

Interim Report
2008



中國創新投資有限公司

China Innovation Investment Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1217)

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FINANCIAL HIGHLIGHTS

The board of directors (the “Board”) of China Innovation Investment Limited (the “Company”) are pleased to announce the unaudited results of the Company for the six months ended 30 June 2008 with comparative figures for the corresponding period of 2007 as follows:

	Unaudited six months ended 30 June	
	2008 HK\$	2007 HK\$
Turnover	198,888,130	489,055
Loss for the period	(27,290,736)	(364,251)
Net loss attributable to shareholders	(27,290,736)	(364,251)
Loss per share – basic	(0.60) cents	(0.12) cents

Interim Dividend

To maintain the capital for operation and potential investment opportunities, the Board does not recommend the payment of an interim dividend for the six months ended 30 June 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2008, the Company recorded a total turnover of HK\$198,888,130. For the six months ended 30 June 2007, the Company recorded a total turnover of HK\$489,055. This increase in turnover was mainly due to increase in interest income and significant growth in the sales of financial assets.

The loss for the six months ended 30 June 2008 was HK\$27,290,736 while the loss for the corresponding period of 2007 was HK\$364,251.

The Company is an investment company under Chapter 21 of the Listing Rules. Its principal investment objective is to achieve medium-term capital appreciation by investing in listed and unlisted companies mainly in Hong Kong and the PRC.

During the six months ended 30 June 2008, the Company held investments in three unlisted companies namely Jinan LuGu (HK) Technology Development Limited (“Jinan LuGu”), SNG Hong Kong Limited (“SNG”) and Takenaka Investment Company Limited (“Takenaka”) in its investment portfolio, which amounted to total cost and book value of HK\$56,700,225 and HK\$52,200,225 respectively.

Jinan LuGu is incorporated in Hong Kong and principally engaged in investment holding. As at 30 June 2008, Jinan LuGu indirectly held 59.5% interest in a company incorporated in the People’s Republic of China (“PRC”) of which the principal activity is manufacturing and trading of 陶瓷微電路基板 (Ceramic Microcircuit Substrates), 微電路模塊 (Microcircuit Modules), 陶瓷電子元(組)件 (Ceramic Electronic Apparatus Parts (Discreteness)). The Company holds 250 ordinary shares in Jinan LuGu, representing 25% interest in the issued share capital of Jinan LuGu. There were no dividends received from this investment during the period (2007: nil) under review.

SNG is incorporated in Hong Kong and principally engaged in investment holding. As at 30 June 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 (LED Chips). The Company holds 3,750 ordinary shares in SNG, representing 30% interest in the issued share capital of SNG. No dividend was received during the period (2007: nil) under review.

MANAGEMENT DISCUSSION AND ANALYSIS

Takenaka is incorporated in British Virgin Islands and principally engaged in investment holding. As at 30 June 2008, Takenaka indirectly held 19.5% interest in a company incorporated in the PRC, of which the principal activity is manufacture 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. No dividend was received during the period (2007: N/A) under review.

As at the date of this report, the Company continued to hold the abovementioned investments in its investment portfolio. The Board is of the view that the business operations and the performance of such investments will grow with the economy in the PRC in the foreseeable future. With the solid financial position, the Company will continue to evaluate potential investments with high investment returns and yields for the shareholders.

As at 30 June 2008, the Company also held listed equity investments at the market value of HK\$55,235,220 and structured deposit at the fair value of HK\$49,984,000.

Prospect

Looking forward, the Company will continue to explore the investment opportunities to achieve medium-term capital appreciation.

Liquidity and Financial Resources

As at 30 June 2008, the Company had cash and bank balances of HK\$117,793,640. All the cash and bank balance were mainly placed as short term deposits in Hong Kong dollars with banks and securities companies in Hong Kong.

For the period under review, the Company financed its operations with its own available funding and did not have any banking facilities. In this regard, the Company had a net cash position and its gearing ratio was zero (net debt to shareholders' funds) as at 30 June 2008. Taking into consideration the existing financial resources of 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 the capital structure of the Company during the six months ended 30 June 2008 are set out in note 13 to the condensed financial statements. The capital of the Company comprises only ordinary shares as at 30 June 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign Currency Fluctuation

The Company mainly operates its business transaction 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

As at 30 June 2008, the Company did not pledge its assets.

Contingent Liabilities

The Company did not has any contingent liabilities during the period under review.

Employee Information

As at 30 June 2008, the Company had 3 (2007: nil) employees.

Appreciation

Finally, for and on behalf of the Company and the board of directors, I would like to express my heartfelt gratitude to our shareholders, business partners and dedicated colleagues.

On behalf of the Board

Wang Qing Yu

Chairman

Hong Kong, 26 September 2008

ADDITIONAL INFORMATION

Disclosure of Interests

As at 30 June 2008, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under the provisions of the SFO) or which were 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 the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") contained in the Listing Rules were as follows:–

(a) Ordinary Shares

Name of Director	Capacity	Number of Issued shares interested	Approximate percentage of interests
Xiang Xin ("Mr. Xiang")	Interest through a controlled corporation	1,523,335,379 (L) (note 2)	29.47%
		1,000,000,000 (L) (note 3)	19.35%
Chan Cheong Yee	Beneficial	17,040,000 (L)	0.33%
Wong Chak Keung	Beneficial	10,656,000 (L)	0.21%
Lee Wing Hang	Beneficial	1,000,000 (L)	0.02%

Notes:

- (1) The letter "L" denotes the Directors' long position (i.e. interests) in the shares.
- (2) The 1,523,335,379 shares are held by Harvest Rise Investments Limited ("Harvest Rise"), a private company wholly and beneficially owned by Mr. Xiang. Mr. Xiang is the sole director of Harvest Rise.
- (3) The 1,000,000,000 shares are to be held by Harvest Rise, a private company wholly and beneficially owned by Mr. Xiang, Mr. Xiang is the sole director of Harvest Rise. As at 30 June 2008, Harvest Rise is deemed interested in the 1,000,000,000 shares upon conversion of the convertible bonds and exercise in full the subscription rights attached to the warrants.

ADDITIONAL INFORMATION

(b) Share Options

Name of Director	Date of grant	Exercise Period	Capacity	Exercise price per underlying share HK\$	Number of underlying share of the Company comprised the Options outstanding as at 30 June 2008	Approximate percentage of interest
Xiang Xin	18 October 2007	18 October 2007 to 15 October 2010	Beneficial	0.0500	17,040,000	0.33%
	14 January 2008	1 February 2008 to 31 January 2011	Beneficial	0.2000	5,000,000	0.10%
Chan Cheong Yee	14 January 2008	1 February 2008 to 31 January 2011	Beneficial	0.2000	20,000,000	0.39%
Wong Chak Keung	18 October 2007	18 October 2007 to 15 October 2010	Beneficial	0.0500	6,384,000	0.12%
	14 January 2008	1 February 2008 to 31 January 2011	Beneficial	0.2000	20,000,000	0.39%
Wong Qing Yu	18 October 2007	18 October 2007 to 15 October 2010	Beneficial	0.0500	8,520,000	0.16%
	14 January 2008	1 February 2008 to 31 January 2011	Beneficial	0.2000	5,000,000	0.10%
Ng Kwong Chue, Paul	29 January 2003	28 August 2003 to 27 August 2013	Beneficial	0.0244	10,244,262	0.20%
	18 October 2007	18 October 2007 to 15 October 2010	Beneficial	0.0500	8,520,000	0.16%
	14 January 2008	1 February 2008 to 31 January 2011	Beneficial	0.2000	5,000,000	0.10%

ADDITIONAL INFORMATION

Name of Director	Date of grant	Exercise Period	Capacity	Exercise price per underlying share HK\$	Number of underlying shares of the Company comprised the Options outstanding as at 30 June 2008	Approximate percentage of interest
David Wang Xin	29 January 2003	28 August 2003 to 27 August 2003	Beneficial	0.0244	4,097,704	0.08%
	18 October 2007	18 October 2007 to 15 October 2010	Beneficial	0.0500	17,040,000	0.33%
	14 January 2008	1 February 2008 to 31 January 2011	Beneficial	0.2000	5,000,000	0.10%
Lee Wing Hang	18 October 2007	18 October 2007 to 15 October 2010	Beneficial	0.0500	10,000,000	0.19%
	14 January 2008	1 February 2008 to 31 January 2011	Beneficial	0.2000	5,000,000	0.10%
Zang Hong Liang	18 October 2007	18 October 2007 to 15 October 2010	Beneficial	0.0500	17,040,000	0.33%
	14 January 2008	1 February 2008 to 31 January 2011	Beneficial	0.2000	5,000,000	0.10%

Notes:

- (1) All the outstanding options were granted to each grantee at a consideration of HK\$1.00.

Save as disclosed above, none of the Directors or the chief executive of the Company or any of their associates had, as at 30 June 2008, any interests or short positions in the shares, underlying share and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under the provisions of the SFO) or which were 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 the Model Code.

ADDITIONAL INFORMATION

Disclosure of Interests by Substantial Shareholders

As at 30 June 2008, so far as was known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or had any option in respect of such capital:

(a) *Interest in issued shares*

Name of shareholder	Capacity	Number of Issued share held	Approximate percentage of interests
Harvest Rise Investments Limited (Note 2)	Beneficial	1,523,335,379 (L)	29.47%
Kung Ching (Note 3)	Deemed	1,523,335,379 (L)	29.47%
Tat Fai Enterprises Ltd.	Beneficial	660,383,891 (L)	12.78%
Cheung Chung Chit (Note 4)	Deemed	660,383,891 (L)	12.78%

Notes:

- (1) The letter "L" denotes the shareholders' long position (i.e. interests) in the shares.
- (2) Harvest Rise Investments Limited is a private company wholly and beneficially owned by Mr. Xiang Xin. Mr. Xiang Xin is the sole director of Harvest Rise Investments Limited.
- (3) Ms. Kung Ching, the spouse of Mr. Xiang Xin, is deemed to have interest in 1,523,335,379 shares held by Harvest Rise Investments Limited as mentioned in note 2 above.
- (4) 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.

ADDITIONAL INFORMATION

(b) Interested in shares under equity derivatives

Name of shareholder	Capacity	Number of underlying shares of the Company to be held	Approximate percentage of interests
Harvest Rise (Note 2)	Deemed beneficial interest	1,000,000,000 (L) (Note 1)	19.35%
Kung Ching (Note 3)	Deemed	1,000,000,000 (L)	19.35%

Notes:

- (1) The letter "L" denotes the shareholders' long position (i.e. interests) in the shares.
- (2) The 1,000,000,000 shares is deemed interested by Harvest Rise upon conversion of the convertible bonds (i.e. 200,000,000 shares) and exercise in full the subscription attached to the warrants (i.e. 800,000,000 shares). Harvest Rise is a private company wholly and beneficially owned by Mr. Xiang. Mr. Xiang Xin is the sole director of Harvest Rise.
- (3) Ms. Kung Ching, the spouse of Mr. Xiang, are deemed to have interested in 1,000,000,000 shares to be held by Harvest Rise as mentioned in note 2 above.

As at 30 June 2008, save as disclosed above, so far as was known to the Directors, no other person (not being a Director or chief executive of the Company) had, or was deemed or taken to have an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 5% or more of the nominal value of any class or share capital carrying rights to vote in all circumstances at general meeting or the Company or held any option in respect of such capital.

ADDITIONAL INFORMATION

Other Information

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2008, the Company had not purchased, sold or redeemed any of its listed securities.

Corporate Governance

Code on Corporate Governance Practices

The Company had complied with the Code on Corporate Governance Practice ("Code") as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2008, save for deviation from Code A.4.1.

Under the code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election.

None of the existing non-executive Directors are appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, all Directors (including Independent Non-executive Directors) are subject to retirement by rotation in accordance with the Company's Articles of Association. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

Model Code on Securities Transactions by Directors

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuer ("Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions.

Having made specific enquiry of all Directors, the Directors of the Company have complied with the required standard set out in the Model Code regarding Directors' Securities Transactions.

Review by Audit Committee

The Audit Committee, comprising the three independent non-executive directors of the Company, has reviewed and discussed with the management the Company's unaudited interim financial report for the six months ended 30 June 2008, and the internal control and financial reporting matters.

CONDENSED INCOME STATEMENT

	<i>Notes</i>	Six months ended 30 June	
		2008 (Unaudited) HK\$	2007 (unaudited) HK\$
Turnover	3	198,888,130	489,055
Interest income		517,401	239,763
Dividend income		394,320	–
Realised and unrealised gain and loss on financial assets at fair value through profit or loss		(2,091,799)	167,699
Investment manager's fee		(150,000)	(39,249)
Directors' emoluments		(17,514)	(25,000)
Equity-settled share option expenses		(22,951,800)	–
Other operating expenses	4	(1,848,888)	(707,464)
Finance cost	5	(1,142,456)	–
Loss before taxation		(27,290,736)	(364,251)
Taxation	6	–	–
Loss attributable to shareholders		(27,290,736)	(364,251)
Loss per share			
– Basic	8	(0.60) cents	(0.12) cents

CONDENSED BALANCE SHEET

	<i>Notes</i>	30 June 2008 (Unaudited) HK\$	31 December 2007 (Audited) HK\$
Non-current assets			
Available-for-sale investments	9	52,200,225	13,500,225
Deposit for acquisition of available-for-sale investment		–	1,000,000
		52,200,225	14,500,225
Current assets			
Trade and other receivables		21,801	8,925,202
Deposits and prepayment		366,604	566,657
Financial assets at fair value through profit or loss	10	105,219,220	29,088,000
Cash and cash equivalents	11	117,793,640	148,880,855
		223,401,265	187,460,714
Current liabilities			
Accruals		508,691	1,600,971
Net current assets			
		222,892,574	185,859,743
Total assets less current liabilities			
		275,092,799	200,359,968
Non-current liabilities			
Convertible bonds	12	5,043,868	–
Total assets less liabilities			
		270,048,931	200,359,968
Capital and reserves			
Share capital	13	51,687,358	41,696,758
Reserves		218,361,573	158,663,210
Total equity attributable to equity holders of the Company			
		270,048,931	200,359,968
Net asset value per share			
	14	HK\$0.05	HK\$0.05

CONDENSED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Share option reserve	Convertible bonds equity reserve	Accumulated losses	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Balance at 1 January 2007	2,999,160	46,714,093	-	-	(20,585,276)	29,127,977
Loss for the period	-	-	-	-	(364,251)	(364,251)
Balance at 30 June 2007	2,999,160	46,714,093	-	-	(20,949,527)	28,763,726
Balance at 1 January 2008	41,696,758	180,905,965	3,431,436	-	(25,674,191)	200,359,968
Loss for the period	-	-	-	-	(27,290,736)	(27,290,736)
Equity component of convertible bonds	-	-	-	26,281,377	-	26,281,377
Issue of shares upon conversion of convertible notes	8,000,000	32,758,603	-	(21,025,102)	-	19,733,501
Issue of shares upon acquisition of investment	1,806,000	25,284,000	-	-	-	27,090,000
Issue of shares upon exercise of share option, and option fee	184,600	738,421	-	-	-	923,021
Equity-settled share option scheme	-	-	22,951,800	-	-	22,951,800
Transfer to reserves upon exercise of share options	-	333,233	(333,233)	-	-	-
Balance at 30 June 2008	51,687,358	240,020,222	26,050,003	5,256,275	(52,964,927)	270,048,931

CONDENSED CASH FLOW STATEMENT

	Six months ended 30 June	
	2008 (Unaudited) HK\$	2007 (unaudited) HK\$
Net cash generated from/(used) in operating activities	19,982,378	(619,971)
Net cash (used in) from investing activities	(101,908,904)	152,991
Net cash from financing activities	50,839,311	–
Net decrease in cash and cash equivalents	(31,087,215)	(466,980)
Cash and cash equivalents at 1 January	148,880,855	15,718,102
Cash and cash equivalents at 30 June	117,793,640	15,251,122
Analysis of balances of cash and cash equivalents		
Bank balances and cash	116,644,047	14,483,505
Cash held in the account maintained in securities companies	1,149,593	620,325
Cash held in the commodities account maintained in a securities company	–	147,292
	117,793,640	15,251,122

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1 General

The Company was 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 interim 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").

These condensed interim financial statements ("Interim Financial Statements") are presented in Hong Kong dollars ("HK\$") which is the Company's functional currency and presentation currency. These Interim Financial Statements have been approved for issue by the Board of Directors on 26 September 2008.

2 Basis of preparation and accounting policies

These unaudited Interim Financial Statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") and the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

These Interim Financial Statements should be read in conjunction with the 2007 annual report.

This interim financial report contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the 2007 annual report. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statement prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs", which term collectively includes HKASs and Interpretations).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

In the current period, the Company has applied, for the first time, the following new standards, amendments and interpretations (hereinafter collectively referred to as “new HKFRSs”), issued by the HKICPA, which are effective for the Company’s accounting periods beginning on 1 January 2008.

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 application of these new HKFRSs did not have any material impact on how the financial statements of the Company are prepared and presented for the current or prior accounting period.

The Company has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the financial statements of the Company.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing costs ¹
HKAS 27 (Revised)	Consolidated and Separated Financial Statements ³
HKAS 32 & 1(Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendment)	Share-based Payment: Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ³
HKFRS 8	Operating Segments ¹
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

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 period beginning on or after 1 July 2009

⁴ Effective for annual period beginning on or after 1 October 2008

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

3 Turnover

	Six months ended 30 June	
	2008 (Unaudited) HK\$	2007 (Unaudited) HK\$
Interest income	517,401	239,763
Dividend income – listed investment	394,320	–
Sales proceeds of financial assets at fair value through profit or loss	197,976,409	249,292
	198,888,130	489,055

The comparative figures were restated to conform with current period 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.

4 Other operating expenses

	Six months ended 30 June	
	2008 (Unaudited) HK\$	2007 (Unaudited) HK\$
Other operating expenses include the following:		
Legal and professional fee	77,450	88,179
License fee	306,000	306,000
Listing fee	232,236	72,500

5 Finance Cost

	Six months ended 30 June	
	2008 (Unaudited) HK\$	2007 (Unaudited) HK\$
Interest on convertible bonds	1,142,456	–

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

6 Taxation

No provision for Hong Kong profits tax has been made in the financial statements as the Company has no assessable profit for the period (six months ended 30 June 2007: Nil).

7 Dividend

The directors resolved not to pay an interim dividend for the six months ended 30 June 2008.

8 Loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$27,290,736 (2007: HK\$364,251) and the weighted average number of 4,573,686,599 (2007: 299,916,000) shares in issue during the period.

No diluted loss per share was presented for both periods as the impact of the exercise of the share options and conversion of convertible bond is anti-dilutive.

9 Available-for-sale investments

	30 June 2008 (Unaudited) HK\$	31 December 2007 (Audited) HK\$
Unlisted equity securities	52,200,225	13,500,225

10 Financial assets at fair value through profit or loss

	30 June 2008 (Unaudited) HK\$	31 December 2007 (Audited) HK\$
Hong Kong listed equity investments, at market value	55,235,220	–
Equity-linked notes, at fair value	–	29,088,000
Structured deposit, at fair value	49,984,000	–
	105,219,220	29,088,000

Structured deposit represented currency (USD/RMB) linked capital protected investments with principal amount of USD6,400,000 with maturity date on 22 June 2009.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

11 Cash and cash equivalents

	2008 (Unaudited) HK\$	2007 (Audited) HK\$
Cash at banks	116,643,547	20,010,268
Cash on hand	500	500
Cash held in the account of securities companies	1,149,593	128,870,087
	117,793,640	148,880,855

12 Convertible bonds

On 30 January 2008, the Company issued 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 of the Company.

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

The fair value of the liability component, included under non-current liabilities, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of equity conversion component, is included in shareholders' equity under convertible bonds equity reserve.

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

	(Unaudited) HK\$
Face value of convertible bonds issued on 30 January 2008	50,000,000
Issuing expenses	(83,710)
Equity component	(26,281,377)
Liability component on initial recognition on 30 January 2008	23,634,913
Interest expenses	1,142,456
Converted into ordinary shares	(19,733,501)
Liability component at 30 June 2008	5,043,868

During the period, 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.

The fair value of the liability component of the convertible bonds as at 30 June 2008 amounted to HK\$5,043,868. 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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

13 Share capital

	Number of shares	HK\$
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2008	5,000,000,000	50,000,000
Increase during the period	10,000,000,000	100,000,000
At 30 June 2008	15,000,000,000	150,000,000
Issued and fully paid:		
At 1 January 2008	4,169,675,753	41,696,758
Issue of shares upon		
– exercise of share options	18,460,000	184,600
– acquisition of investment	180,600,000	1,806,000
– conversion of convertible bonds	800,000,000	8,000,000
At 30 June 2008	5,168,735,753	51,687,358

- (i) Pursuant to 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 additional 10,000,000,000 shares of HK\$0.01 each.
- (ii) During the period, part of the share options granted were exercised for 18,460,000 shares of HK\$0.01 each at exercise price per share of HK\$0.05 which raised gross proceeds of approximately HK\$1 million.
- (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 has conditionally agreed to purchase from the Vendor (i) 30% of the issued share capital of Takenaka Investment Company Limited and (ii) the shareholders' 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. 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.
- (iv) On 19 November 2007, the Company entered into a subscription agreement with Harvest Rise Investments 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 will issue 800,000,000 unlisted warrants ("Warrants") to Harvest Rise at the exercise price of HK\$0.20 per warrant share. 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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

14 Net assets value per share

The calculation of net asset value per share is based on the net asset value of the Company as at 30 June 2008 of HK\$270,048,931 (31 December 2007: HK\$200,359,968) and 5,168,735,753 (31 December 2007: 4,169,675,753) ordinary shares in issue at that date.

15 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 (i) each eligible participant (including both exercised and outstanding options) and (ii) a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates in any 12-month period up to the date of such grant must not exceed 1% or 0.1% respectively 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/her 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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Details of the options granted under the Scheme and outstanding at 30 June 2008 are as follows:

Date of grant	Option period	Number of share options			Exercise price per underlying share HK\$	
		Outstanding as at 1 January 2008	Granted during the period	Exercised during the period		Outstanding as at 30 June 2008
29/1/2003	28/8/2003– 27/8/2013	119,243,183	–	–	119,243,183	0.0244
18/10/2007	18/10/2007– 15/10/2010	190,090,000	–	18,460,000	171,630,000	0.05
14/1/2008	1/2/2008– 31/1/2011	–	150,000,000	–	150,000,000	0.20
		<u>309,333,183</u>	<u>150,000,000</u>	<u>18,460,000</u>	<u>440,873,183</u>	

As at 30 June 2008, the number of shares issuable under the Scheme represented approximately 8.5% (31 December 2007: approximately 7.4%) of the Company's shares in issue as at that date.

Notes:

- i. The options granted during the period are measured using the Trinomial 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 January 2008
Expected volatility	193.6%
Expected life (year)	3
Risk-free interest rate	1.921%
Expected annual dividend yield	Nil
Fair value per option (HK\$)	0.153012

- ii. The volatility measured at the standard deviation of expected share price is based on statistical analysis of daily shares over the period of three years from the date immediately preceding the grant date. The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the share options and the historical volatility of the Company shares set out above.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

- iii. The risk free rate is being yield of Exchange Fund Notes as at the date of grant.
- iv. The Company recognised total expenses of approximately HK\$22,951,800 for the six months ended 30 June 2008 in relation to share options granted during the period.
- v. The closing market price per ordinary share of HK\$0.01 each of the Company immediately before the date on which the options were granted as quoted in the Hong Kong Stock Exchange's daily quotation sheets was HK\$0.183.

16 Connected and related party transactions

	Six months ended 30 June	
	2008 (Unaudited) HK\$	2007 (Unaudited) HK\$
Investment management fee paid to China Everbright Securities (HK) Limited (<i>note a</i>)	150,000	39,249
Brokerage commission and handling fee paid to China Everbright Securities (HK) Limited (<i>note b</i>)	631,843	2,300
Brokerage commission paid to China Everbright Forex & Futures (HK) Limited (<i>note c</i>)	-	1,600
License deposit withheld by/paid to New Times Investment Management Limited (<i>note d</i>)	102,000	102,000
License fee paid and payable to New Times Investment Management Limited	306,000	306,000

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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. With effect from 1 January 2008, the investment management fee is fixed in the amount of HK\$25,000 monthly and CES is entitled to a bonus as above not exceeding HK\$1 million. CES is regarded as a connected person of the Company for the purpose of the Listing Rules.
- (b) Brokerage commission rate is charged at the rate ranging 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 on 30 June 2008 and the license deposit was refunded to the Company after the balance sheet date.

17 Post balance sheet event

On 1 July 2008, the Company entered into a tenancy agreement (the "Tenancy Agreement") with New Era Group (China) Ltd. ("NEGL"), a company of which a director of the Company, Mr. Xiang Xin is also a director, for a period of three years commencing from 1 July 2008 and expiring on 30 June 2011. Pursuant to the Tenancy Agreement, the Company is entitled to a rent free period for the initial two months. The Company shall pay a deposit of HK\$160,000 and monthly rental fee of HK\$80,000 to NEGL. The Company has the option to renew the Tenancy Agreement in the same term within the six months before the expiry of the Tenancy Agreement.

CORPORATE INFORMATION

Directors

Executive Directors

Mr. Xiang Xin
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

Company Secretary and Qualified Accountant

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 Road West,
Sheung Wan, Hong Kong

Principal Share Registrar

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

Investment Manager

China Everbright Securities (HK) Ltd

Auditors

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

Principal Banker

Bank of China (Hong Kong) Limited

Stock Code

1217

Website

www.1217.com.hk

Hong Kong Branch Share Registrar

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

Authorised 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

Nomination Committee

Mr. Xiang Xin
Mr. Chan Cheong Yee
Mr. David Wang Xin

Custodian

China Everbright Securities (HK) Ltd