) together with cash payment of HK$11,610,000 (total consideration of HK$38,700,000) in exchange for (i) 30 shares in Takenaka Investment Company Limited, a company incorporated in the British Virgin Islands with nominal value of USD1 each and (ii) the shareholder's loan in the amount of US$3,022,500 (equivalent to approximately HK$23,575,000). The investment in Takenaka Investment Company Limited was accounted for as available-for-sale investment of the Company. The loan was accounted for as long-term loan and receivables of the Company.

25 FINANCIAL INSTRUMENTS

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 2(d).

25 **FINANCIAL INSTRUMENTS** *(Cont'd)*

(b) **Categories of financial instruments**

	2008 HK$	2007 HK$
Financial assets		
Available-for-sale investments	**81,793,715**	13,500,225
Financial assets at fair value through profit or loss	**47,096,316**	29,088,000
Loan and receivables (including cash and cash equivalents)	**128,394,777**	157,806,057
	257,284,808	200,394,282
Financial liabilities		
Amortised cost	**7,239,881**	1,515,971

(c) **Financial risk management objectives**

The management monitors and manages the financial risks relating to the operations of the Company. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the Company's risk exposure relating to financial instruments or the manner in which it manages and measures the risks.

(d) **Foreign currency risk management**

Foreign currency risk is the risk that the value of financial instrument will fluctuate due to the change in foreign exchange rates. The Company's assets and liabilities are denominated in either Hong Kong dollars or United State dollars. The Company does not expect any significant movement in the exchange rate of United State dollars to Hong Kong dollars.

(e) **Interest rate risk management**

The Company is exposed to cash flow interest rate risk in relation to variable-rate bank deposits. The Company currently does not have any interest rate hedging policy. The directors monitor the Company's exposure on ongoing basis and will consider hedging interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments including bank balances and borrowings, at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates. A 140 basis points (2007: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rate. As a result of the volatile financial market, the management adjusted the sensitivity rate from 50 basis points to 140 basis points in the current year for the purpose of analysing interest rate risk.

25 FINANCIAL INSTRUMENTS *(Cont'd)*

(e) Interest rate risk management *(Cont'd)*

Sensitivity analysis (Cont'd)

If interest rates had been 140 basis points (2007: 50 basis point) higher/lower and all other variables were held constant, the Company's:

– loss for the year ended 31 December 2008 would decrease/increase by approximately HK$1,467,000 (2007: loss for the year would decrease/increase by approximately HK$740,000). This is mainly attributable to Company's exposure to interest rate on its variable rate bank balances.

(f) Price risk management

The Company is exposed to equity price risk through its investment in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles. The Company's equity price risk is mainly concentrated on equity securities quoted in the Stock Exchange of Hong Kong.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risk at the reporting date. For sensitivity analysis purpose, the sensitivity rate is increased to 10% in the current year as a result of the volatile financial market.

If equity price had been 10% higher/lower (2007: 5% higher/lower):

– no post-tax loss for the year ended 31 December 2008 would decrease/increase (loss for the year ended 31 December 2007 would decrease/increase by HK$1,199,880). This is mainly due to the changes in fair value of trading securities; and

– equity reserve would increase/decrease by HK$5,317,000 (2007: nil) as a result of the changes in fair value of available-for-sale investments.

(g) Credit risk management

The Company is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the unsettled transaction for securities trading of the Company, deposits with banks and securities companies.

In order to minimise the credit risk, the management of the Company reviews that recoverable amount of each individual debtor at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. The creditworthiness of these debtors is considered by reviewing their financial strength prior to finalisation of any contract and transaction. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit rating assigned by international credit-rating agencies. For credit risk on receivables is limited because the Company only carries on business with reputable securities companies.

The Company does not provide any guarantee which would expose the Company to credit risk.

25 FINANCIAL INSTRUMENTS *(Cont'd)*

(h) Liquidity risk management

In the management of the liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operations and mitigate the effects of fluctuations in cash flows. The management manages liquidity risk by maintaining adequate reserves and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. Such non-derivative financial liabilities outstanding at the balance sheet date are considered as if outstanding for whole year. The table includes both interest and principal cash flows.

As at 31 December 2008

	Within one year or on demand *HK$*	**In two to five years** *HK$*	**Total contractual undiscounted cash flow** *HK$*	**Carrying amount** *HK$*
Accruals	**162,515**	**–**	**162,515**	**162,515**
Convertible bond – liability portion	**–**	**10,000,000**	**10,000,000**	**7,077,366**
	162,515	**10,000,000**	**10,162,515**	**7,239,881**

As at 31 December 2007

	Within one year or on demand *HK$*	In two to five years *HK$*	Total contractual undiscounted cash flow *HK$*	Carrying amount *HK$*
Accruals	1,515,971	–	1,515,971	1,515,971

25 FINANCIAL INSTRUMENTS *(Cont'd)*

(i) Fair value of financial instruments

The fair value of financial assets and liabilities are determined as follows:

– the fair value of financial assets and financial liabilities with standards terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask price respectively; and

– the fair value of other financial assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as inputs.

The directors consider that the carrying amounts of the Company's other financial asset and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

26 CONNECTED AND RELATED PARTY TRANSACTIONS

	2008 ***HK$***	2007 *HK$*
Investment management fee paid to China Everbright Securities (HK) Limited *(note a)*	**300,000**	155,139
Brokerage commission and handling fee paid to China Everbright Securities (HK) Limited *(note b)*	**767,785**	178,799
Brokerage commission paid to China Everbright Forex & Futures (HK) Limited *(note c)*	**–**	5,200
License fee paid to New Times Investment Management Limited *(note d)*	**306,000**	612,000
License deposit paid to New Times Investment Management Limited	**–**	102,000
Rental expense paid to New Era Group (China) Limited *(note e)*	**320,000**	–
Rental deposit paid to New Era Group (China) Limited	**160,000**	–
Zero-coupon convertible bonds due to Harvest Rise Investment Limited *(note f)*	**7,077,366**	–

26 CONNECTED AND RELATED PARTY TRANSACTIONS *(Cont'd)*

Note:

(a) The Company has entered into an investment management agreement with China Everbright Securities (HK) Limited ("CES") for a period of three years commencing from 1 June 2003 in consideration of a payment of a fee calculated at 0.25% per annum of the net asset value of the Company as at the last dealing date on the Stock Exchange in each calendar month or such other valuation date as considered appropriate by the Board and payable on a monthly basis on a business date immediately after each valuation date. The agreement is renewed automatically for a period of three years upon expiry unless a written notice of termination by either party for not less than 3 months is served. In addition, CES is entitled to a bonus fee equivalent to 10% of the audited profit before tax of each financial year of the Company payable on the business date immediately after the publication of the Company's final audited result for the year. CES is regarded as a connected person of the Company for the purpose of the Listing Rules. Mr. Chan Cheong Yee, a director of the Company, is the authorised representative of CES. On 23 October 2007, a revision on the service charge to HK$300,000 per annum by monthly payment of HK$25,000 and the annual bonus was maximised to HK$1,000,000 with effect from 1 January 2008 was proposed and accepted.

(b) Brokerage commission rate is charged at the rate ranged from 0.25% to 1% of the value of the transactions. Handling fee is charged at HK$100 per each IPO application.

(c) China Everbright Forex & Futures (HK) Limited is a fellow subsidiary of CES. Brokerage commission is charged at the rate of HK$60 or HK$100 per each future trading contract.

(d) The Company has entered into a license agreement with New Times Investment Management Limited ("NTIML"), a company of which a director of the Company, Mr. Xiang Xin is also a director (the "License Agreement"). Pursuant to the License Agreement, the Company was granted the right to occupy an office unit and to use the available furniture, equipment and general administrative services. In return, the Company shall pay a deposit of HK$102,000 and a monthly license fee of HK$51,000 to NTIML. The License Agreement commenced on 1 April 2004 and may terminate when 30 days notice is given by either party. The deposit was included in deposit and prepayment in the balance sheet. The License Agreement was terminated with effect from 1 September 2008.

(e) The Company has entered into a tenancy agreement with New Era Group (China) Limited ("NEG"), a company which Mr. Xiang Xin is also a director (the "Tenancy Agreement") for the occupancy of an office premises for a 3 years term commenced from 1 July 2008 with rent-free period from 1 July 2008 to 31 August 2008. Pursuant to the Tenancy Agreement, the Company shall pay a deposit of HK$160,000 and a monthly rental of HK$80,000 to NEG. The deposit was included in deposit and prepayment in the balance sheet.

(f) The Company has issued zero-coupon convertible bonds to Harvest Rise Investment Limited ("HRIL"), a substantial shareholder of the Company which is wholly owned by Mr. Xiang Xin with the aggregate principal of HK$50,000,000 as detailed in note 19. Upon the issue of the zero-coupon convertible bonds, the Company granted 800,000,000 unlisted warrants to HRIL at nil monetary consideration.

Details of compensation of key management personnel are set out in note 12 to the financial statements.