中策集團有限公司
China Strategic Holdings Limited

(Incorporated in Hong Kong with limited liability)

Stock code: 0235

Annual Report

2008

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(Executive Director)
Chow Kam Wah
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(Independent non-executive Director)
Phillip Fei
(Independent non-executive Director)
Leung Hoi Ying
(Independent non-executive Director)

SECRETARY

Chow Kim Hang

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

REGISTERED OFFICE

Rm 4503 45/F
China Resources Building
26 Harbour Road
Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Hang Seng Bank Limited

SOLICITORS

Tung & Co

SHARE REGISTRARS AND TRANSFER OFFICE

Standard Registrars Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

STOCK CODE

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For the financial year ended 2008, China Strategic Holdings Limited (the "Company") and its subsidiaries (the "Group") recorded a net loss of approximately HK$452.37 million. Further details of the Group's past performance are explained under the "Management Discussion and Analysis" section. The Board of Directors does not recommend the payment of any final dividend for the year ended 31st December, 2008.

I would like to take this opportunity to express my appreciation to all management and staff members for their contribution during the past year.

Chiu Ching Ching
Chairman

Hong Kong, 22nd April, 2009

The revenue of the Group for the year ended 31st December, 2008 decreased by approximately HK$27.02 million to approximately HK$18.70 million. The revenue for the year was generated from the manufacturing and trading of batteries products. With the financial crisis arisen from sub-prime mortgage crisis in the United States of America (the "USA"), the world economy has become unstable, the Group's batteries manufacturing and trading business has been tough leading to decrease in the revenue of the Group. Gross profit ratio deteriorated under the high production costs in mainland China amid sustained wages, rising social security benefits and more stringent overseas safety requirements and the credit crunch also hit the domestic demand for the products. Interest income increased by approximately HK$18.79 million mainly because of increase in interest generating in cash balances received from fund raising activities. Due to the adverse market condition, the Group recorded a loss from fair value changes on investments held for trading of approximately HK$326.73 million for the year 2008 as compared to a gain of HK$34.49 million for the year 2007. During the year, administrative expenses decreased 30.67% or HK$12.61 million to HK$28.49 million. During the year, the Company granted share options to a director and the consultant of the Company to subscribe ordinary shares of the Company and accordingly an amount of the share based payment expenses of approximately HK$3.07 million were recognized respectively and included in the administrative expenses for the year to reflect the effect of granting the share options to a director and a consultant of the Company. Finance costs had increased during the period as the second tranch of 2007 convertible notes in the amount of HK$1,173.15 million was issued on 7th January 2008 and as a result, a financial expense of HK$95.38 million has been recorded under the requirements of the Hong Kong Accounting Standard ("HKAS") 39 and HKAS 32. However, such financial expenses do not affect the Company's cash flow for the period. Overall, loss for the year 2008 amounted to HK$452.37 million and was an increase of HK$412.00 million from the year 2007.

During the financial year of 2008, the Group financed its operations mainly through cash generated from its business activities, banking facilities provided by principal bankers, external borrowings, share placing and placing of convertible notes. As at 31 December 2008, the Group had working capital calculated by current assets less current liabilities of approximately HK$1,091.39 million and the current ratio increased to 7.76, compared with the working capital of approximately HK$120.64 million and current ratio of 1.79 as at 31 December 2007.

In the fiscal year of 2008, the net cash used in operating activities was approximately HK$764.55 million compared with HK$6.60 million generated by operating activities for the year 2007. The net cash generated by investing activities and financing activities in the fiscal year 2008 was approximately HK$63.02 million and HK$1,287.24 million respectively compared with approximately HK$4.33 million net cash used in investing activities and HK$183.61 million net cash generated by financing activities in 2007.

The Group's bank borrowings slightly decreased from approximately HK$18.04 million as at 31st December, 2007 to approximately HK$15.31 million as at 31st December, 2008, representing a decrease of 15%. There was HK$0.06 million (2007:HK$0.08 million) obligations under finance lease as at 31 December 2008. In 2008, the Group has issued convertible notes on 5th November, 2007, 7th January, 2008 and early redeemed partial convertible notes in November 2008, and as at 31st December, 2008, the aggregated outstanding principal amount of the convertible notes was HK$1,008.90 million, the convertible notes are non-interest bearing and with maturity on 31st December, 2010. The outstanding convertible notes are convertible at HK$0.33 per share from the date of issue up to 31st December, 2008, HK$0.36 per share from 1st January, 2009 to 31st December, 2009 and HK$0.39 per share from 1st January, 2010 to the maturity date, the liability component of the convertible notes was approximately HK$829.00 million. The gearing ratio was increased from 0.83 as at 31st December 2007 to 2.90 as at 31st December, 2008, calculated by the total liabilities of HK$1,013.14 million divided by total shareholders' equity of HK$349.10 million.

Capital expenditure aggregated to approximately HK$7.06 million for the year ended 31st December 2008 and was used primarily for purchasing of property, plant and equipment. The Group's capital expenditures will continue to be funded primarily by internal resources or external borrowings or a combination of both as required.

As at 31st December 2008, the Group had cash and bank balances amount to approximately of HK$777.42 million and is mainly denominated in Hong Kong dollars. Fair value of investments held for trading was in an amount of HK$399.58 million. As at 31st December 2008, there was no bank deposit pledged. During the year ended 31st December, 2008, the Group did not experience significant exposure to exchange rate and interest rate fluctuations. As a result, the Group did not enter into any foreign contracts, currency swaps or other financial derivatives. As at 31st December 2008, the Company issued guarantee and indemnity to a bank for the banking facilities granted to a non-wholly owned subsidiary.

As at 31st December 2008, the Group employed approximately 131 staff, the staff costs (excluding directors' emoluments) was around HK$9.91 million for the year. The staff remuneration packages are normally reviewed annually. The Group operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance and the employees in the Group's joint venture subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the government in the PRC. In addition, the Group provides other staff benefits which include double pay, share option scheme, insurance and medical benefits.

During the year 2008, the Company has granted share option to a Director and a consultant of the Company to subscribe 20,000,000 and 4,000,000 ordinary shares of the Company respectively both at the subscription price of HK$0.58 per share. As at 31st December 2008, 28,800,000 share options granted were still outstanding. During the year 2008, no options granted had been exercised.

On 23rd August, 2007, the Company entered into a placing agreement with Kingston Securities Limited ("Kingston") pursuant to which, Kingston agreed to place, on a best effort basis, 1,500,000,000 new shares at HK$0.33 per share of nominal value of HK$0.1 each to independent third parties ("Placing"). The Placing was completed on 7 January 2008 and the net proceeds of HK$482.63 million were initially intended to be used for potential investments or business opportunities.

On 23rd August, 2007, the Company also entered into the placing agreement with Kingston, pursuant to which, Kingston agreed to place, on a best effort basis, the convertible notes in an aggregate principal amount of HK$1,320.00 million ("CN Placing"). The convertible note are non-interest bearing and would carry a right to convert into new shares at the conversion prices subject to adjustment, HK$0.33 per share from the date of issue of the convertible notes to 31st December, 2008, HK$0.36 per share from 1st January, 2009 to 31st December, 2009, and HK$0.39 per share from 1st January, 2010 to maturity date of the convertible notes. On 5th November, 2007 and 7th January, 2008, the aggregate principal amounts to HK$146.85 million and HK$1,173.15 million were issued respectively. The net proceeds of approximately HK$1,287.00 million were initially intended to be used for potential investments or business opportunities. Details of the share placing and placing of convertible notes were disclosed in the Company's announcements dated 30th August 2007, and the Company's circular dated 14th September 2007.

On 7th March, 2008 and 30th October, 2008, the Company announced the change of use of proceeds from the Placing and CN Placing, the relevant net proceeds were to be used for general working capital and/or redemption of existing convertible notes.

Looking forward, as the sub-prime mortgage crisis in the United States has slow down the USA's and the global economy is likely to continue during 2009 and the interest rate is expected on hold until the second half of 2009. Thus, the Group is cautious on the performance of securities and treasury investment and the batteries manufacturing and trading business is also expected to be difficult. Following the completion of the fund raising in 2008 and partial redemption of convertible notes, the Group's capital and shareholders base are much strengthened and the gearing ratio of the group also improved. The Board will continue to seek for suitable investments or business opportunities with good strategic value to enhance the shareholder s' value of the Company.

EXECUTIVE DIRECTORS

Ms. Chiu Ching Ching, aged 58, was appointed as director of the Company in September 2007. She has over 10 years of experience in senior management positions of several multinational corporations. She has over 15 years of experience in the trading business and business development. Ms. Chiu is the sister in law of Mr. Yeung Kwok Yu.

Mr. Yeung Kwok Yu, aged 57, was appointed as a director in November 2008. Mr. Yeung had held management positions in trading companies which were based in the PRC and Hong Kong. He was also engaged as senior management in various listed companies in Hong Kong. Mr. Yeung has extensive experience in general trading, strategic investment planning and business development. Mr. Yeung was appointed as the Chief Executive Officer in April 2009.

Mr. Yeung is currently an executive director of China Sci-Tech Holdings Limited which shares are listed on The Stock Exchange of Hong Kong Limited. Mr. Yeung is the brother in law of Ms. Chiu Ching Ching.

Mr. Hui Richard Rui, aged 41, was appointed as Director in August 2004. He graduated from University of Technology, Sydney of Australia with a bachelor degree in mechanical engineering. He has over 10 years of experience in management positions of companies in Australia, Hong Kong and the PRC.

Mr. Hui is currently an executive director of Smart Rich Energy Finance (Holdings) Ltd. and China Sci-Tech Holdings Limited, shares of both companies are listed on The Stock Exchange of Hong Kong Limited. Mr. Hui has been an executive director of Wonson International Holding Limited which shares are listed of on the stock Exchange of Hong Kong Limited up to 1st June 2007. Save as aforesaid, Mr. Hui did not hold any directorship in other listed public companies in the part three years.

Ms. Chan Ling, Eva, aged 43, was appointed as a director of the Company in July 2002. Ms. Chan has over 20 years of experience in auditing, accounting and finance in both international accounting firms and listed companies. She is a member of the Institute of Chartered Accountants in Australia, a fellow member of the Association of Chartered Certified Accountants and also a practicing member of the Hong Kong Institute of Certified Public Accountants. Ms. Chan is an independent non-executive director of Trasy Gold Ex Limited which shares are listed on The Stock Exchange of Hong Kong Limited, the deputy chairman of China Enterprises Limited (which shares are trading on the over-the-counter (OTC) securities markets in the United States) and a director of MRI Holdings Limited which shares are listed on the Australian Securities Exchange. Ms. Chan has been an independent non-executive director of Wonson International Holdings Limited which shares are listed on The Stock Exchange of Hong Kong Limited up to 13 August 2008. Save as aforesaid, Ms. Chan did not hold any directorship in other listed public companies in the past three years.

Mr. Lee Sun Man, aged 57, was appointed as director of the Company in September 2007. He graduated from the Law Department of Shenzhen University. He has experience in management in general trading in the PRC and property related business for more than 15 years.

Mr. Chow Kam Wah, aged 46, was appointed as director of the Company in July 2007. He holds a Master degree in Accountancy obtained from The Hong Kong Polytechnic University. He has over 15 years of experience in the management of finance and accounting. He is a member of the CPA Australia.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Ma Yin Fan, aged 45, was appointed as independent non-executive director in September 2007. She obtained a Bachelor Degree with honours in Accountancy at Middlesex University in the United Kingdom. She is also awarded the Master of Business Administration and Master Degree in Professional Accounting at Heriot-Watt University in the United Kingdom and Hong Kong Polytechnic University respectively. She is a CPA (Practising) in Hong Kong and has been working in the auditing, accounting and taxation areas for more than 20 years of professional experience. She is the principal of Messrs. Ma Yin Fan & Company CPAs. Ms. Ma is the Fellow member of Hong Kong Institute of Certified Public Accountants, Taxation Institute of Hong Kong, Association of Chartered Certified Accountants, Hong Kong Institute of Chartered Secretaries and Institute of Chartered Secretaries and Administrators. She is also a member of the Institute of Chartered Accountant in the England and Wales. Ms. Ma is the member of Audit Committee and Remuneration Committee of the Company. Ms. Ma is currently an independent non-executive director of Smart Rich Energy Finance (Holdings) Ltd which shares are listed on The Stock Exchange of Hong Kong Limited.

Mr. Phillip Fei, aged 53, was appointed as independent non-executive director in September 2007. He was the Professor of The International Economic Department of University of International Relations, the People's Republic of China. He was also the 5th and 6th term director of Beijing Chinese Overseas Friendship Association and the 2nd term director of China Overseas Friendship Association. He has over 10 years of experience in the international trading business and economic research. Mr. Phillip is the member of Audit Committee and Remuneration Committee of the Company.

Mr. Leung Hoi Ying, aged 58, was appointed as independent non-executive director in September 2007. He graduated from Guangdong Foreign Trade School in the People's Republic of China. He has over 15 years of experience in the trading business and business development. Mr. Leung is the member of Audit Committee and Remuneration Committee of the Company.

Mr. Leung is currently an independent non-executive director of Smart Rich Energy Finance (Holdings) Ltd which shares are listed on The Stock Exchange of Hong Kong Limited.

CORPORATE GOVERNANCE PRACTICES

The Company has recognized the importance of transparency and accountability, and believes that shareholders can benefited from good corporate governance. The Company aims to achieve good standard of corporate governance, and thus during the year the Company has complied with most of the code provisions ("Code Provisions") 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"). Any deviation from the Code Provisions will be explained in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Based on specific enquiry of all the directors of the Company (the "Director(s)"), the directors complied throughout the year in review with the required standards as set out in the Model Code.

THE BOARD OF DIRECTORS

The board of directors (the "Board") of the Company formulates overall strategy of the Group, monitors its financial performance and maintains effective oversight over the management. The Board members are fully committed to their roles and have act in good faith to maximize the shareholders' value in the long run, and have aligned the Group's goal and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

The Board met regularly throughout the year to discuss the overall strategy as well as the operation and financial performance of the Group. All directors are kept informed on timely basis of major changes that may affect the Group's business, including relevant rules and regulations. The directors can, upon the reasonable request, seek independent professional advice in appropriate circumstances, 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 BOARD OF DIRECTORS – continued

During the year, 27 board meetings were held and the attendance of each Director is set out as follows:

Name of director	Number of attendance
Kwok Ka Lap, Alva (resigned on 7th April, 2008)	2
Zhang Hong Ren (resigned on 3rd October, 2008)	5
Chan Ling, Eva	5
Yeung Kwok Yu (appointed on 1st November, 2008)	0
Hui Richard Rui (appointed on 19th September, 2008)	10
Chiu Ching Ching	4
Wong Ah Chik (resigned on 20th April, 2009)	3
Lee Sun Man	24
Chow Kam Wah	23
Ma Yin Fan	3
Phillip Fei	4
Leung Hoi Ying	3

Each of our independent non-executive Directors in 2008 has made an annual confirmation of independence to the Company in accordance with the requirement of the Listing Rules. The Company considered that all the independent non-executive Directors in 2008 to be independent. None of the Directors has any financial, business, family or other material/relevant relationship(s) with each other.

As at the date of this report, the Board comprises six executive Directors, being Ms. Chiu Ching Ching (Chairman), Ms. Chan Ling, Eva, Mr. Yeung Kwok Yu, Mr. Hui Richard Rui, Mr. Lee Sun Man and Mr. Chow Kam Wah and three independent non-executive Directors, being Ms. Ma Yin Fan, Mr. Phillip Fei and Mr. Leung Hoi Ying. The Directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company, details of the directors are shown on page 7 to 8 under the section of Biographical Details of Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A2.1 requires the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The Company has deviated from the requirement since 3rd October, 2008 due to the resignation of the chief executive officer. The Company has appointed a chief executive officer on 20th April, 2009.

APPOINTMENTS AND RE-ELECTION

The Company has not fixed the term of appointment for non-executive Directors in accordance with A.4.1 of the Code Provision. However, they were appointed subject to retirement by rotation and re-election at the annual general meeting of the Company. The Board has discussed and concluded that the current practice of appointing non-executive Directors without specific terms but otherwise subject to rotation and re-election by shareholders was fair and reasonable, and does not intend to change the current practice at the moment.

The Company had not established a nomination committee and retained the functions to the Board. The Directors from time to time identify individual suitable to be the Board member and make recommendation to the Board. The main criteria in selecting a candidate is whether he/she can add value to the management through his/her contributions in the relevant strategic business areas and the appointment results a strong and diverse the Board. Three meetings were held during the year to discuss appointment of new Directors with attendance below:

Name of director	Number of attendance
Chiu Ching Ching	1
Chow Kam Wah	2
Lee Sun Man	3
Hui Richard Rui (appointed on 19th September, 2008)	1
Wong Ah Chik (resigned on 20th April, 2009)	1

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration committee, which was re-established on 11th September, 2008, comprises three independent non-executive Directors namely Ma Yin Fan, Leung Hoi Ying and Phillip Fei (chairman of remuneration committee). The principal responsibilities of remuneration committee included formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the executive Directors and members of senior management. The overriding objective of the remuneration policy was to ensure that the Group is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Group.

The remuneration committee held one meeting during the year 2008 to discuss remuneration matters of the staff for 2008. The members and attendance of the meeting are as follows:

Name of member	Number of attendance
Phillip Fei	1/1
Leung Hoi Ying	1/1
Ma Yin Fan	1/1

In order to attract, retain, and motivate executives and key employees serving for the Group, the Company has adopted a share option scheme in 2002. Such incentive scheme enables the eligible participants to obtain an ownership interest in the Company and thus to reward to the eligible participants who contribute to the success of the Group's operation.

Details of the remuneration of Directors are set out in note 12 to the consolidated financial statements and details of 2002 share option scheme are set out in the report of director and note 31 to the consolidated financial statements.

AUDIT COMMITTEE

The Audit Committee currently comprises all three independent non-executive directors of the Company, namely Ms. Ma Yin Fan, Mr. Phillip Fei and Mr. Leung Hoi Ying, who among themselves possess a wealth of management experience in the accounting profession and in commercial fields. The terms of reference of the Audit Committee included all the duties set out in the Code Provision C.3.3 of which among other things include reviewing financial statements of the Company. Any findings and recommendations of the Audit Committee are to be submitted to the Board for consideration.

The Audit Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee. It is also authorized to obtain outside legal or other independent professional advice and to sercure the attendence of outsiders with relevant experience and expertise if it considers necessary. The Audit Committee held two meetings during the year 2008. The members and attendance of the meeting are as follows:

Name of member	Number of attendance
Ma Yin Fan	2
Phillip Fei	2
Leung Hoi Ying	2

During the meetings, the Audit Committee reviews reports from external auditors regarding their audit on annual financial statements and interim financial results.

AUDITORS' REMUNERATION

Deloitte Touche Tohmatsu has been reappointed as the external auditors of the Company at the 2008 annual general meeting until the conclusion of the next annual general meeting.

During the year, the Company paid approximately HK$1.74 million to Deloitte Touche Tohmatsu in which approximately HK$1.18 million is related to statutory audit. The remaining was paid for the provision of non-statutory audit services amounted to approximately HK$0.56 million.

OTHERS

The Directors are responsible for the preparation of financial statements. The Directors are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the financial statements. Also, the internal control system of the Group has also been reviewed during the year.

The statement of the auditors of the Company regarding their reporting responsibilities is set out in the Independent Auditor's Report on page 22 to 23 of this Annual Report.

The chairman of the Board did not attend the 2008 annual general meeting. This deviates from the provision E.1.2 of the Code Provision. The chairman of the Company had another engagement that was important to the business of the Company and she was unable to attend the 2008 annual general meeting.

The directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2008.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries and associate are set out in note 42 and 17 respectively to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2008 are set out in the consolidated income statement on page 24.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers were approximately 66% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 23% of the Group's total sales.

The aggregate purchases attributable to the Group's five largest suppliers were approximately 33% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 14% of the Group's total purchases.

At no time during the year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 30 to the consolidated financial statements.

CONVERTIBLE NOTES

During the year, the Company has issued convertible notes with a principal amount of HK$1,173,150,000 to independent third parties, which are non-interest bearing with maturity date on 31st December, 2010 with the conversion price ranging from HK$0.33 to HK$0.39 per share, subject to anti-dilutive adjustments.

REDEMPTION OF CONVERTIBLE NOTES ISSUED BY THE COMPANY

On 10th November, 2008, the Company redeemed convertible notes with a principal amount of HK$311,100,900. At the balance sheet date, the outstanding principal amount of the convertible notes was HK$1,008,899,100.

Details of movements of convertible notes of the Company during the year are set out in note 28 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DISTRIBUTABLE RESERVE OF THE COMPANY

As at 31st December, 2008, the Company had no reserve available for distribution to shareholders.

DIRECTORS

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

Executive Directors:

Ms. Chiu Ching Ching	
Ms. Chan Ling, Eva	
Mr. Chow Kam Wah	
Mr. Lee Sun Man	
Mr. Wong Ah Chik	(resigned on 20th April, 2009)
Mr. Hui Richard Rui	(appointed on 19th September, 2008)
Mr. Yeung Kwok Yu	(appointed on 1st November, 2008)
Mr. Zhang Hong Ren	(appointed on 15th February, 2008 and resigned on 3rd October, 2008)
Mr. Kwok Ka Lap, Alva	(resigned on 7th April, 2008)

Independent non-executive directors:

Mr. Phillip Fei
Mr. Leung Hoi Ying
Ms. Ma Yin Fan

In accordance with Article 116 of the Company's Articles of Association, Ms Chiu Ching Ching, Mr. Lee Sun Man and Mr. Leung Hoi Ying will retire as director of the Company at the forthcoming Annual General Meeting ("AGM") by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM. In addition, in accordance with Article 99 of the Company's Articles Association, Mr. Hui Richard Rui and Mr. Yeung Kwok Yu will retire as directors of the Company at the forthcoming AGM and, being eligible, will offer themselves for re-election at AGM.

It was further reported that in accordance with the Listing Rules, a resolution for re-election of directors should be proposed and voted by shareholders for each re-elected directors separately.

The term of office of each non-executive director is the period up to the retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December, 2008, the interest and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance ("SFO") were as follows:

Name of Director	Nature of interest	Number of Underlying Shares (long position)	Approximate percentage of existing issued share capital of the Company
Chan Ling, Eva ("Ms. Chan")	Personal	4,400,000[1]	0.22

Note:

1. The personal interest of Ms. Chan represents an interest in 4,400,000 underlying shares in respect of options granted by the Company as stated below.

Except as disclosed above, as at 31st December, 2008, none of the directors nor chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be recorded in the register required to be kept under Section 352 of the SFO, or (b) to be notified to the Company and The Stock Exchange of Hong Kong Limited ("The Hong Kong Stock Exchange") pursuant to the Model Code (the "Model Code") for Securities Transactions by Directors of Listed Companies.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 31 to the consolidated financial statements.

The following table discloses movements in the Company's share options during the year:

	Date of grant	Exercisable period	Exercise price HK$	Number of shares At 1.1.2008	Granted during the year	Lapsed during the year	At 31.12.2008
Eligible participants	10.7.2007	10.7.2007 to 9.7.2012	0.724	20,400,000	—	—	20,400,000
	4.11.2008	4.11.2008 to 4.11.2009	0.580	—	4,000,000	—	4,000,000
				20,400,000	4,000,000	—	24,400,000
Executive directors:							
Chan Ling, Eva	10.7.2007	10.7.2007 to 9.7.2012	0.724	4,400,000	—	—	4,400,000
Kwok Ka Lap, Alva	10.7.2007	10.7.2007 to 9.7.2012	0.724	4,000,000	—	(4,000,000)	—
Zhang Hong Ren	19.3.2008	19.3.2008 to 14.2.2014	0.580	—	4,000,000	(4,000,000)	—
Zhang Hong Ren	19.3.2008	15.2.2009 to 14.2.2014	0.580	—	2,000,000	(2,000,000)	—
Zhang Hong Ren	19.3.2008	15.2.2010 to 14.2.2014	0.580	—	3,000,000	(3,000,000)	—
Zhang Hong Ren	19.3.2008	15.2.2011 to 14.2.2014	0.580	—	3,000,000	(3,000,000)	—
Zhang Hong Ren	19.3.2008	15.2.2012 to 14.2.2014	0.580	—	4,000,000	(4,000,000)	—
Zhang Hong Ren	19.3.2008	15.2.2013 to 14.2.2014	0.580	—	4,000,000	(4,000,000)	—
				8,400,000	20,000,000	(24,000,000)	4,400,000
				28,800,000	24,000,000	(24,000,000)	28,800,000

The closing prices of the Company's shares immediately before 19th March, 2008 and 4th November, 2008, the dates of grant of the options, were HK$0.52 and HK$0.12, respectively.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the shares and underlying shares of the Company.

Long positions

Name	Notes	Capacity	Long position/ short position	No. of shares held	No. of underlying shares (convertible notes) held	Approximate % of the issued ordinary share capital of the Company
Chu Yuet Wah	2	Beneficial owner	Long position	350,910,000	1,537,270,000	93.06%
Lee Wai Man	2	Beneficial owner	Long position	350,910,000	1,537,270,000	93.06%
Ma Siu Fong	2	Beneficial owner	Long position	350,910,000	1,537,270,000	93.06%
Kingston Finance Limited	2	Interests held by controlled corporation	Long position	350,910,000	1,437,270,000	88.13%
Chen Guang Lin		Beneficial owner	Long position	4,470,000	909,090,000	45.03%
Fan Guo Ping		Beneficial owner	Long position	380,910,000	528,180,000	44.80%
Ruan Yuan	1	Beneficial owner	Long position	100,000,000	160,000,000	12.81%
Zhang Ming	1	Beneficial owner	Long position	100,000,000	160,000,000	12.81%
Mak Tai Wo		Beneficial owner	Long position	—	200,000,000	9.85%
Allan Yap	3	Beneficial owner	Long position	—	196,000,000	9.66%
Nation Field Limited	3	Interests held by controlled corporation	Long position	—	196,000,000	9.66%

Notes:

1. Ruan Yuan is the spouse of Zhang Ming.

2. Kingston Finance Limited is beneficially owned by Ms. Chu Yuet Wah and Ms. Ma Siu Fong as to 51% and 49% respectively. Mr. Lee Wai Man is the spouse of Ms. Ma Siu Fong.

3. Mr. Allan Yap is beneficially interested in the entire issued share capital of Nation Field Limited and accordingly Mr. Allan Yap is deemed to be interested in the 196,000,000 shares in the Company.

Other than disclosed above, the Company had not been notified of any other interest or short position in the issued shares of the Company as at 31st December, 2008.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rules 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interest. The Company has complied with the code provision of the Code on Corporate Governance Practices (the "Code Provision") in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2008, except for the following deviations:

1. Code Provision A2.1 requires the roles of the Chairman and chief executive officer should be separate and should not be performed by the same individual. The Company has deviated from the requirement since 3rd October, 2008 due to the resignation of the chief executive officer. The Company has appointed a chief executive officer on 20th April, 2009.

2. Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. Independent non-executive directors of the Company do not have a specific term of appointment as subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company is fair and reasonable.

3. Code Provision B.1.1 requires setting up of the remuneration committee with a majority of the members being independent non-executive directors. The Company has deviated from the requirement up to 11th September, 2008. The remuneration committee has been set up on 11th September, 2008.

4. Code Provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting. The Chairman was unable to attend the 2008 annual general meeting as she had another engagement that was important to the business of the Company.

EMOLUMENT POLICY

A Remuneration Committee is set up for reviewing the Group's emolument policy structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market statistic.

The Company has adopted a share option scheme as an incentive to directors and eligible participants, details of the scheme are set out in note 31 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at the date of this report, there is sufficient public float of not less than 25% of the Company's issue share as required under the Listing Rules.

SUBSEQUENT EVENTS

Details of the significant events occurring after the balance sheet date are set out in note 43 to the consolidated financial statements.

AUDITOR

A resolution will be submitted to the AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Mr. Yeung Kwok Yu
Director

22nd April, 2009

Deloitte.
德勤

TO THE MEMBERS OF CHINA STRATEGIC HOLDINGS LIMITED
中策集團有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Strategic Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 87, which comprise the consolidated and Company's balance sheets as at 31st December, 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and 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 the consolidated 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 consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated 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 consolidated financial statements.

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

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

22nd April, 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Revenue	5	18,699	45,717
Cost of sales		(36,926)	(50,311)
Gross loss		(18,227)	(4,594)
Other income	6	29,789	48,779
Selling and distribution costs		(3,363)	(4,911)
Administrative expenses		(28,494)	(41,101)
Other expenses	7	(38,494)	(31,619)
Finance costs	8	(102,247)	(9,007)
Fair value changes on investments held for trading		(326,731)	34,485
Gain on partial redemption of convertible notes		19,664	—
Impairment loss on goodwill	9	—	(25,807)
Loss before tax		(468,103)	(33,775)
Income tax credit (expense)	10	15,738	(6,595)
Loss for the year	11	(452,365)	(40,370)
Attributable to:			
Equity holders of the Company		(452,365)	(40,369)
Minority interests		—	(1)
		(452,365)	(40,370)
Loss per share	13		
– Basic		HK$(0.23)	HK$(0.09)
– Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET

At 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Non-Current Assets			
Property, plant and equipment	14	87,533	91,739
Prepaid lease payments	15	12,793	19,604
Investment in an associate	17	—	—
Club debentures	18	825	825
Available-for-sale investments	19	8,138	36,978
		109,289	149,146
Current Assets			
Inventories	20	2,739	9,340
Trade and other receivables	21	65,791	9,743
Prepaid lease payments	15	321	466
Amount due from an associate	17	7,101	6,686
Loan and interest receivables	22	—	41,724
Investments held for trading	23	399,581	13,800
Bank balances and cash	24	777,418	191,617
		1,252,951	273,376
Current Liabilities			
Trade payables, other payables and accrued charges	25	69,353	40,150
Amount due to a subsidiary of an associate	17	7,239	6,686
Loan payables	26	63,903	82,100
Income tax payable		5,735	5,735
Bank borrowings	27	15,306	18,042
Obligations under finance leases	29	26	26
		161,562	152,739
Net Current Assets		1,091,389	120,637
Total Assets less Current Liabilities		1,200,678	269,783

CONSOLIDATED BALANCE SHEET

At 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Capital and Reserves			
Share capital	30	202,880	52,880
Reserves		145,957	91,925
Equity attributable to equity holders of the Company		348,837	144,805
Minority interests		261	261
Total Equity		349,098	145,066
Non-Current Liabilities			
Deferred tax liabilities	33	22,548	4,172
Convertible notes	28	829,001	120,488
Obligations under finance leases	29	31	57
		851,580	124,717
		1,200,678	269,783

The consolidated financial statements on pages 24 to 87 were approved and authorised for issue by the Board of Directors on 22nd April 2009 and are signed on its behalf by:

Hui Richard Rui
DIRECTOR

Yeung Kwok Yu
DIRECTOR

BALANCE SHEET

At 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Non-Current Assets			
Property, plant and equipment	14	2,215	1,708
Prepaid lease payments	15	3,510	3,628
Investments in subsidiaries	16	57,883	—
Club debentures	18	825	825
		64,433	6,161
Current Assets			
Prepaid lease payments	15	117	117
Amounts due from subsidiaries	16	684,321	158,636
Loan and interest receivables	22	—	20,980
Other receivables, deposits and prepayments		2,136	1,601
Bank balances and cash	24	576,318	28,503
		1,262,892	209,837
Current Liabilities			
Other payables and accrued charges		5,951	7,555
Loan payables	26	—	21,902
Amounts due to subsidiaries	16	91,969	92,053
		97,920	121,510
Net Current Assets		1,164,972	88,327
Total Assets less Current Liabilities		1,229,405	94,488
Capital and Reserves			
Share capital	30	202,880	52,880
Reserves	32	174,976	(83,052)
Total Equity		377,856	(30,172)
Non-current Liabilities			
Deferred tax liabilities	33	22,548	4,172
Convertible notes	28	829,001	120,488
		851,549	124,660
		1,229,405	94,488

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2008

	Attributable to equity holders of the Company												
	Share capital HK$'000	Share premium HK$'000	Special capital reserve HK$'000 (note)	Share option reserve HK$'000	Convertible notes reserve HK$'000	Capital redemption reserve HK$'000	Investment revaluation reserve HK$'000	Exchange reserve HK$'000	Other non-distributable reserves HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2007	44,080	–	1,267	–	–	233	32,992	(354)	1,943	70,670	150,831	262	151,093
Exchange difference arising on translation	–	–	–	–	–	–	–	1,682	–	–	1,682	–	1,682
Fair value changes of available-for-sale investments	–	–	–	–	–	–	7,625	–	–	–	7,625	–	7,625
Income recognised directly in equity	–	–	–	–	–	–	7,625	1,682	–	–	9,307	–	9,307
Loss for the year	–	–	–	–	–	–	–	–	–	(40,369)	(40,369)	(1)	(40,370)
Realised upon disposal of available-for-sale investments	–	–	–	–	–	–	(39,625)	–	–	–	(39,625)	–	(39,625)
Impairment loss on available-for-sale investments	–	–	–	–	–	–	5,348	–	–	–	5,348	–	5,348
Total recognised (expense) income for the year	–	–	–	–	–	–	(26,652)	1,682	–	(40,369)	(65,339)	(1)	(65,340)
Issue of shares	8,800	20,240	–	–	–	–	–	–	–	–	29,040	–	29,040
Transaction costs attributable to issue of shares	–	(786)	–	–	–	–	–	–	–	–	(786)	–	(786)
Issue of convertible notes	–	–	–	–	24,450	–	–	–	–	–	24,450	–	24,450
Transaction costs attributable to issue of convertible notes	–	–	–	–	(611)	–	–	–	–	–	(611)	–	(611)
Recognition of equity settled share-based payments	–	–	–	11,392	–	–	–	–	–	–	11,392	–	11,392
Deferred tax liabilities on recognition of equity component of convertible notes	–	–	–	–	(4,172)	–	–	–	–	–	(4,172)	–	(4,172)
At 31st December, 2007	52,880	19,454	1,267	11,392	19,667	233	6,340	1,328	1,943	30,301	144,805	261	145,066
Exchange difference arising on translation	–	–	–	–	–	–	–	7,789	–	–	7,789	–	7,789
Fair value changes of available-for-sale investments	–	–	–	–	–	–	(14,261)	–	–	–	(14,261)	–	(14,261)
Income recognised directly in equity	–	–	–	–	–	–	(14,261)	7,789	–	–	(6,472)	–	(6,472)

	Attributable to equity holders of the Company												
	Share capital HK$'000	Share premium HK$'000	Special capital reserve HK$'000 (note)	Share option reserve HK$'000	Convertible notes reserve HK$'000	Capital redemption reserve HK$'000	Investment revaluation reserve HK$'000	Exchange reserve HK$'000	Other non-distributable reserves HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
Loss for the year	–	–	–	–	–	–	–	–	–	(452,365)	(452,365)	–	(452,365)
Realised upon disposal of available-for-sale investments	–	–	–	–	–	–	(1,557)	–	–	–	(1,557)	–	(1,557)
Impairment loss on available-for-sale investments	–	–	–	–	–	–	12,923	–	–	–	12,923	–	12,923
Total recognised expense for the year	–	–	–	–	–	–	(2,895)	7,789	–	(452,365)	(447,471)	–	(447,471)
Issue of shares	150,000	345,000	–	–	–	–	–	–	–	–	495,000	–	495,000
Transaction costs attributable to issue of shares	–	(12,375)	–	–	–	–	–	–	–	–	(12,375)	–	(12,375)
Issue of convertible notes	–	–	–	–	282,656	–	–	–	–	–	282,656	–	282,656
Transaction costs attributable to issue of convertible notes	–	–	–	–	(7,066)	–	–	–	–	–	(7,066)	–	(7,066)
Redemption of convertible notes	–	–	–	–	(75,664)	–	–	–	–	–	(75,664)	–	(75,664)
Recognition of equity settled share-based payments	–	–	–	3,066	–	–	–	–	–	–	3,066	–	3,066
Lapse of share options	–	–	–	(3,061)	–	–	–	–	–	3,061	–	–	–
Deferred tax liabilities on recognition of equity component of convertible notes	–	–	–	–	(45,472)	–	–	–	–	–	(45,472)	–	(45,472)
Reversal of deferred tax liabilities recognised on partial redemption of convertible notes	–	–	–	–	11,119	–	–	–	–	–	11,119	–	11,119
Effect of change in tax rate	–	–	–	–	239	–	–	–	–	–	239	–	239
At 31st December, 2008	202,880	352,079	1,267	11,397	185,479	233	3,445	9,117	1,943	(419,003)	348,837	261	349,098

Note: The special capital reserve of the Group at 1st January, 2007 represented the amount arising from the capital reduction carried out by the Company during the year ended 31st December, 2001.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2008

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
Loss before tax	(468,103)	(33,775)
Adjustments for:		
Finance costs	102,247	9,007
Interest income	(22,055)	(3,266)
Dividend income	(1,807)	(3,341)
Depreciation of property, plant and equipment	7,316	2,357
Loss on disposal of property, plant and equipment	—	161
Release of prepaid lease payments	651	638
Share-based payment expenses	3,066	11,392
Impairment loss on goodwill	—	25,807
Impairment loss on inventories	5,172	13,987
Impairment loss on available-for-sale investments	22,596	5,348
Impairment loss on property, plant and equipment	9,063	—
Impairment loss on prepaid lease payments	6,835	8,015
Impairment loss on amount due from an associate	—	1,272
Impairment loss on other receivables	—	946
Impairment loss on loan and interest receivables	—	191
Reversal of impairment loss on trade receivables	—	(310)
Fair value changes on investments held for trading	326,731	(34,485)
Fair value changes on partial redemption convertible notes	(19,664)	—
Gain on disposals of available-for-sale investments	(1,557)	(39,625)
Operating cash flows before movements in working capital	(29,509)	(35,681)
Decrease (increase) in inventories	1,961	(3,033)
(Increase) decrease in trade receivables	(55,929)	2,597
(Increase) decrease in investments held for trading	(712,512)	28,952
Increase in trade payables, other payables and accrued charges	31,444	15,584
Net cash outflow (used in) from operations	(764,545)	8,419
Hong Kong Profits Tax paid	—	(1,860)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(764,545)	6,559

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2008

	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES		
Repayment of loan and interest receivables	43,372	29,690
Interest received	20,407	785
Proceeds on disposal of available-for-sales investments	4,906	53,044
Dividend income received from available-for-sale investments	1,287	3,189
Dividend income received from investments held for trading	520	—
Decrease in pledged bank deposits	—	1,078
Proceeds on disposal of property, plant and equipment	—	183
Purchase of available-for-sale investments	—	(4,500)
Advance to loan and interest receivables	—	(43,363)
Advance to an associate	(415)	(1,444)
Purchase of property, plant and equipment	(7,057)	(42,995)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	63,020	(4,333)
FINANCING ACTIVITIES		
Proceeds from issue of convertible notes	1,173,150	146,850
Proceeds from issue of shares	495,000	29,040
Advance from a subsidiary of an associate	553	1,693
Advance from related companies	—	12,464
New bank borrowings raised	—	4,245
Repayment of obligations under finance lease	(26)	—
Interest paid	(2,810)	(7,859)
Repayment of bank borrowings	(3,573)	—
Repayment of loan payables	(22,251)	1,630
Expenses on issue of share	(12,375)	(786)
Expenses on issue of convertible notes	(29,329)	(3,671)
Redemption of convertible notes	(311,101)	—
NET CASH FROM FINANCING ACTIVITIES	1,287,238	183,606
NET INCREASE IN CASH AND CASH EQUIVALENTS	585,713	185,832
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	191,617	8,969
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	88	(3,184)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	777,418	191,617

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited ("The Hong Kong Stock Exchange"). The address of the registered office and principal place of business of the Company is disclosed in the corporate information to the annual report.

The Company and its subsidiaries (the "Group") are mainly engaged in (i) the manufacturing and trading of batteries products and related accessories and (ii) the investments in securities and advance.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The Company is an investment holding company. The principal activities of its principal subsidiaries and associates are set out in notes 42 and 17 respectively.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & 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 current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfer of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009
2 Effective for annual periods beginning on or after 1st January, 2009
3 Effective for annual periods beginning on or after 1st July, 2009
4 Effective for annual periods ending on or after 30th June, 2009
5 Effective for annual periods beginning on or after 1st July, 2008
6 Effective for annual periods beginning on or after 1st October, 2008
7 Effective for transfers on or after 1st July, 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a Group's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production of goods, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment losses. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Leasing

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) 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 cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the entity is disposed of.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the year in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group'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 differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits 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 is realised. Deferred tax is charged or credited in 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.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets– continued

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 on points paid or received that form an 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.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

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

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivative, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit and loss, loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment of financial assets below).

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 and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, 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 the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, 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 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 receivables could include the Group's past experience of collecting payments.

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 for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Impairment of financial assets – continued

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 amounts are 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 off 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 losses 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 what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments 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. The Group's financial liabilities are generally classified into financial liabilities of fair value through profit or loss and other financial 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.

Convertible notes issued by the Group

Convertible notes issued by the Company that contain liability, conversion option and early redemption option 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 classified as an equity instrument. Derivatives embedded in non-derivative host contract with risks and characteristics that are closely related to those of the host contract and the host contracts are not measured at fair value with changes in fair value are not separated from the host contract.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

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

In subsequent periods, the liability component of the convertible notes 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 notes reserve until the conversion option is exercised. On conversion of the convertible notes, the liability component is reclassified as equity and the balance stated in convertible notes reserve will be transferred to share premium. No gain or loss on conversion is recognised at maturity.

When the convertible notes are early redeemed, the consideration paid and the transaction costs for the redemption are allocated to the liability (based on fair value of the liability component at the date of redemption) and equity components (being the residual) of the convertible notes at the date of the redemption.

The difference between the considerations allocated to the liability components and the carrying amount of the liability component and is recognised as gain or loss and charged to income statement. The amount of consideration relating to the equity component is recognised in equity.

Where the conversion option remains unexercised at the expiry date, the balance stated in convertible notes reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability, equity and early redemption 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 early redemption option are charged to profit or less immediately. Transaction costs relating to the early redemption option are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Other financial liabilities

Other financial liabilities (including trade payables, other payables, loan payables, amount due to a subsidiary of an associate, bank borrowings, bank overdrafts and amounts due to subsidiaries for the Company) are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. When the embedded derivative in the host contracts are closely related to the host contracts, the embedded derivative is not separated from the host contracts.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group 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.

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

Impairment losses on assets other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amounts, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment losses on assets other than goodwill (see the accounting policy in respect of goodwill above) – continued

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees and directors

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment on trade receivables, loan and interest receivables and other receivables

In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the aged status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised based on the estimation of the future cash flow expected to receive and discounted at the original effective interest rate in order to calculate the present value. If the actual recovery is less than expected, an impairment loss may arise. During the year ended 31st December, 2008, the Group recognised no allowance for loan and interest receivables (2007: HK$191,000) and recognised no allowance for other receivables (2007: HK$946,000).

Fair value of convertible notes

The directors of the Company use their judgment in selecting an appropriate valuation technique to determine fair value of liability component of the convertible notes. Valuation techniques commonly used by market practitioner are applied. In estimating the fair value of this financial liability assumptions are made based on market statistic and adjusted for specific features of the instrument. If the inputs and estimates applied in the model is different, the carry amount of this financial liability will be changed.

As at 31st December, 2008 and 2007, the balance of the convertible notes liability was HK$829,001,000 and HK$120,488,000. Details of the derivative financial instruments are disclosed in note 28.

5. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into the following two major operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal operating divisions are as follows:

Battery products	—	Manufacturing and trading of battery products and related accessories
Investments in securities and advance	—	Investments in and trading of securities and advance of receivables

An analysis of the Group's revenue and segment results and segment assets and liabilities by business segments is as follows:

	Investments in securities and advance HK$'000	Battery products HK$'000	Consolidated HK$'000
For the year ended 31st December, 2008			
Gross proceeds	338,870	18,699	357,569
Segment revenue	—	18,699	18,699
Other income			
– Dividend income from available-for-sale investments	1,287	—	1,287
– Dividend income from investments held for trading	520	—	520
– Gain on disposal of available-for-sale investments	1,557	—	1,557
– Interest income	4,302	253	4,555
– Others	441	1,579	2,020
	8,107	1,832	9,939
RESULT			
Segment result	(348,113)	(28,639)	(376,752)
Unallocated corporate income			41,277
Unallocated corporate expenses			(30,381)
Finance costs			(102,247)
Loss before tax			(468,103)
Income tax credit			15,738
Loss for the year			(452,365)

5. SEGMENT INFORMATION – continued

Business segments – continued

	Investments in securities and advance HK$'000	Battery products HK$'000	Consolidated HK$'000
Assets and liabilities at 31st December, 2008			
ASSETS			
Segment assets	480,917	96,804	577,721
Unallocated			784,519
Consolidated total assets			1,362,240
LIABILITIES			
Segment liabilities	45,072	31,521	76,593
Unallocated corporate liabilities			936,549
Consolidated total liabilities			1,013,142

	Investments in securities and advance HK$'000	Battery products HK$'000	Unallocated HK$'000	Consolidated HK$'000
Other information for the year ended 31st December, 2008				
Capital additions				
– Property, plant and equipment	1,073	5,984	—	7,057
Depreciation of property, plant and equipment	6,048	1,268	—	7,316
Impairment loss on property, plant and equipment	—	9,063	—	9,063
Impairment loss on available-for-sale investments	22,596	—	—	22,596
Impairment loss on inventories	—	5,172	—	5,172
Impairment loss on prepaid lease payments	—	—	6,835	6,835
Fair value changes on investments held for trading	326,731	—	—	326,731
Release of prepaid lease payments	118	533	—	651

5. SEGMENT INFORMATION – continued

Business segments – continued

	Investments in securities and advance HK$'000	Battery products HK$'000	Consolidated HK$'000
For the year ended 31st December, 2007			
Gross proceeds	106,364	45,717	152,081
Segment revenue	—	45,717	45,717
Other income			
– Dividend income from available-for-sale investments	3,189	—	3,189
– Dividend income from investments held for trading	152	—	152
– Interest income	2,067	—	2,067
– Others	—	2,311	2,311
	5,408	2,311	7,719
RESULT			
Segment result	18,582	(39,238)	(20,656)
Unallocated corporate income			37,418
Unallocated corporate expenses			(41,530)
Finance costs			(9,007)
Loss before tax			(33,775)
Income tax expenses			(6,595)
Loss for the year			(40,370)

5. SEGMENT INFORMATION – continued

Business segments – continued

	Investments in securities and advance HK$'000	Battery products HK$'000	Consolidated HK$'000
Assets and liabilities at 31st December, 2007			
ASSETS			
Segment assets	102,774	114,280	217,054
Unallocated			205,468
Consolidated total assets			422,522
LIABILITIES			
Segment liabilities	14,158	25,992	40,150
Unallocated corporate liabilities			237,306
Consolidated total liabilities			277,456

	Investments in securities and advance HK$'000	Battery products HK$'000	Unallocated HK$'000	Consolidated HK$'000
Other information for the year ended 31st December, 2007				
Capital additions				
– Property, plant and equipment	12	43,319	216	43,547
Depreciation of property, plant and equipment	162	2,195	—	2,357
Release of prepaid lease payments	117	521	—	638
Impairment loss on goodwill	—	25,807	—	25,807
Impairment loss on inventories	—	13,987	—	13,987
Impairment loss on available-for-sale investments	5,348	—	—	5,348
Impairment loss on amount due from an associate	—	1,272	—	1,272
Impairment loss on prepaid lease payments	—	—	8,015	8,015
Impairment loss on other receivables	—	—	946	946
Impairment loss on loan and interest receivables	191	—	—	191
Fair value changes on investments held for trading	(34,485)	—	—	(34,485)
Reversal of impairment loss on trade receivables	—	(310)	—	(310)

5. SEGMENT INFORMATION – continued

Geographical segments

The following table provides an analysis of the Group's sales based on location of customers, irrespective of the origin of the goods and services:

	2008 HK$'000	2007 HK$'000
The People's Republic of China ("PRC")	8,001	29,611
Hong Kong	10,698	16,106
	18,699	45,717

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located, except for these investments held for trading and available-for-sale investments which were analysed by the geographical area in which those investment securities were publicly traded:

	Carrying amount of segment assets At 31st December,		Additions of property, plant and equipment For the year ended 31st December,	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
PRC	76,956	120,966	6,855	42,913
Hong Kong	500,765	96,088	202	634
	577,721	217,054	7,057	43,547

6. OTHER INCOME

	2008 HK$'000	2007 HK$'000
Interest income from banks	20,103	785
Interest income from loan receivables	1,952	2,481
	22,055	3,266
Gain on disposal of available-for-sale investments	1,557	39,625
Dividend income from available-for-sale investments	1,287	3,189
Dividend income from investments held for trading	520	152
Others	4,370	2,547
	29,789	48,779

7. OTHER EXPENSES

	2008 HK$'000	2007 HK$'000
Impairment loss on available-for-sale investments	22,596	5,348
Impairment loss on amount due from an associate	—	1,272
Impairment loss on loan and interest receivables	—	191
Impairment loss on other receivables	—	946
Impairment loss on prepaid lease payments	6,835	8,015
Impairment loss on property, plant and equipment	9,063	—
Commission expenses on investments held for trading	—	15,847
	38,494	31,619

8. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings	1,320	1,071
Loan payables	5,537	6,782
Obligations under finance leases	7	6
Effective interest expense on convertible notes	95,383	1,148
	102,247	9,007

9. IMPAIRMENT LOSS ON GOODWILL

The carrying amount of the goodwill of approximately HK$25,807,000 at 1st January, 2007 was arisen on the acquisition of certain subsidiaries in the segment of battery products. The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections for a period of 10 years (assuming the business licence expiring in 2012 can be renewed at minimal costs), including financial budgets approved by management covering a 5-year period, with a 7% growth rate and discount rate of 13%. The growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. During the year ended 31st December, 2007, the Group recognised an impairment loss of approximately HK$25,807,000 in relation to goodwill arising on acquisition of the segment of battery products.

10. INCOME TAX (CREDIT) EXPENSE

	2008 HK$'000	2007 HK$'000
Hong Kong Profits Tax		
– Current year	—	3,520
– Underprovision in prior years	—	860
Taxation in other jurisdictions		
– Current year	—	2,215
Deferred tax (note 33)		
– Current year	(15,738)	—
	(15,738)	6,595

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore income tax credit for the year is calculated at 16.5% (2007: 17.5%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, a PRC subsidiary of the Group is exempted from the PRC income tax for two years commencing from the year ended 31st December, 2008, its first profit-making year, followed by a 50% relief from the PRC income tax for the next three years.

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No.63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was reduced from 33% to 25% from 1st January, 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC was 25% (2007: 33%).

10. INCOME TAX (CREDIT) EXPENSE – continued

The income tax (credit) expense for the year can be reconciled to the loss before tax per the consolidated income statement as follows:

	2008 HK$'000	2007 HK$'000
Loss before tax	(468,103)	(33,775)
Tax at the domestic income tax rate of 16.5% (2007: 17.5%)	(77,237)	(5,911)
Tax effect of expenses not deductible for tax purpose	22,643	20,959
Tax effect of income not taxable for tax purpose	(8,130)	(8,289)
Tax effect of deductible temporary differences not recognised	(3)	3,809
Tax effect of tax losses not recognised	49,719	—
Utilisation of tax losses previously not recognised	—	(1,792)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2,730)	(3,041)
Underprovision in respect of prior year	—	860
Income tax (credit) expenses for the year	(15,738)	6,595

11. LOSS FOR THE YEAR

	2008 HK$'000	2007 HK$'000
Loss for the year has been arrived at after charging:		
Staff costs		
– directors' emoluments (note 12(a))	9,413	5,737
– other staff costs	9,277	12,833
– retirement benefits schemes contributions, excluding directors	334	326
– share-based payment expenses, excluding directors	—	8,069
Total staff costs	19,024	26,965
Auditor's remuneration	1,170	1,180
Depreciation of property, plant and equipment	7,316	2,357
Release of prepaid lease payments	651	638
Cost of inventories recognised as expense	36,926	50,311
Impairment loss on inventories, included in cost of sales	5,172	13,987
Loss on disposal of property, plant and equipment	—	161
and after crediting:		
Exchange gain	4,791	2,263
Reversal of impairment loss on trade receivables	—	310

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 11 (2007: 14) directors were as follows:

	Notes	2008 HK$'000	2007 HK$'000
Fees			
Executive directors		—	—
Independent non-executive directors			
– Mr. Phillip Fei		128	28
– Mr. Leung Hoi Ying		128	28
– Ms. Ma Yin Fan		189	39
– Mr. Chan Sek Nin, Jackey		—	19
– Mr. Wong King Lam, Joseph		—	40
– Mr. Sin Chi Fai		—	44
– Ms. Ching Yuen Man, Angela		—	43
		445	241
Other emoluments			
Executive directors			
(i) Salaries and other benefits			
– Ms. Chiu Ching Ching		260	60
– Ms. Chan Ling, Eva		1,500	1,418
– Mr. Chow Kam Wah		650	209
– Mr. Lee Sun Man		520	105
– Mr. Kwok Ka Lap, Alva	(a)	27	100
– Mr. Hui Richard Rui	(b)	211	—
– Mr. Yeung Kwok Yu	(c)	173	—
– Mr. Zhang Hong Ren	(d)	424	—
– Mr. Wong Ah Chik	(e)	910	11
		4,675	1,903
(ii) Retirement benefits schemes contributions			
– Ms. Chiu Ching Ching		12	2
– Ms. Chan Ling, Eva		12	12
– Mr. Chow Kam Wah		12	4
– Mr. Lee Sun Man		12	2
– Mr. Kwok Ka Lap, Alva	(a)	—	—
– Mr. Hui Richard Rui	(b)	4	—
– Mr. Yeung Kwok Yu	(c)	2	—
– Mr. Zhang Hong Ren	(d)	9	—
– Mr. Wong Ah Chik	(e)	13	—
		76	20

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

(a) DIRECTORS' EMOLUMENTS – continued

	Notes	2008 HK$'000	2007 HK$'000
(iii) Share-based payment expenses			
– Ms. Chan Ling, Eva		—	1,741
– Mr. Kwok Ka Lap, Alva		—	1,582
– Mr. Zhang Hong Ren	(d)	3,066	—
		3,066	3,323
(iv) Bonus			
– Ms. Chan Ling, Eva		306	—
– Mr. Chow Kam Wah		200	200
– Mr. Kwok Ka Lap, Alva	(a)	100	—
– Mr. Yeung Kwok Yu	(c)	300	—
– Mr. Lee Sun Man		25	50
– Mr. Zhang Hong Ren	(d)	100	—
Total directors' emoluments		1,031	250

The bonus is at the discretion of the Board and determined with reference to the director's performance and the Group's performance for the year.

	Notes	2008 HK$'000	2007 HK$'000
(v) Housing Allowance			
– Mr. Zhang Hong Ren	(d)	120	—
Independent non-executive directors		—	—
		8,968	5,496
Total directors' emoluments		9,413	5,737

Notes:

(a) Resigned on 7th April, 2008

(b) Appointed on 19th September, 2008

(c) Appointed on 1st November, 2008

(d) Appointed on 15th February, 2008 and resigned on 3rd October, 2008

(e) Resigned on 20th April, 2009

During the year, no emoluments were paid by the Group to any directors as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived any emoluments in the year ended 31st December, 2008 and 2007.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

(b) EMPLOYEES' EMOLUMENTS

The five highest paid individual in the Group in 2008 were all directors of the Company and details of their emoluments are included in note 12(a) above.

Of the five individuals with the highest emoluments in the Group in 2007, two were directors of the Company, whose emoluments are included in the disclosures in note 12(a) above. The emoluments of the remaining three individuals were as follows:

	2007 HK$'000
Salaries and other benefits	671
Retirement benefits scheme contributions	23
Share-based payment expenses	3,322
	4,016

The emoluments were within the following bands:

	2007 Number of employees
Nil to HK$1,000,000	—
HK$1,000,001 to HK$1,500,000	2
HK$1,500,001 to HK$2,000,000	1
	3

13. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to the equity holders of the Company of approximately HK$452,365,000 (2007: HK$40,369,000) and the weighted average number of 2,004,207,379 (2007: 464,666,036) ordinary shares in issue during the year.

The computation of diluted loss per share for the year ended 31st December, 2007 and 2008 does not assume the conversion of the Company's outstanding convertible notes and share options since their exercise would result in a decrease in loss per share.

14. PROPERTY, PLANT AND EQUIPMENT

	Building HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Machinery and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
THE GROUP							
COST							
At 1st January, 2007	2,125	—	2,713	170,717	1,340	34,173	211,068
Exchange adjustments	—	—	117	1,121	31	3,075	4,344
Transfer	—	10,718	—	—	—	(10,718)	—
Additions	—	—	868	859	491	41,329	43,547
Disposals	—	—	(341)	(366)	(397)	—	(1,104)
At 1st January, 2008	2,125	10,718	3,357	172,331	1,465	67,859	257,855
Exchange adjustments	—	620	135	963	25	3,866	5,609
Transfer	60,163	13,100	—	—	—	(73,263)	—
Additions	—	—	2,184	255	255	4,363	7,057
Disposals	—	—	—	(17)	—	—	(17)
At 31st December, 2008	62,288	24,438	5,676	173,532	1,745	2,825	270,504
DEPRECIATION AND IMPAIRMENT LOSS							
At 1st January, 2007	378	—	1,717	160,687	1,304	—	164,086
Exchange adjustments	—	—	68	353	12	—	433
Provided for the year	53	89	384	1,603	228	—	2,357
Eliminated on disposals	—	—	(296)	(365)	(99)	—	(760)
At 1st January, 2008	431	89	1,873	162,278	1,445	—	166,116
Exchange adjustments	—	5	74	394	20	—	493
Provided for the year	53	4,839	590	1,753	81	—	7,316
Impairment loss recognised in the income statement	—	212	—	8,661	190	—	9,063
Eliminated on disposals	—	—	—	(17)	—	—	(17)
At 31st December, 2008	484	5,145	2,537	173,069	1,736	—	182,971
CARRYING VALUES							
At 31st December, 2008	61,804	19,293	3,139	463	9	2,825	87,533
At 31st December, 2007	1,694	10,629	1,484	10,053	20	67,859	91,739

14. PROPERTY, PLANT AND EQUIPMENT – continued

	Building HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Machinery and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
THE COMPANY							
COST							
At 1st January, 2007	2,125	—	1,488	1,226	541	—	5,380
Additions	—	—	—	12	—	—	12
Disposals	—	—	(340)	(351)	—	—	(691)
At 31st December, 2007	2,125	—	1,148	887	541	—	4,701
Additions	—	—	433	243	—	—	676
At 31st December, 2008	2,125	—	1,581	1,130	541	—	5,377
DEPRECIATION							
At 1st January, 2007	378	—	1,443	1,215	541	—	3,577
Provided for the year	53	—	—	9	—	—	62
Eliminated on disposals	—	—	(295)	(351)	—	—	(646)
At 1st January, 2008	431	—	1,148	873	541	—	2,993
Provided for the year	53	—	83	33	—	—	169
At 31st December, 2008	484	—	1,231	906	541	—	3,162
CARRYING VALUES							
At 31st December, 2008	1,641	—	350	224	—	—	2,215
At 31st December, 2007	1,694	—	—	14	—	—	1,708

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Building	Over the shorter of the term of the lease, or 2.5%
Leasehold improvements	5% - 10%
Furniture and fixtures	10% - 25%
Machinery and equipment	10% - 20%
Motor vehicles	12.5% - 25%

At the balance sheet dates, the building of the Group is situated on land in the PRC under medium-term land use right.

The carrying value of certain furniture and fixtures of the Group includes an amount of approximately HK$58,000 (2007: HK$84,000) in respect of assets held under finance leases.

14. PROPERTY, PLANT AND EQUIPMENT – continued

During the year, certain property, plant and equipment were specifically identified to be impaired as a result of relocation of a battery plant. Impairment loss of HK$9,063,000 (calculated by comparing carrying amount of the assets to the recoverable amount determined based on value in use) has been recognised in respect of these assets. In addition, the directors conducted a review of the Group's other manufacturing assets (the recoverable amounts of which have been determined based on fair value less cost to sell) and no further impairment loss is considered necessary.

15. PREPAID LEASE PAYMENTS

	THE GROUP		THE COMPANY	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Analysed for reporting purposes as:				
Current asset	321	466	117	117
Non-current asset	12,793	19,604	3,510	3,628
	13,114	20,070	3,627	3,745

The Group's prepaid lease payments represent payments for land use rights in the PRC under medium-term land use rights.

As at 31st December 2007, prepaid lease payments include an amount of HK$7,165,000 in respect of prepayment for a land use right for which the Group had not been granted formal title. A subsidiary of the Group has paid substantially the full purchase consideration in previous year but the government authority has not yet granted formal title to such land use right. Such land has not been in use since the prepayment date. The recoverable amount as at 31st December, 2007 has been determined based on fair value less costs to sell, on the assumption that the Group could obtain forward title to the land use rights in due course and an impairment of HK$8,015,000 was recognised to the consolidated income statements for that year.

As at 31st December, 2008, the directors of the Company considered the facts that (i) the business plan regarding such land was suspended due to change in the economic environment, (ii) there exists uncertainties as to the timing for the Group to obtain the legal title of land use right; and (iii) the insignificant recoverable amount of such payment which is calculated based on fair value less cost to sell on the assumption that the Group is unable to obtain forward title to the land use right. Accordingly, an impairment loss of approximately HK$6,835,000 has been made in respect of the prepayment for the land use right and recognised in the consolidated income statements during the year ended 31st December, 2008.

As at 31st December, 2008, the Group has pledged a land use right with a carrying value of approximately HK$9,487,000 (2007: HK$9,160,000) to a bank to secure a short-term bank borrowings granted to a subsidiary.

16. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM (TO) SUBSIDIARIES

	THE COMPANY	
	2008	2007
	HK$'000	HK$'000
Investments in subsidiaries		
Unlisted shares, at cost	33,261	33,261
Less: Accumulated impairment loss	(33,261)	(33,261)
Deemed capital contribution in subsidiaries	57,883	—
	57,883	—

The amounts due from (to) subsidiaries are unsecured, non-interest bearing and repayable on demand.

Before making any advances, the Company will review the potential subsidiary's credit quality and defines its credit limit. Loan receivables are advanced to subsidiaries with appropriate credit history. Credit limit attributed to subsidiaries are reviewed regularly.

At the balance sheet dates, the Company reviews the carrying amounts of the amounts due from subsidiaries to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount due from a subsidiary is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount.

At 31st December, 2007 and 31st December, 2008, the amounts due from subsidiaries amount to HK$158,636,000 and HK$732,224,000, respectively, net of impairment loss on the amounts due from subsidiaries of HK$913,045,000 and HK$975,045,000 respectively.

While the loans carry no interest, the initial carrying amounts of the loans were determined by discounting the principal amount at their original effective interest rates with the difference recognised as deemed capital contribution to in the subsidiaries. Inputed interest income on the amounts due from subsidiaries of HK$9,980,000 was recognised in the income statement for year ended 31st December, 2008.

At 31st December, 2008 and 2007, except for the amounts due from subsidiaries being impaired, all the Company's remaining amounts due from subsidiaries are not impaired at the reporting date since a significant amount of remaining balance were recoverd. In addition, the Company does not hold any collateral over this balance.

The principal activities of the principal subsidiaries are set out in note 42.

17. INVESTMENT IN AN ASSOCIATE/AMOUNT DUE FROM AN ASSOCIATE/AMOUNT DUE TO A SUBSIDIARY OF AN ASSOCIATE

(a) *Investment in associate*

	THE GROUP	
	2008 HK$'000	2007 HK$'000
Unlisted	386	386
Share of post-acquisition losses	(386)	(386)
	—	—

Details of the Group's principal associate as at 31st December, 2008 and 2007 are as follows:

Name of associate	Place of incorporation/ operation	Proportion of nominal value of issued share capital held indirectly by the Company %	Class of share held	Principal activity
Wing Fung Metal and Equipment Company Limited ("Wing Fung")	Hong Kong	16 (Note)	Ordinary	Manufacturing of battery products

Note: 20% equity interest in Wing Fung was held by a 80% owned subsidiary of the Company.

17. INVESTMENT IN AN ASSOCIATE/AMOUNT DUE FROM AN ASSOCIATE/AMOUNT DUE TO A SUBSIDIARY OF AN ASSOCIATE – continued

(a) Investment in associate – continued

The summarised financial information in respect of the Group's associate is set out below:

	2008 HK$'000	2007 HK$'000
Total assets	10,734	10,351
Total liabilities	(11,153)	(10,743)
Net liabilities	(419)	(392)
Group's share of net assets of associate	—	—
Revenue	—	—
Loss for the year	(27)	(376)
Group's share of results of associate for the year	—	—

The Group has discontinued recognition of its share of losses of the associate. The amounts of unrecognised share of this associate, extracted from the relevant management accounts of the associate, both for the year and cumulatively, are as follows:

	THE GROUP	
	2008 HK$'000	2007 HK$'000
Unrecognised share of losses of associate for the year	4	60
Accumulated unrecognised share of losses of associate	151	147

17. INVESTMENT IN AN ASSOCIATE/AMOUNT DUE FROM AN ASSOCIATE/AMOUNT DUE TO A SUBSIDIARY OF AN ASSOCIATE – continued

(b) Amount due from an associate

	THE GROUP	
	2008	2007
	HK$'000	HK$'000
Amount due from an associate	7,101	6,686

The amount is unsecured, non-interest bearing and repayable on demand.

Before making any advances, the Group will assess the potential associate's credit quality and defines its credit limit. Loan receivables are advanced to associates with appropriate credit history. Credit limit attributed to the associate is reviewed regularly.

At the balance sheet dates, the Group reviews the carrying amount of the amount due from an associate to determine whether there is any indications that those assets have suffered an impairment loss. If the recoverable amount of the amount due from an associate is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. The recoverable amount has been determined based on present value of the future cash flows expected to be derived from the associate. During the year ended 31st December, 2007, the Group recognised an impairment loss of approximately HK$1,272,000 (2008: NIL).

(c) Amount due to a subsidiary of an associate

The amount is unsecured, non-interest bearing and repayable on demand.

18. CLUB DEBENTURES

THE GROUP AND THE COMPANY

The club debentures represent the club membership of Macau Golf & Country Club and Aberdeen Marine Club. The directors are of opinion that it is not necessary to make any impairment loss of the club debentures since the market prices are higher than its carrying values.

19. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	THE GROUP	
	2008	2007
	HK$'000	HK$'000
Listed investments at fair value:		
– Equity securities listed in Hong Kong	6,103	25,270
Unlisted investments at cost less impairment loss:		
– Equity securities	2,035	11,708
Total	8,138	36,978
Analysed for reporting purposes as:		
Current assets	—	—
Non-current assets	8,138	36,978
	8,138	36,978

At the balance sheet date, all available-for-sale investments are stated at fair value, except for those unlisted investments of which the fair values cannot be measured reliably. Fair values of the listed investments have been determined with reference to bid prices quoted in active markets.

The carrying values of unlisted investments at 31st December, 2008 and 2007 comprise 16.4% equity interests in Beijing Technology Development Fund LDC, a company incorporated in Cayman Islands and engaged in investment venture business.

The unlisted investments are measured at cost less impairment loss at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

At the balance sheet, the Group reviews the carrying amounts of the unlisted investments due to the significant decline in performance of the investment venture business of Beijing Technology Development Fund LDC. The recoverable amount has been determined based on present value of the future cash flows expected to be derived from the unlisted investments. During the year, the Group recognised an impairment loss of approximately HK$9,673,000 (2007: Nil).

20. INVENTORIES

	THE GROUP	
	2008 HK$'000	2007 HK$'000
Raw materials	2,739	5,058
Finished goods	—	4,282
	2,739	9,340

21. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2008 HK$'000	2007 HK$'000
Trade receivables	1,803	4,284
Less: allowance for doubtful debts	(740)	(699)
	1,063	3,585

The Group normally allows its trade customers credit period ranging from 90 days to 180 days. The following is an aged analysis of trade receivables, net of allowance for doubtful debts at the reporting date:

	THE GROUP	
	2008 HK$'000	2007 HK$'000
0-90 days	914	3,343
91-180 days	149	36
Over 180 days	—	206
	1,063	3,585

Before accepting any new customer, the Group will assess the potential customer's credit quality and defines its credit limit. Credit sales are made to customers with appropriate credit history. Credit limits attributed to customers are reviewed regularly.

At the balance sheet the directors considered the trade receivables which were neither past due nor impaired were of good credit quality.

At 31st December, 2007, included in the Group's trade receivable balance were debtors with aggregate carrying amount of approximately HK$206,000 (2008: Nil) which were past due at the reporting date for which the Group had not provided for impairment loss. There had not been significant change in credit quality and the directors of the Company considered the amounts were still recoverable. The Group did not hold any collateral over these balances.

21. TRADE AND OTHER RECEIVABLES – continued

Ageing of trade receivables which are past due but not impaired

	THE GROUP	
	2008	2007
	HK$'000	HK$'000
Over 180 days	—	206

The Group has provided fully for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

Movement in the allowance for doubtful debts

	THE GROUP	
	2008	2007
	HK$'000	HK$'000
At 1st January	699	981
Exchange adjustments	41	30
Amounts written off as uncollectible	—	(2)
Impairment losses reversed	—	(310)
At 31st December	740	699

Included in other receivables is unrestricted deposits of approximately HK$53,999,000 (2007: HK$3,901,000) placed with securities brokers for trading securities in Hong Kong which is non-interest bearing. The remaining balance is unsecured, interest-free and repayable on demand.

22. LOAN AND INTEREST RECEIVABLES

	THE GROUP		THE COMPANY	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Unsecured loan and interest receivables	—	41,724	—	20,980

At 31st December, 2007, the amounts were unsecured, repayable within one year and carried variable-rate interest (at Hong Kong Prime Rate plus a spread) ranging from 7% to 10% per annum.

At the balance sheet dates, the Group reviews the carrying amounts of the loan and interest receivables to determine whether there is any indications that those assets have suffered an impairment loss. If the recoverable amount of the loan and interest receivables is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount.

The recoverable amount has been determined based on present value of the future cash flows expected to be derived from the debtors. During the year ended 31st December, 2007, the Group recognised an impairment loss of approximately HK$191,000, for which the Group has not hold any collateral. The Group has fully provided for all loans and interest receivables being past due based on the past experience.

At 31st December, 2007, except for the loan and interest receivables being past due and fully impaired, all the Group's remaining loan and interest receivables are neither past due nor impaired at the reporting date for which the Group has not provided for impairment loss since they are debtors with good quality. In addition, the Group does not hold any collateral over these balances.

23. INVESTMENTS HELD FOR TRADING

	THE GROUP	
	2008 HK$'000	2007 HK$'000
Listed securities at fair value:		
Equity securities listed in Hong Kong	390,521	13,800
Unlisted securities designated at financial assets at FVTPL:		
Convertible notes issued by a Hong Kong listed issuer	9,060	—
	399,581	13,800

During the year 31st December, 2008, the Group acquired convertible notes of principal amount of HK$9,600,000 issued by a Hong Kong listed issuer. The convertible notes with zero-coupon rate and maturity date of 15th October, 2011 are redeemable on maturity date at principal amount.

The Group had the right, at any time until the date falling 7 days before (and excluding) the maturity date, to convert the whole or part of the outstanding principal amount of the convertible notes into ordinary shares in the issued share capital of the issuer at HK$0.06 each, by giving prior written notice to the issuer. The convertible notes have no early redemption option.

The debt component and conversion component of the convertible notes are initially measured at fair value. During the year, a decrease in fair value by HK$540,000 was recognised in the consolidated income statement.

The fair value of the debt component of the convertible notes at 31st December, 2008 is determined using the prevailing market interest rate of 13.84%.

The fair value of the conversion component of the convertible notes at 31st December, 2008 is determined using Black Scholes Model with the following assumptions:

Share price at acquisition date:	HK$0.050
Exercise price:	HK$0.060
Expected life:	2.79 years
Expected volatility:	56.0%
Dividend yield:	Nil
Risk-free rate:	0.786%

24. BANK BALANCES AND CASH

Bank balances and cash comprise cash and short-term bank deposits with an original maturity of three months or less held by the Group. The amounts carry interest at 0.15% to 4.72% (2007: 1% to 4%) per annum.

25. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

Included in trade payables, other payables and accrued charges are trade payables of approximately HK$3,282,000 (2007: HK$4,660,000) with the following aged analysis at the balance sheet date:

	THE GROUP	
	2008 HK$'000	2007 HK$'000
0-90 days	859	2,720
91-180 days	1,641	1,501
Over 180 days	782	439
	3,282	4,660

The average credit period on purchases of goods is 90 days.

Included in other payables is balances payable to an investment broker of approximately HK$37,209,000 (2007:nil) for acquisition of investments held for trading, payable 2 days after the transaction date. The remaining balances are unsecured, interest-free and repayable on demand.

26. LOAN PAYABLES

The loan payables of the Group and the Company are payable to independent third parties, unsecured and repayable on demand. Except for the amount of approximately HK$3,352,000 (2007: HK$25,254,000) which is non-interest bearing, all remaining amounts carry interest at Hong Kong Prime Rate plus a spread ranging from 6% to 9% (2007: 6% to 10%) per annum.

27. BANK BORROWINGS

	THE GROUP	
	2008 HK$'000	2007 HK$'000
Secured bank borrowings repayable within one year	15,306	18,042

An amount of variable-rate bank borrowings of approximately HK$15,306,000 (2007: HK$3,573,000) carried interest at prevailing market rate ranging from 6% to 8% (2007: 5% to 7%) per annum.

As at 31st December, 2007 an amount of fixed-rate bank borrowings of approximately HK$14,469,000 (2008: Nil) carried interest at prevailing market rate ranging from 5% to 7% per annum.

28. CONVERTIBLE NOTES

On 23rd August, 2007, the Company entered into convertible notes placing agreement with the independent placing agent for the placement of a maximum aggregate principal amount of HK$1,320,000,000 on a best effort basis. The convertible notes will be non-interest bearing and redeemable, with maturity date on 31st December, 2010. The conversion price, subject to anti-dilutive adjustments, shall be HK$0.33 per share from the date of issue of the convertible notes up to 31st December, 2008, HK$0.36 per share from 1st January, 2009 to 31st December, 2009, and HK$0.39 per share from 1st January, 2010 to the maturity date. The placements are expected to raise maximum net proceeds of approximately HK$1,287,000,000.

On 5th November, 2007 and 7th January, 2008, convertible notes with principal amounts of HK$146,850,000 and HK$1,173,150,000 ("Convertible Notes") were issued respectively. The Convertible Notes are denominated in Hong Kong dollars.

The Convertible Notes holders had the right, at any time before the maturity date of 31st December, 2010, to convert the whole or part of the outstanding principal amount of the Convertible Notes into ordinary shares in the issued share capital of the Company of HK$0.1 par value each, by giving prior written notice to the Company.

The Company had the right to early redeem the Convertible Notes, at any time before the maturity date on 31st December, 2010, by giving not less than 7 business days' prior written notice to the Convertible Note holders at the principal amounts of the Convertible Notes so redeemed.

On initial recognition, the fair value of the liability component of Convertible Notes is determined using the prevailing market interest rate of similar non-convertible debts at 10.32% (2007: 9.68%). The difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the Convertible Notes into equity, is included in equity (convertible notes reserve).

In November, 2008, the Company early redeemed convertible notes with a principal amount of HK$311,101,000.

At 31st December, 2008, the Convertible Notes with a principal amount of HK$1,008,899,000 remained outstanding.

The movement of the liability component of the Convertible Notes for the year ended 31st December, 2008 is set out below:

	THE GROUP AND THE COMPANY HK$'000
At 1st January, 2007	—
Issue of Convertible Notes	119,340
Effective interest expenses	1,148
At 1st January, 2008	120,488
Issue of Convertible Notes	868,231
Effective interest expenses	95,383
Early redemption of Convertible Notes	(255,101)
At 31st December, 2008	829,001

The fair value of the liability component of the Convertible Notes issued by the Group as at 31st December, 2008 is approximately HK$745,679,000 (2007: HK$120,488,000).

29. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its furniture and fixtures under finance leases. The average lease term is 5 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates of 8.44% (2007: 5.45%). These leases have no terms of renewal or purchase options and escalation clauses.

	Minimum lease payments		Present value of minimum lease payments	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Amounts payable under finance leases				
Within one year	33	33	26	26
In more than one year but not more than two years	33	33	26	26
In more than two years but not more than five years	7	33	5	26
In more than five years	—	7	—	5
	73	106	57	83
Less: future finance charges	(16)	(23)		
Present value of lease obligations	57	83		
Less: Amount due within one year			(26)	(26)
Amount due after one year			31	57

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

30. SHARE CAPITAL OF THE COMPANY

	Number of shares	Value
		HK$'000
Authorised:		
Ordinary shares of HK$0.10 each at 1st January, 2007, 31st December, 2007 and 31st December, 2008	8,000,000,000	800,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each at 1st January, 2007	440,797,543	44,080
Issue of shares	88,000,000	8,800
At 31st December, 2007	528,797,543	52,880
Issue of shares	1,500,000,000	150,000
At 31st December, 2008	2,028,797,543	202,880

Note:

On 23rd August, 2007, two placing agreements ("Placing Agreements") were entered into with an independent placing agent ("Placing Agent"), pursuant to which the Company has appointed the Placing Agent to place 1,588,000,000 ordinary shares of HK$0.10 each ("Placing Shares") in the Company at a price of HK$0.33 per Placing Share for the period from 23rd August, 2007 to 4 working days after 31st December,2007. The issue price of HK$0.33 represented a discount of 11.53% to the average of the closing price of about HK$0.373 per share of the last five trading days up to and including 23rd August, 2007.

88,000,000 Placing Shares were issued under the general mandate granted to the Directors on 6th June, 2007. The net proceeds of HK$28,254,000 was used for general working capital of the Group. The transaction was completed on 24th September, 2007.

1,500,000,000 Placing Shares were issued under the special mandate granted to the Directors of the Company on 2nd October, 2007. The net proceeds of HK$482,625,000 was initially used for possible investment opportunities. The transaction was completed on 7th January, 2008.

Details of the above are set out in the announcements to the shareholders of the Company dated 30th August, 2007 and the circular of the Company dated 14th September, 2007.

On 7th March, 2008, and 30th October 2008, the Company announced the change of use of proceeds from the share placing, the net proceeds was to be used for general working capital and/or redemption of existing convertible notes.

31. SHARE-BASED PAYMENT TRANSACTIONS

On 4th June, 2002, the Company adopted a share option scheme ("2002 Scheme") which is effective for a period of ten years for the primary purpose of providing incentives to directors and eligible participants. Under the 2002 Scheme, the Board of Directors of the Company may grant options to eligible participants, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK$1.00 Options granted must be taken up within 30 days of the date of grant, upon payment of HK$1 per grant. Options granted are exercisable not later than ten years after the date the options are granted. The exercise price, subject to adjustments, is determined by the board of directors of the Company and will not be less than the highest of (i) the closing price of the Company's share on the date of options granted; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed 202,879,754 shares, representing 10% of the issued share capital of the Company as at the date of adoption of 2002 Scheme. Subject to the issue of a circular and the approval of the shareholders of the Company in general meeting and/or such other requirements prescribed under the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules") from time to time, the Board may refresh the limit at any time to 10% of the total number of shares in issue as at the date of approval by the shareholders of the Company in general meeting. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the aggregate number of shares of the Company in issue and issuable under 2002 Scheme at any point in time, without prior approval from the Company's shareholders.

31. SHARE-BASED PAYMENT TRANSACTIONS – continued

The following table discloses movements of the Company's share options held by eligible participants and directors during the year:

							Number of Shares			
	Date of grant	Exercisable period	Exercise price HK$	At 1.1.2007	Granted during the year	Lapsed during the year	At 1.1.2008	Granted during the year	Lapsed during the year	At 31.12.2008
Eligible participants	10.7.2007	10.7.2007 to 9.7.2012	0.724	–	21,600,000	(1,200,000)	20,400,000	–	–	20,400,000
	4.11.2008	4.11.2008 to 3.11.2009	0.580	–	–	–	–	4,000,000	–	4,000,000
				–	21,600,000	(1,200,000)	20,400,000	4,000,000	–	24,400,000
Independent non-executive directors:										
Chan Sek Nin, Jackey	10.7.2007	10.7.2007 to 9.7.2012	0.724	–	4,000,000	(4,000,000)	–	–	–	–
Wong King Lam, Joseph	10.7.2007	10.7.2007 to 9.7.2012	0.724	–	4,000,000	(4,000,000)	–	–	–	–
Sin Chi Fai	10.7.2007	10.7.2007 to 9.7.2012	0.724	–	4,000,000	(4,000,000)	–	–	–	–
				–	12,000,000	(12,000,000)	–	–	–	–
Executive directors:										
Chan Ling, Eva	10.7.2007	10.7.2007 to 9.7.2012	0.724	–	4,400,000	–	4,400,000	–	–	4,400,000
Kwok Ka Lap, Alva	10.7.2007	10.7.2007 to 9.7.2012	0.724	–	4,000,000	–	4,000,000	–	(4,000,000)	–
Zhang Hong Ren	19.3.2008	19.3.2008 to 14.2.2014	0.580	–	–	–	–	4,000,000	(4,000,000)	–
Zhang Hong Ren	19.3.2008	15.2.2009 to 14.2.2014	0.580	–	–	–	–	2,000,000	(2,000,000)	–
Zhang Hong Ren	19.3.2008	15.2.2010 to 14.2.2014	0.580	–	–	–	–	3,000,000	(3,000,000)	–
Zhang Hong Ren	19.3.2008	15.2.2011 to 14.2.2014	0.580	–	–	–	–	3,000,000	(3,000,000)	–
Zhang Hong Ren	19.3.2008	15.2.2012 to 14.2.2014	0.580	–	–	–	–	4,000,000	(4,000,000)	–
Zhang Hong Ren	19.3.2008	15.2.2013 to 14.2.2014	0.580	–	–	–	–	4,000,000	(4,000,000)	–
				–	8,400,000	–	8,400,000	20,000,000	(24,000,000)	4,400,000
				–	42,000,000	(13,200,000)	28,800,000	24,000,000	(24,000,000)	28,800,000
Exercisable at the end of the year										28,800,000
Weighted average exercise price				–	HK$0.724	HK$0.724	HK$0.724	HK$0.58	HK$0.58	HK$0.704

During the year ended 31st December, 2008, no share options granted had been exercised.

31. SHARE-BASED PAYMENT TRANSACTIONS – continued

The following assumptions were used to calculate the fair values of share options.

	Granted on 19.3.2008	Granted on 4.11.2008	Granted on 10.7.2007
Grant date share price	HK$0.52	HK$0.12	HK$0.67
Option exercisable period	19.3.2008 to 14.2.2014	4.11.2008 to 3.11.2009	10.7.2007 to 9.7.2012
Exercise price	HK$0.580	HK$0.580	HK$0.724
Expected life	3.0 to 5.4 years	1 year	2.5 years
Expected volatility	110.99%-125.86%	46.70%	102.86%
Dividend yield	Nil	Nil	Nil
Risk-free interest rate	1.35%-1.95%	0.55%	4.44%
Fair value of option per share	HK$0.370-HK$0.421	HK$0.000012	HK$0.3955

The Black-Scholes pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the director's best estimate. The value of an option varies with different variables of certain objective assumptions.

Expected volatility was determined by using the historical volatility of the Company's share price over the previous two years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The closing price of the Company's shares immediately before 19th March, 2008, 4th November, 2008 and 10th July, 2007, the dates of grant of options, were HK$0.52, HK$0.12 and HK$0.69 respectively.

During the year, share options were granted on 19th March, 2008 and 4th November, 2008. The fair values of the options determined at the dates of grant using the Black-Scholes pricing model totalling approximately HK$3,704,000 (2007: HK$11,392,000) and were recognised in the consolidated income statement for the year ended 31st December, 2008. The total number of shares available for issue under the 2002 Scheme is 178,879,754 which represent 8.82% of the issued share capital of the Company as at 31st December, 2008.

32. RESERVES OF THE COMPANY

	Share premium HK$'000	Special capital reserve HK$'000	Share option reserve HK$'000	Convertible notes reserve HK$'000	Capital redemption reserve HK$'000	Deficit HK$'000	Total HK$'000
At 1st January, 2007	—	1,267	—	—	233	(14,193)	(12,693)
Issue of shares	20,240	—	—	—	—	—	20,240
Transaction costs attributable to issue of shares	(786)	—	—	—	—	—	(786)
Issue of convertible notes	—	—	—	24,450	—	—	24,450
Transaction costs attributable to issue of convertible note	—	—	—	(611)	—	—	(611)
Recognition of equity settled share-based payments	—	—	11,392	—	—	—	11,392
Deferred tax liability on recognition of equity component of convertible notes	—	—	—	(4,172)	—	—	(4,172)
Loss for the year and total recognised expense for the year	—	—	—	—	—	(120,872)	(120,872)
At 1st January, 2008	19,454	1,267	11,392	19,667	233	(135,065)	(83,052)
Issue of shares	345,000	—	—	—	—	—	345,000
Transaction costs attribuable to issue of share	(12,375)	—	—	—	—	—	(12,375)
Issue of convertible notes	—	—	—	282,656	—	—	282,656
Transaction costs attributable to issue of convertible notes	—	—	—	(7,066)	—	—	(7,066)
Redemption of convertible notes	—	—	—	(75,664)	—	—	(75,664)
Recognition of equity settled share-based payments	—	—	3,066	—	—	—	3,066
Lapse of share options	—	—	(3,061)	—	—	3,061	—
Deferred tax liabilities on recognition of equity component of convertible notes	—	—	—	(45,472)	—	—	(45,472)
Reversal of deferred tax liabilities recognised on redemption of equity component of convertible notes	—	—	—	11,119	—	—	11,119
Loss for the year and total recognised expense for the year	—	—	—	—	—	(243,475)	(243,475)
Effect of change in tax rate	—	—	—	239	—	—	239
At 31st December, 2008	352,079	1,267	11,397	185,479	233	(375,479)	174,976

The special capital reserve of the Company at 1st January, 2007 represented the amount arising from the capital reduction carried out by the Company during the year ended 31st December, 2001.

The Board of the Company does not recommend the payment of any final dividend for the year ended 31st December, 2008 (2007: nil).

33. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities provided by the Group and the Company in respect of the convertible notes issued as at the balance sheet dates and movements thereon during the current and prior reporting periods:

	THE GROUP AND THE COMPANY HK$'000
At 1st January, 2007	—
Charge to equity for the year	4,172
At 1st January, 2008	4,172
Charge to equity for the year	45,472
Reversal on redemption of equity component of convertible notes	(11,119)
Reversal on amortisation of liability component of convertible notes	(15,738)
Effect of change in tax rate	(239)
At 31st December, 2008	22,548

As at 31st December, 2008, the Group has unused tax losses of approximately HK$331,931,000 (2007: HK$30,604,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits streams. The tax losses may be carried forward indefinitely.

As at 31st December, 2008 and 2007, the Group has deductible temporary differences in respect of allowances on doubtful debts of approximately HK$250,624,000. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

34. CAPITAL RISK MANAGEMENT

The Group and the Company manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's and the Company's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of the borrowings and convertibles notes disclosed in notes 27 and 28, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The capital structure of the Company consist of debt, which represents the convertible notes disclosed in note 28, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues, raising of new debt and redemption of existing debt.

35. FINANCIAL INSTRUMENTS

35a. Categories of financial instruments

Balance Sheet	THE GROUP 2008 HK$'000	THE GROUP 2007 HK$'000	THE COMPANY 2008 HK$'000	THE COMPANY 2007 HK$'000
Financial assets				
Loans and receivables				
(including cash and cash equivalents)	848,470	246,895	1,371,957	209,236
Available-for-sale financial assets	8,138	36,978	—	—
Fair value through profit or loss				
Held for trading	390,521	13,800	—	—
Designated at FVTPL	9,060	—	—	—
Financial liabilities				
Amortised cost	981,400	263,787	924,192	241,446

35b. Income statements

	THE GROUP 2008 HK$'000	THE GROUP 2007 HK$'000	THE COMPANY 2008 HK$'000	THE COMPANY 2007 HK$'000
Loans and receivables				
Impairment	—	(2,409)	—	—
Available-for-sale Investments				
Impairment loss	(22,596)	(5,348)	—	—
Gain on disposals	(1,557)	(39,625)	—	—
	(24,153)	(44,973)	—	—
Financial assets at FVTPL				
– Held for trading				
Commission expenses	—	(15,487)	—	—
Fair value changes	(326,191)	34,485	—	—
	(326,191)	18,998	—	—
Financial assets at FVTPL				
– Designated at FVTPL				
Fair value changes	(540)	—	—	—

35. FINANCIAL INSTRUMENTS – continued

35c. Financial risk management objectives and polices

The major financial instruments of the Group and the Company include loans and interest receivables, trade receivables, other receivables, available-for-sale investments, investments held for trading, convertible notes, amounts due from / to subsidiaries, amount due from an associate, amount due to a subsidiary of an associate, trade and other payables, loan payables, bank balances and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Interest rate risk

The Group and the Company are exposed to fair value interest rate risk in relation to fixed-rate obligations under finance leases. The Group and the Company currently do not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

The Group and the Company are also exposed to cash flow interest rate risk in relation to variable-rate bank balances, loan receivables, loan payables and bank borrowings. It is the policy of the Group and the Company to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The exposures of the Group and the Company to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The cash flow interest rate risk of the Group and the Company is mainly concentrated on the fluctuation of Hong Kong Prime Rate and Hong Kong Interbank Offer Rate arising from the bank balances, loan payables, bank overdraft and bank borrowings.

The Group and the Company are also exposed to fair value interest rate risk in relation to the debt element of the convertible notes issued by a Hong Kong Listed issuer (included in investments held-for-trading). The Group and the Company currently do not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises. No sensitivity analysis was prepared since the directors consider the amount involved is not significant.

35. FINANCIAL INSTRUMENTS – continued

35c. Financial risk management objectives and polices – continued

Market risk – continued

(i) Interest rate risk – continued

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for the non-derivative instruments (including bank balances, loan payables and bank borrowings) of the Group and the Company at the balance sheet date. The analysis is prepared assuming the amount of non-derivative instruments outstanding at the balance sheet was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the loss for the year ended 31st December, 2008 of the Group and the Company would increase/decrease by approximately HK$3,287,000 (2007: decrease / increase by approximately HK$180,000) and increase/decrease by approximately HK$2,882,000 (2007: profit for the year increase/decrease by approximately HK$126,000), respectively.

(ii) Other price risk – Investments in equity securities

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

The Group is also exposed to price risk through its investments in financial assets designated at FVTPL. The Group does not have any policy to hedge against such risk. No sensitivity analysis was prepared since the directors consider the amount involved is not significant.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks, excluding unlisted investments which are measured at cost less impairment, at the reporting date. For sensitivity analysis purpose, the sensitivity rate is increased to 25% in the current year as a result of the volatile financial market.

If the prices of the respective equity securities had been 25% (2007: 5%) higher/lower:

- loss for the year ended 31st December, 2008 would decrease/increase by approximately HK$100,031,000 (2007: HK$569,000) as a result of the changes in fair value of investments held for trading; and
- loss for the year ended 31st December, 2008 would decrease/increase by approximately HK$1,525,000 (2007: investment valuation reserve would increase by approximately HK$1,043,000) for the Group as a result of the changes in fair value of available-for-sale investments.

35 FINANCIAL INSTRUMENTS – continued

35c. Financial risk management objectives and polices – continued

Sensitivity analysis – continued

(iii) Currency risk

Most of the Group's transactions are denominated in the group entities' functional currency, which is either Renminbi ("RMB") or Hong Kong dollar ("HKD"). The Group's exposure to foreign currency risk regarding these transactions is insignificant.

However, the Group is exposed to foreign currency risk to the extent of intra-group loans when the HKD functional entities raised funding denominated in HKD for operations in PRC which has RMB as their functional currency. The Group has not formulated a policy to hedge the foreign currency risk.

Sensitivity analysis

The Group is exposed to foreign currency exchange rate fluctuations between RMB and HKD.

The Group's sensitivity to an increase and decrease in RMB against the HKD is analysed by using 8% (2007: 5%) sensitivity rate. 8% (2007: 5%) sensitivity rate is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. As a result of the volatile financial market in 2008, the management adjusted the sensitivity rate from 5% to 8% for the purpose of assessing foreign currency risk. The sensitivity analysis includes only outstanding HKD denominated monetary items, and adjusts their translation at the year end for a 8% (2007: 5%) change in foreign currency rates. The sensitivity analysis includes internal HKD loans to the PRC operations where the denomination of the loan is in a currency other than the functional currency of the borrower. Where RMB strengthen 8% (2007: 5%) against HKD, the loss for the year would be increased by approximately HK$383,000 (2007: HK$113,000). For a 8% (2007: 5%) weakening of RMB against HKD, there would be an equal and opposite impact on the loss for the year.

Credit risk

As at 31st December, 2008, the maximum exposure of the Group and the Company to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties is arising from:

- the cash held in financial institutions;
- the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet; and
- the amount of contingent liabilities in relation to financial guarantee issued by the Group and the Company as disclosed in note 36.

35 FINANCIAL INSTRUMENTS – continued

35c. Financial risk management objectives and polices – continued

Credit risk – continued

In order to minimise the credit risk, the management of the Group and the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group and the Company review the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk of the Group and the Company is significantly reduced.

The Group has concentration of credit risk as approximately HK$53,990,000 (2007:HK$3,901,000) of the other receivables was deposits placed at two financial institutions for the Group's investment in securities business and other receivable from a single counterparty of HK$8,889,000. The management considered the credit risk on such balances held at financial institutions and that counter party is limited because they are with good reputation.

At 31st December, 2008, approximately 66% (2007: 42%) of the Group's trade receivables were due from the five largest customers. The management performs periodic evaluations and customer visits to ensure the Group's exposure to bad debts is not significant. The historical experience in the collection of trade receivables from the five largest customers falls within the expectation of the directors. The management currently is seeking new customers base to explore the market in order to reduce the reliance on the several major customers, and also mitigate concentration of credit risk.

The credit risk of the Company on amounts due from subsidiaries is limited because the directors of the Company consider that the recoverable amount exceeds the carrying amount of amounts due from subsidiaries. The recoverable amounts of the amounts due from subsidiaries is determined based on the present value of the future cash flows expected to be derived from the subsidiaries.

The Group's credit risk on the amount due from a subsidiary of an associate at the balance sheet dates was limited because the management regularly reviews the financial performance of the associate.

Liquidity risk

In the management of the liquidity risk, the Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the operations of the Group and the Company and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings.

The following tables detail the remaining contractual maturity of the Group and the Company for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows.

35 FINANCIAL INSTRUMENTS – continued

35c. Financial risk management objectives and polices – continued

Liquidity risk – continued

THE GROUP

Liquidity tables

	Weighted average effective interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2008 HK$'000
2008							
Non-derivative financial liabilities							
Trade and other payables	—	62,612	859	2,423	—	65,894	65,894
Amount due to a susbidiary of an associate	—	7,239	—	—	—	7,239	7,239
Loan payables	7.41	68,638	—	—	—	68,638	63,903
Bank borrowings	7.04	—	—	16,383	—	16,383	15,306
Obligations under finance leases	8.44	2	4	21	33	60	57
Convertible notes	10.32	—	—	—	1,008,899	1,008,899	829,001
		138,491	863	18,827	1,008,932	1,167,113	981,400

	Weighted average effective interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2007 HK$'000
2007							
Non-derivative financial liabilities							
Trade and other payables	—	31,728	2,720	1,940	—	36,388	36,388
Amount due to an associate	—	6,686	—	—	—	6,686	6,686
Loans payable	8.11	88,757	—	—	—	88,757	82,100
Bank borrowings	6.50	—	—	19,215	—	19,215	18,042
Obligations under finance leases	5.45	2	4	20	61	87	83
Convertible notes	9.68	—	—	—	146,850	146,850	120,488
		127,173	2,724	21,175	146,911	297,983	263,787

The cash flow of variable interest rate instruments is based on the rate outstanding at the balance sheet date.

35 FINANCIAL INSTRUMENTS – continued

35c. Financial risk management objectives and polices – continued

Liquidity risk – continued

THE COMPANY

Liquidity tables

	Weighted average effective interest rate %	Less than 1 month HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2008 HK$'000
2008					
Non-derivative financial liabilities					
Other payables	—	3,222	—	3,222	3,222
Amounts due to subsidiaries	—	91,969	—	91,969	91,969
Convertible notes	10.32	—	1,008,899	1,008,899	829,001
		95,191	1,008,899	1,104,090	924,192

	Weighted average effective interest rate %	Less than 1 month HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2007 HK$'000
2007					
Non-derivative financial liabilities					
Other payables	—	7,003	—	7,003	7,003
Loan payables	7.38	23,517	—	23,517	21,902
Amounts due to subsidiaries	—	92,053	—	92,053	92,053
Convertible notes	9.68	—	146,850	146,850	120,488
		122,573	146,850	269,423	241,446

The cash flow of variable interest rate instruments is based on the rate outstanding at the balance sheet date.

35 FINANCIAL INSTRUMENTS – continued

35d. Fair value

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

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market bid prices; and
- the fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.
- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements, except for the convertible notes issued by the Group, approximate their fair values.

36 CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Corporate guarantee given to banks, in respect of banking facilities granted to a subsidiary	—	—	13,500	13,500

During the year ended 31st December, 2008 and 2007, the Company issued guarantee of HK$13,500,000 and indemnity to a bank for the banking facilities granted to a non-wholly owned subsidiary and the amount utilised by that non-wholly owned subsidiary as at 31st December, 2007 and 2008 was approximately HK$3,573,000.

37. OPERATING LEASES

The Group as lessee

The Group made approximately HK$1,109,000 (2007: HK$224,000) minimum lease payments under operating leases during the year in respect of certain of its office premises.

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Within one year	1,688	448	1,512	354
In the second to third years inclusive	1,381	—	1,094	—
	3,069	448	2,606	354

Operating lease payments represented rentals payable by the Group and the Company for certain of its office premises. Leases are negotiated for an average term of one to two years and rentals are fixed for an average of one to two years.

38. COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

	2008 HK$'000	2007 HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	8,218	3,332

39. PLEDGE OF ASSETS

(a) At 31st December, 2008, available-for-sale investments and investments held for trading with a carrying value of approximately HK$6,103,000 (2007: HK$25,270,000) and HK$1,094,000 (2007: HK$7,735,000), respectively were pledged to secure margin account credit facilities and banking facilities granted to the Group. As at 31st December, 2008 and 2007, no margin loan facility was utilised by the Group.

(b) At 31st December, 2008, land use right (included in prepaid lease payments) with a carrying value of approximately HK$9,487,000 (2007: HK$9,160,000) was pledged to secure a short-term bank borrowings granted to a subsidiary.

40. RELATED PARTY DISCLOSURES

(i) Related party transactions

During the year ended 31st December, 2007, the Group had loan interest income received and receivable of approximately HK$873,000 from Wing On Travel (Holdings) Limited, which ceased to be an associate of a former substantial shareholder of the Company during the year ended 31st December, 2007.

During the year ended 31st December, 2008, the Company granted 20,000,000 share options to its directors, details as set out in note 31.

Other than as set out above, the Group and the Company have no transactions with its related parties during the year ended 31st December, 2008 and 2007.

(ii) Related party balances

Details of the outstanding balances with related parties are set out in the consolidated balance sheet, the balance sheet and the respective notes.

(iii) Compensation of key management personnel

The remuneration of directors who are also identified as members of key management during both years is set out in note 12.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

41. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Scheme Ordinance. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The employees contributes 5% of the relevant payroll costs to the scheme with a maximum amount of HK$1,000 which contribution is matched by the Group.

The retirement benefit scheme contributions relating to the MPF Scheme charged to the income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

The employees in the Group's joint venture subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the government in the PRC. The joint venture subsidiaries are required to contribute a certain percentage of their payroll costs to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme. The amount of contributions payable to the pension schemes are charged to the income statement.

The total cost charged to income statement of approximately HK$334,000 (2007: HK$346,000) represents contributions payable to these schemes by the Group in respect of the current year.

42. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2008 and 31st December, 2007 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activity
Rich Crown Investments Limited (note a)	Hong Kong	HK$1	—	100%	Investments in securities
Super Energy Battery Industries Limited (note a)	Hong Kong	HK$2,500,000	—	80	Investment holding and trading of battery products
Super Energy Group Limited (note a)	Hong Kong	HK$13,000,000	—	80	Investment holding and trading of battery products
Talent Cosmos Limited (note a)	BVI	US$13,000	—	80	Investment holding
Wealthy Gain Limited (note a)	BVI	US$1	100	—	Investments in securities
台山市超量電池有限公司 (「台山市超量」) (note a)	PRC	RMB9,183,763	—	76 (note b)	Manufacturing of battery products
台山市信威電池有限公司 (note a)	PRC	US$8,655,696	—	80	Manufacturing of battery products

Notes:

a. These companies are limited liability companies incorporated in the respective jurisdiction.

b. 台山市超量 is a 95% subsidiary of Super Energy Battery Industries Limited and the Group holds effective 76% interest in 台山市超量.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the Group's results for the year or formed a substantial portion of the Group's assets and liabilities. To give details of other subsidiaries would, in the opinion of the directors, results in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

43. SUBSEQUENT EVENT

The Company redeemed its convertible notes in principal amount of HK$307,560,000 and HK$100,000,000 in January and March 2009 respectively.

FINANCIAL SUMMARY

(A) RESULTS

	For the year ended 31st December,				
	2004	2005	2006	2007	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Continuing operations					
Revenue	27,141	33,161	32,846	45,717	18,699
Loss before tax	(129,267)	(77,304)	(43,651)	(33,775)	(468,103)
Income tax credit (expense)	(6,464)	(4,247)	(5,782)	(6,595)	15,738
Loss for the year from continuing operations	(135,731)	(81,551)	(49,433)	(40,370)	(452,365)
Discontinued operations					
Profit (loss) for the year from discontinued operations	1,511	(5,487)	(9,818)	—	—
Loss for the year	(134,220)	(87,038)	(59,251)	(40,370)	(452,365)
Attributable to:					
Equity holders of the Company	(179,244)	(81,829)	(38,417)	(40,369)	(452,365)
Minority interests	45,024	(5,209)	(20,834)	(1)	—
	(134,220)	(87,038)	(59,251)	(40,370)	(452,365)

(B) ASSETS AND LIABILITIES

	At 31st December,				
	2004	2005	2006	2007	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	1,899,356	1,958,869	267,605	422,522	1,362,240
Total liabilities	(295,202)	(303,300)	(116,512)	(277,456)	(1,013,142)
	1,604,154	1,655,569	151,093	145,066	349,098
Equity attributable to equity holders of the Company	1,308,545	1,325,314	150,831	144,805	348,837
Minority interests	295,609	330,255	262	261	261
	1,604,154	1,655,569	151,093	145,066	349,098