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## CHINA INNOVATION INVESTMENT LIMITED

### 中國創新投資有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1217)

## 2009 ANNUAL RESULTS ANNOUNCEMENT

The directors of China Innovation Investment Limited (the "Company") announced the audited annual results of the Company for the year ended 31 December 2009 are as follows:

### RESULTS

Revenue for the year ended 31 December 2009 amounted to HK\$10,800,751, representing a 39.7% decrease when compared with the revenue of HK\$17,951,507 for the year ended 31 December 2008. The decrease was attributable to the decrease in the gain on disposal of financial assets at fair value through profit or loss and the dividend income.

Profit for the year and attributable to owners of the Company in 2009 amounted to HK\$30,739,249, while the loss for the year and attributable to owners of the Company in 2008 amounted to HK\$28,164,843. The increase in profit for the year was mainly due to gain on fair value change of investment properties and disposal of available-for-sale investments.

### INCOME STATEMENT

For the year ended 31 December 2009

	Notes	2009 HK\$	2008 HK\$
Revenue	2	10,800,751	17,921,507
Gross sales proceeds of financial assets at fair value through profit or loss		49,831,608	237,251,972
Interest income		7,437,258	2,110,612
Dividend income		817,338	1,409,319
Gain on disposal of financial assets at fair value through profit or loss		2,546,155	14,401,576
Gain on disposal of available-for-sale investments		8,644,256	–
Fair value change of investment properties		16,691,200	–
Sundry income		1,506,128	–
Depreciation		(259,199)	(62,729)
Investment manager's fee		(300,000)	(300,000)
Directors' fees		(32,917)	(35,000)
Salaries and allowances		(1,724,731)	(1,015,005)
Equity-settled share options expenses		–	(22,186,740)
Fair value change of financial assets at fair value through profit or loss		–	(18,572,769)
Other operating expenses		(3,977,052)	(2,720,872)
Finance costs	3	(609,187)	(1,193,235)
<b>Profit/(loss) before taxation</b>		<b>30,739,249</b>	<b>(28,164,843)</b>
Income tax expense	4	–	–
<b>Profit/(loss) for the year and attributable to owners of the Company</b>		<b>30,739,249</b>	<b>(28,164,843)</b>
<b>Earnings/(loss) per share (in HK cents)</b>			
Basic	6(a)	0.58	(0.58)
Diluted	6(b)	0.57	N/A

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	<b>2009</b>	2008
	<b>HK\$</b>	HK\$
<b>Profit/(loss) for the year</b>	<b>30,739,249</b>	(28,164,843)
<hr/>		
<b>Other comprehensive income/(loss) for the year, net of tax</b>		
Unrealised gain/(loss) arising from change in fair value of available-for-sale investments	<b>11,244,480</b>	(14,968,912)
Reclassification adjustments on disposal of available-for-sale investments	<b>6,586,432</b>	–
	<b>17,830,912</b>	(14,968,912)
<hr/>		
<b>Total comprehensive income/(loss) for the year and attributable to owners of the Company</b>	<b>48,570,161</b>	(43,133,755)
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**STATEMENT OF FINANCIAL POSITION**

As at 31 December 2009

	Notes	2009 HK\$	2008 HK\$
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		2,516,050	945,929
Investment properties	7	48,000,000	–
Available-for-sale investments	8	114,067,325	81,793,715
Loans receivables	9	56,575,500	23,575,500
Deposit for acquisition of property, plant and equipment		302,812	–
		<b>221,461,687</b>	106,315,144
<b>CURRENT ASSETS</b>			
Interest receivables		972,603	–
Deposits and prepayment		3,393,183	650,987
Financial assets at fair value through profit or loss	10	–	47,096,316
Cash and cash equivalents	11	122,396,247	104,819,277
		<b>126,762,033</b>	152,566,580
<b>CURRENT LIABILITIES</b>			
Accruals		318,663	262,515
		<b>126,443,370</b>	152,304,065
<b>NET CURRENT ASSETS</b>			
		<b>347,905,057</b>	258,619,209
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>347,905,057</b>	251,541,843
<b>CAPITAL AND RESERVES</b>			
Share capital	12	61,708,658	51,687,358
Reserves		286,196,399	199,854,485
		<b>347,905,057</b>	251,541,843
<b>NON-CURRENT LIABILITIES</b>			
Zero-coupon convertible bonds	13	–	7,077,366
		<b>347,905,057</b>	258,619,209
Net asset value per share	14	HK\$0.06	HK\$0.05

## 1 ADOPTION OF NEW AND REVISED STANDARDS

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRS”) and Interpretations that are first effective or available for early adoption for the current accounting period of the Company.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKAS 1 (Revised)	Presentation of financial statements
HKAS 23 (Revised)	Borrowing costs
HKAS 32 and 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 2 (Amendment)	Share-based payment-vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – INT 9 and HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – INT 13	Customer loyalty programmes
HK(IFRIC) – INT 15	Agreements for the construction of real estate
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation
HK(IFRIC) – INT 18	Transfer of assets from customers

The adoption of the new HKFRSs had no material effect on how the results and financial position for the prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Company has applied the disclosures requirements under HKAS 1 (Revised) “Presentation of Financial Statements”. Under HKAS 1 (Revised), the “Balance Sheet” is renamed as the “Statement of Financial Position” and the “Cash Flow Statement” is renamed as the “Statement of Cash Flows”. All income and expenses arising from transactions with non-owner (i.e., the non-owner change in equity) are presented under two statements, the “Income Statement” and the “Statement of Comprehensive Income”, while the owner changes in equity are presented in the “Statement of Changes in Equity”.

The amendments to HKFRS 7 expand disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Company has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

HKFRS 8 supersedes HKAS 14 “Segment Reporting”, and requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision-makers in order to allocate resources to the segment and to assess its performance. There is no effect on the reportable segments presented from prior years.

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

HKFRS (Amendments)	Amendments to HKFRS 5 as part of improvements to HKFRSs 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 <sup>4</sup>
HKAS 1 (Amendment)	Presentation of financial statements <sup>2</sup>
HKAS 24 (Revised)	Related party disclosures <sup>6</sup>
HKAS 27 (Revised)	Consolidated and separate financial statements <sup>1</sup>
HKAS 32 (Amendment)	Classification of rights issues <sup>3</sup>
HKAS 38 (Amendment)	Intangible assets <sup>1</sup>
HKAS 39 (Amendment)	Eligible hedged items <sup>1</sup>
HKFRS 1 (Revised)	First-time adoption of Hong Kong Financial Reporting Standard <sup>1</sup>
HKFRS 1 (Amendments)	Additional exemptions for first-time adopters <sup>2</sup>
HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions <sup>2</sup>
HKFRS 3 (Revised)	Business combinations <sup>1</sup>
HKFRS 9	Financial instruments (relating to the classification and measurement of financial assets) <sup>7</sup>
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement <sup>6</sup>
HK(IFRIC) – INT 17	Distribution of non-cash assets to owners <sup>1</sup>
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2010, unless otherwise specified

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2013

## 2 REVENUE

	<b>2009</b>	2008
	<b>HK\$</b>	HK\$
Interest income	<b>7,437,258</b>	2,110,612
Dividend income	<b>817,338</b>	1,409,319
Gain on disposal of financial assets at fair value through profit or loss	<b>2,546,155</b>	14,401,576
	<b>10,800,751</b>	17,921,507

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

In last year, gross sales proceeds of financial assets at fair value through profit or loss included the sales proceeds of trading listed securities only. In current year, the balance includes sales proceeds of other financial assets at fair value through profit or loss.

### 3 FINANCE COSTS

	<b>2009</b>	2008
	<b>HK\$</b>	HK\$
Imputed interest expense from zero-coupon convertible bonds	<b>609,187</b>	1,193,235

### 4 INCOME TAX EXPENSE

- (a) For the year ended 31 December 2009, the allowable loss brought forward exceeds the estimated assessable profit of the year, no provision for Hong Kong profits tax has been made. For the year ended 31 December 2008, no provision for Hong Kong profits tax have been made in the financial statements as the Company has no assessable profit for the year ended.
- (b) The taxation on the Company's profit/(loss) before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong, the principal place of the Company's operations, as follows:

	<b>2009</b>	2008
	<b>HK\$</b>	HK\$
Profit/(loss) before taxation	<b>30,739,249</b>	(28,164,843)
Tax at the domestic income tax rate of 16.5%	<b>5,071,976</b>	(4,647,199)
Tax effect of non-taxable income	<b>(1,563,868)</b>	(374,732)
Tax effect of non-deductible expense	–	3,661,209
Recognition of previous deferred tax assets	<b>(3,415,243)</b>	–
Deferred tax assets not recognised	–	1,360,722
Others	<b>(92,865)</b>	–
Income tax expense for the year	–	–

As at 31 December 2009, the Company had unused tax losses of approximately HK\$16,683,000 (2008: HK\$20,698,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit stream. The tax losses may be carried forward indefinitely. There were no other significant temporary differences arising during the year or at the reporting date.

### 5 DIVIDENDS

No dividend has been paid or declared by the Company during the year (2008: nil).

## 6 EARNINGS/(LOSS) PER SHARE

### (a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to owners of the Company of HK\$30,739,249 (2008 : loss of HK\$28,164,843) and the weighted average number of 5,282,365,862 (2008: 4,870,192,742) ordinary shares in issue during the year.

### (b) Diluted earnings per share

The earnings used in the calculation of diluted earnings per share is the same as those for the basic earnings per share, as set out above.

The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basis earnings per share as follows:

	2009	2008
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>5,282,365,862</b>	N/A
Effect of dilutive potential ordinary shares :		
Share options issued by the Company	<b>127,540,645</b>	N/A
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Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>5,409,906,507</b>	N/A
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No diluted loss per share has been presented by the Company for the year ended 31 December 2008 as the exercise of some of the share options and convertible bonds will give rise to an anti-dilutive effect.

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

## 7 INVESTMENT PROPERTIES

	2009	2008
	<b>HK\$</b>	<b>HK\$</b>
Additions	<b>31,308,800</b>	–
Fair value change on property revaluation	<b>16,691,200</b>	–
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Balance at 31 December	<b>48,000,000</b>	–
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The properties are held in Hong Kong with leases over 50 years. The fair value of the investment properties as at 31 December 2009 was assessed by Ascent Partners Transaction Service Limited, an independent qualified professional valuer in Hong Kong. The valuation was arrived at by reference to open market values of similar properties.

No rental income was generated from these properties. During the year, HK\$666,846 operating expenses (including repairs and maintenance) are directly arising from the investment properties.

## 8 AVAILABLE-FOR-SALE INVESTMENTS

	<b>2009</b> <b>HK\$</b>	2008 <i>HK\$</i>
Unlisted equity securities (a)	<b>79,977,725</b>	28,624,725
Listed equity securities, Hong Kong, at fair value (b)	<b>34,089,600</b>	53,168,990
	<b>114,067,325</b>	81,793,715

(a) The following is a list of the Company's unlisted investments as at 31 December 2009:

### Unlisted equity securities

Name of invested company	Cost <i>HK\$</i>	2009		% of total assets of the Company	2008 Carrying amount <i>HK\$</i>
		Impairment loss recognised <i>HK\$</i>	Carrying amount <i>HK\$</i>		
Jinan LuGu (HK) Technology Development Limited (note (i))	<b>9,000,225</b>	–	<b>9,000,225</b>	<b>2.6%</b>	9,000,225
Blue Angel (H.K.) Limited (formerly known as SNG Hong Kong Limited) (note (ii))	<b>9,000,000</b>	<b>4,500,000</b>	<b>4,500,000</b>	<b>1.3%</b>	4,500,000
Takenaka Investment Company Limited (note (iii))	<b>15,124,500</b>	–	<b>15,124,500</b>	<b>4.3%</b>	15,124,500
Dooda Innovation Limited (note (iv))	<b>51,353,000</b>	–	<b>51,353,000</b>	<b>14.7%</b>	–

Notes:

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

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

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

LuGu is not treated as an associate as, in the opinion of the directors, the Company is not in a position to exercise any significant influence over its financial and operating decisions. Accordingly, investment in LuGu is classified as available-for-sale investment in the financial statements. No dividend was received during the year (2008 : nil).



(ii) Blue Angel (H.K.) Limited (formerly known as SNG Hong Kong Limited) (“BA”)

BA is incorporated in Hong Kong and principally engaged in investment holding. In previous years, BA indirectly held 38.5% interest in a company incorporated in the PRC, of which the principal activity will be manufacturing and trading of 發光二極管芯片. The investment was written off during the year as the PRC incorporation was de-registered. As at 31 December 2009, BA held an intangible assets amounting to HK\$90,000,000.

The Company holds 3,750 ordinary shares in BA, which represented 30% interest in the issued share capital of BA in 2008. During the year, a share allotment of 37,500 ordinary shares to a third party with the intangible asset as part of the consideration was completed. Accordingly, the company’s share interest in BA was diluted to 7.5%. The investment in BA is measured at cost less impairment loss because the range of reasonable fair estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reasonably.

BA is not treated as an associate as, in the opinion of the directors, the Company is not in a position to exercise any significant influence over its financial and operating decisions. Accordingly, investment in BA is classified as available-for-sale investment in the financial statements. No dividend was received during the year (2008 : nil).

(iii) Takenaka Investment Company Limited (“Takenaka”)

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

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

Takenaka is not treated as an associate as, in the opinion of the directors, the Company is not in a position to exercise any significant influence over its financial and operating decisions. Accordingly, investment in Takenaka is classified as available-for-sale investment in the financial statements. No dividend was received during the year (2008 : nil).

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

(iv) Dooda Innovation Company Limited (formerly known as Join Oriental Holdings Limited) (“Dooda”)

Dooda is incorporated in Hong Kong and principally engaged in investment holding. At 31 December 2009, Dooda directly held 95% interest in a company incorporated in the PRC, of which the principal activity will be conducting research and development, manufacturing and distribution of products applying the new LED backlight and lighting technology.

The Company holds 2,250 non-voting shares and 150 voting shares in Dooda, representing 80% interest in the issued share capital of Dooda. The Company holds 20% voting right in term of voting shares in Dooda. The investment in Dooda is measured at cost less impairment loss because the range of reasonable fair estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reasonably.

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

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

Pursuant to the amendments to HKAS 39 and HKFRS 7 “Reclassification of Financial Assets” (the “Amendments”) the Company selected to reclassify the Hong Kong listed equity securities out of the FVTPL to available-for-sale investments (“AFS”) on 30 October 2008 as these shares were no longer held for the trading purpose but for strategic investment purpose as a result of the exceptional turbulence in the world’s financial market. The Amendments permitted the Company to reclassify financial assets on a partially retrospective basis from 1 July 2008, this retrospective basis did not extend to a date before 1 July 2008. The Company

has applied the transitional provision of the Amendments to reclassify these shares retrospectively on 1 July 2008 or the date of its acquisition, which ever is later (the "Reclassification"). The financial assets being reclassified from FVTPL to AFS amount to HK\$68,137,902.

Prior to the Reclassification, a fair value loss on the financial assets being reclassified amounting to HK\$15,850,085 has been recognised in profit or loss during the year. The fair value loss recognised in profit or loss to the Reclassification cannot be reversed. Subsequent to the Reclassification, a fair value loss on the financial assets being reclassified amounting to HK\$14,968,912 has been recognised in the investment revaluation reserve in equity. This Reclassification has resulted in an increase in fair value loss directly recognised in the investment revaluation reserve in equity for the year by HK\$14,968,912. Had there been no such Reclassification, HK\$14,968,912 fair value loss would have been recognised in profit or loss for the year of 2008. The total fair value loss that would have been recognised in profit or loss for the year of 2008 if the financial assets had not been reclassified amounted to HK\$30,818,997. During the year of 2009, a fair value gain on the financial assets being reclassified amounting to HK\$17,830,912 has been recognised in the investment revaluation reserve in equity. This fair value gain would have been recognised in profit or loss for the year 2009 if no Reclassification was made. The total fair value gain that would have been recognised in profit or loss for the year of 2009, of the financial assets had not been reclassified amounted to HK\$26,475,168.

As at 31 December 2008, the carrying amount which was also the fair value of the financial assets being reclassified amount to HK\$53,168,990. As at 31 December 2009, the carrying amount which is also the fair value of the financial assets being reclassified amount to HK\$34,089,600.

The listed equity securities measurement subsequent to initial recognition at fair value are those derived from quoted price (unadjusted) in active markets for identical assets, that is at Level 1 fair value measurements.

## 9 LOANS RECEIVABLES

	<b>2009</b>	2008
	<b>HK\$</b>	HK\$
Fixed-rate loan receivable	<b>33,000,000</b>	–
Shareholder's loan receivable	<b>23,575,500</b>	23,575,500
	<b>56,575,500</b>	23,575,500

The effective interest rate (which equal to contractual interest rate) on the fixed-rate loan receivable is 5% p.a.. Fixed-rate loan receivable are due for repayment within 5 years from the reporting date.

The shareholder's loan receivable was acquired along with, the acquisition of 30% interest in the issued share capital of Takenaka mentioned in note 8(iii) above. The shareholder's loan is unsecured, interest-free and not repayable in 12 months.

As at 31 December 2009, no collateral agreement has been entered into in respect of all the loans receivables.

The loans receivables at the reporting date have good credit quality. Management believes that no impairment allowance is necessary in respect of these loans receivables as there has not been a significant change in credit quality.

The carrying amount of the loans receivables approximate to the fair value.

## 10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>2009</b>	2008
	<b>HK\$</b>	HK\$
Foreign currency-linked notes	–	47,096,316

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

Notional amount	USD6,400,000
Maturity	22 June 2009

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

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

## 11 CASH AND CASH EQUIVALENTS

	<b>2009</b>	2008
	<b>HK\$</b>	HK\$
Cash at banks	<b>70,073,662</b>	103,998,984
Cash on hand	<b>31,905</b>	500
Cash held in the securities account of securities companies	<b>52,290,680</b>	819,793

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	<b>122,396,247</b>	104,819,277
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Cash at banks and held in the securities account of securities companies earns interest at floating rates based on daily bank deposit rates. Short term deposits during the year are made for various periods from 1 day to 1 month depending on the immediate cash requirements of the Company and earn interest at respective short term time deposits rates. The carrying amount of the cash and cash equivalent approximate to their fair value.

## 12 SHARE CAPITAL

### (a) Authorised and issued share capital

	2009		2008	
	Number of shares	Amount HK\$	Number of shares	Amount HK\$
Ordinary shares of HK\$0.01 each				
Authorised:				
At 1 January	15,000,000,000	150,000,000	5,000,000,000	50,000,000
Increase during the year	–	–	10,000,000,000	100,000,000
At 31 December	15,000,000,000	150,000,000	15,000,000,000	150,000,000
Issued and fully paid:				
At 1 January	5,168,735,753	51,687,358	4,169,675,753	41,696,758
Issue of shares upon exercise of share options	2,130,000	21,300	18,460,000	184,600
Issue of shares upon acquisition of available-for-sale investment	800,000,000	8,000,000	180,600,000	1,806,000
Issue of shares upon conversion of convertible bonds	200,000,000	2,000,000	800,000,000	8,000,000
At 31 December	6,170,865,753	61,708,658	5,168,735,753	51,687,358

Details of the movements in the Company's share capital during the year ended 31 December 2009 are as follows:

- (i) During the year, part of the share options granted were exercised for 2,130,000 shares of HK\$0.01 each at exercise price of HK\$0.05 per share, which raised gross proceeds of approximately HK\$106,500.
- (ii) On 8 May 2009, the Company entered into an acquisition agreement with Guard Max Limited (the "Vendor"), pursuant to which, among other things, the Company had conditionally agreed to purchase from the Vendor 600 shares in the issued share capital of Dooda Innovation Limited (formerly known as Join Oriental Holdings Limited), with voting rights withdrawn for an aggregate consideration of HK\$40 million. The consideration would be satisfied by the issue of the consideration shares at the issue price of HK\$0.05 per share. Accordingly, 800,000,000 shares of HK\$0.01 each at the issue price of HK\$0.05 were allotted and issued as fully paid on 12 November 2009.
- (iii) On 19 November 2007, the Company entered into a subscription agreement with Harvest Rise Investment Limited ("Harvest Rise"), a company wholly and beneficially owned by Mr. Xiang Xin, an executive director and a substantial shareholder of the Company, for the subscription by Harvest Rise of zero coupon convertible bonds in an aggregate principal amount of HK\$50,000,000 (the "CB") to be issued by the Company. In consideration of Harvest Rise's agreeing to subscribe for or procure the subscription of the CB, the Company would issue 800,000,000 unlisted warrants ("Warrants") to Harvest Rise at the exercise price of HK\$0.20 per warrant share. The CB and the Warrants were issued on 30 January 2008.

On 13 May 2008, convertible bonds amounting to HK\$40,000,000 were converted into 800,000,000 ordinary shares of the Company at the conversion price of HK\$0.05 per share. On 22 December 2009, convertible bonds amounting to HK\$10,000,000 were converted into 200,000,000 ordinary shares of the Company at the conversion price of HK\$0.05 per share.

**(b) Capital management**

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

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

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

During 2009, the Company's strategy, which was unchanged from 2008, was to maintain the gearing ratio of zero. The gearing ratios at 31 December 2009 and 2008 were zero as the Company has net cash at 31 December 2009 and 2008.

	<b>2009</b>	2008
	<b>HK\$</b>	HK\$
Total borrowings	–	7,077,366
Less : cash and cash equivalents ( <i>note 11</i> )	<b>122,396,247</b>	104,819,277
Net cash	<b>(122,396,247)</b>	(97,741,911)

**13 ZERO-COUPON CONVERTIBLE BONDS**

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

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

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

The convertible bonds recognised in the statement of financial position are calculated as follows:

	<b>Equity component</b>	<b>Liability component</b>
	<i>HK\$</i>	<i>HK\$</i>
Convertible bonds at date of issue	17,278,904	32,721,096
Converted into ordinary shares	(13,823,123)	(26,836,965)
Imputed interest expense	–	1,193,235
<hr/>		
As at 31 December 2008	3,455,781	7,077,366
Converted into ordinary shares	(3,455,781)	(7,686,553)
Imputed interest expense	–	609,187
<hr/>		
<b>As at 31 December 2009</b>	<b>–</b>	<b>–</b>

During the year of 2008, convertible bonds with a face value of HK\$40,000,000 were converted into 800,000,000 ordinary shares of the Company at a conversion price of HK\$0.05 per share. During the year of 2009, the convertible bonds remaining face value of HK\$10,000,000 were converted into 200,000,000 ordinary shares of the Company at a conversion price of HK\$0.05 per share.

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

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

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

#### **14 NET ASSET VALUE PER SHARE**

The calculation of net asset value per share is based on the net asset value of the Company as at 31 December 2009 of HK\$347,905,057 (2008: HK\$251,541,843) and 6,170,865,753 (2008: 5,168,735,753) ordinary shares in issue at that date.

## **BUSINESS REVIEW**

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

For the year under review, the Company hold investments in four unlisted companies namely Jinan LuGu (HK) Technology Development Limited, Blue Angel (H.K.) Limited, Takenaka Investment Company Limited and Dooda Innovation Limited which amounting to total cost and carrying value of approximately HK\$84.5 million and HK\$80 million respectively. As at 31 December 2009, the Company held listed equity securities in Hong Kong in the fair value of HK\$34,089,600.

## **INVESTMENT PORTFOLIOS**

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

Jinan LuGu (HK) Technology Development Limited ("Jinan LuGu") is incorporated in Hong Kong and principally engaged in investment holding. At 31 December 2009, it indirectly held 59.5% interest in a company incorporated in the PRC, of which the principal activity is manufacturing and trading of 陶瓷微電路基板·微電路模塊·陶瓷電子元(組)件. The Company holds 250 ordinary shares in Jinan LuGu, representing 25% interest in the issued share capital of Jinan LuGu. The Company did not receive any dividend from this investment during the year.

Blue Angel (H.K.) Limited (formerly known as SNG Hong Kong Limited) ("BA") is incorporated in Hong Kong and principally engaged in investment holding. In previous years, BA indirectly held 38.5% interest in a company incorporated in the PRC, of which the principal activity is manufacturing and trading of 發光二極管芯片. As at 31 December 2009, BA held an intangible assets amounting to HK\$90,000,000. The Company holds 3,750 ordinary shares in BA, which represented 30% interest in the issued share capital of BA in 2008. During the year, a share allotment of 37,500 ordinary shares to a third party with the intangible asset as part of the consideration was completed. Accordingly, the company's share interest in BA was diluted to 7.5%. No dividend was received during the year.

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

Dooda Innovation Company Limited (formerly known as Join Oriental Holdings Limited) ("Dooda") is incorporated in Hong Kong and principally engaged in investment holding. At 31 December 2009, Dooda directly held 95% interest in a company incorporated in the PRC, of which the principal activity will be conducting research and development, manufacturing and distribution of products applying the new LED backlight and lighting technology. The Company holds 2,250 non-voting shares and 150 voting shares in Dooda, representing 80% interest in the issued share capital of Dooda. The Company holds 20% voting right in term of voting shares in Dooda. No dividend was received during the year.

As at 31 December 2009, the Company held listed equity securities in Hong Kong in the fair value of HK\$34,089,600.

## **LIQUIDITY AND FINANCIAL POSITION**

As at 31 December 2009, the Company had cash and bank balances of approximately HK\$122,396,247. All the cash and bank balances were mainly placed as short-term deposits in Hong Kong dollars with banks and securities houses in Hong Kong.

For the year under review, the Company financed its operations with its own available funding and did not have any banking facilities. In this regard, the Company had a net cash position and its gearing ratio is zero (net debt to shareholders' funds) as at 31 December 2009. Taking into consideration the existing financial resources to the Company, it is anticipated that the Company should have adequate financial resources to meet its ongoing operating and development requirements.

## **FOREIGN CURRENCY FLUCTUATION**

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

## **CHARGE ON COMPANY ASSETS AND CONTINGENT LIABILITIES**

As at 31 December 2009, the Company has not pledged its assets and the Company did not have significant contingent liabilities.

## **PROSPECTS**

Looking forward, the Company will actively look for potential investment opportunities to achieve medium-term capital appreciation. The Company's investment objective is to make its strategic investment through the "new energy", "new light" and "new materials" industry.

In "new energy" industry, the Company recently completed the strategic investment in Topsun Creation Limited ("Topsun") in March 2010. Topsun is an enterprise engaged in the field of new energy application and its business includes the research and development, production and sales of new energy of high capacities batteries for civil and military dual-used products. With the characteristics of high capacity, fully sealed and maintenance-free in nature, these batteries are commonly being used in military products (e.g. tanks and submarines) and civil products (e.g. vehicles and factory building). It will be the potential and enormous market for both civil and military products using the new energy application.

In "new light" industry, the Company has been granted a first right of refusal to invest in 北京北方光電有限公司 (China Opto-Electro Industries Co., Ltd), a wholly-owned subsidiary of 中國兵器集團公司 (China North Industries Group Corporation). The Company completed the strategic investment in Dooda Innovation Limited ("Dooda") in late 2009. Dooda is principally engaged in research and development, production and distribution of products applying the new LED backlight and lighting technology. The Company also entered into a non-legal binding framework agreement with a vendor on the possible acquisition of a great portion of the issued share capital of C.G.E. (HK) Co., Limited ("CGE"). CGE is also mainly engaged in research and development, production and sales of various series of the civil and military dual application of LED and LCD backlight power supply, built-in power supply related optoelectronic products, electronic devices and provision of related technical services. With the global awareness of the "green energy" concept, the application of LED will gradually become a new source of "new light" industry with potential development.

In "new material" industry, through the investment in Takenaka Investment Company Limited, the Company already invested in Zhenjiang Fujieda Copper Foil Company Limited which served as a important upstream supplier to produce civil and military dual-used copper foil materials with advanced technology for electronic products applying the concept of "new energy" and "new light". The Company also entered into the acquisition agreement with United Crown Century Company Limited (formerly known as "Moral Glory Limited") preparing for its investment in energy-saving "new materials" industry.

With its strategic investment through the "new energy", "new light" and "new materials" industry, the Company, will further apply the integration and usage of three new resources industries – The Company's investment in Blue Angel (H.K.) Limited will be principally engaged in the production and assembly of solar electric cars, solar energy electronic books and solar energy advertising screens and other electronic innovations with the use of solar energy and LED technologies. The Company's investment strategy is to participate in "new energy", "new light" and "new materials" industries to maximize the future growth and development of these new resources industries. The Company is still looking for investment opportunities in new technologies like solar energy, wind energy, geothermal energy to outline a completed industry chain of energy conservation and assist in building a low-carbon society.

## **POST BALANCE SHEET EVENTS**

On 8 May 2009, the Company entered into an acquisition agreement with China Seed International Limited (the "Vendor"), pursuant to which, among other things, the Company had conditionally agreed to purchase from the Vendor 310 shares in the issued share capital of Topsun Creation Limited ("Topsun"), with voting rights withdrawn for an aggregate consideration of HK\$20 million. The consideration would be satisfied by the issue of the consideration shares at the issue price of HK\$0.05 per share. Accordingly, 400,000,000 shares of HK\$0.01 each at the issue price of HK\$0.05 were allotted and issued as fully paid by the Company on 30 March 2010.



The Company entered into a subscription agreement, on 8 May 2009, with Topsun, pursuant to which the Company has conditionally agreed to subscribe from Topsun 250 shares in the issued share capital of Topsun for an aggregate consideration of RMB10 million which will be satisfied through bank transfer. Up to the date of this report, the subscription has not been completed.

On 20 April 2010, the Company entered into an asset swap agreement with Freewin Group Limited (“FGL”), pursuant to which, the Company and FGL agreed to swap 8,750 shares in the issued share capital of Blue Angle (H.K.) Limited held by FGL for 250 shares in the issued share capital of Jinan LuGu (HK) Technology Development Limited held by the Company. The consideration was agreed at HK\$9 million. The shares were swapped on 20 April 2010.

### **SUFFICIENCY OF PUBLIC FLOAT**

The Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2009.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

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

### **CORPORATE GOVERNANCE**

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

During the year ended 31 December 2009, the Company has complied with the code provisions in the Code, save for deviation from Codes A.2.1 and A.4.1.

- the roles of chairman and chief executive officer should be separated and should not be performed by the same individual
- The non-executive Directors of the Company are not appointed for a specific term, but are subject to retirement by rotation in accordance with the Company’s Articles of Association and shall be eligible for re-election.

Mr. Xiang Xian has been elected by the Board to replace Mr. Wang Qing Yu, the former chairman of the Company, as the chairman of the Company effective on 1 August 2009. Mr. Xiang performs both of the roles as the chairman and the chief executive officer of the Company. This deviates from code provision A.2.1 of the Code which requires that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

After evaluation of the current situation of the Company and taking into account of the experience and past performance of Mr. Xiang, the Board is of the opinion that it is appropriate and in the best interests of the Company at the present stage for Mr. Xiang to hold both positions as the chairman and the chief executive officer of the Company as it helps to maintain the continuity of the policies and the stability of the operations of the Company.

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

### **DIRECTORS’ SECURITIES TRANSACTIONS**

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

**REVIEW OF ACCOUNTS**

The audit committee examined the accounting principles and practices adopted by the Company and discussed with the management its internal controls and accounts. The audit committee has reviewed the audited financial statements of the Company for the year ended 31 December 2009.

**PUBLICATION OF ANNUAL REPORT**

The annual report of the Company will be published on the Stock Exchange's and the Company's websites in due course.

By order of the Board

**China Innovation Investment Limited**

**Xiang Xin**

*Chairman and Chief Executive Officer*

Hong Kong, 22 April 2010

*As at the date of this announcement, the Executive Directors of the Company are Mr. Xiang Xin, Mr. Chan Cheong Yee and Mr. Wong Chak Keung; the Non-executive Director is Mr. Ng Kwong Chue Paul; the Independent Non-executive Directors are Mr. David Wang Xin, Mr. Zang Hong Liang and Mr. Lee Wing Hang.*