



**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)

2011 ANNUAL REPORT

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Xiang Xin (*Chairman and Chief Executive Officer*)

Mr. Chan Cheong Yee

Mr. Li Zhou

Mr. Jook Chun Kui Raymond

Non-executive Director

Mr. Ng Kwong Chue Paul

Independent Non-executive Directors

Mr. David Wang Xin

Mr. Zang Hong Liang

Mr. Lee Wing Hang

COMPANY SECRETARY

Mr. Liu Wai Kin

AUTHORIZED REPRESENTATIVES

Mr. Xiang Xin

Mr. Liu Wai Kin

EXECUTIVE COMMITTEE

Mr. Xiang Xin (*Chairman*)

Mr. Chan Cheong Yee

Mr. Li Zhou

Mr. Jook Chun Kui Raymond

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Mr. David Wang Xin (*Chairman*)

Mr. Zang Hong Liang

Mr. Lee Wing Hang

NOMINATION COMMITTEE

Mr. Xiang Xin (*Chairman*)

Mr. David Wang Xin

Mr. Zang Hong Liang

REGISTERED OFFICE

Cricket Square

Hutchins Drive, P.O. Box 2681

Grand Cayman, KY1-1111

Cayman Islands

PRINCIPAL PLACE OF BUSINESS

26/F, No. 9 Des Voeux Road West Road

Sheung Wan, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited

Butterfield House, 68 Fort Street

P.O. Box 705, George Town

Grand Cayman KY1-1107

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited

18/F., Fook Lee Commercial Centre

Town Place, 33 Lockhart Road

Wanchai, Hong Kong

INVESTMENT MANAGER

China Everbright Securities (HK) Limited

AUDITORS

ANDA CPA Limited

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

Hang Seng Bank

UBS AG

Bank of Singapore Limited

CUSTODIANS

China Everbright Securities (HK) Limited

Hang Seng Bank

UBS AG

STOCK CODE

1217

WEBSITE

www.1217.com.hk

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

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

As at 31 December 2011, the Company held investments in four unlisted companies namely Topsun Creation Limited, Aesthetic Vision Limited, United Crown Century Company Limited and Blue Angel (H.K.) Limited and carrying values of these investments were approximately HK\$77,925,000, HK\$78,349,000, HK\$78,700,000 and HK\$78,300,000 (after impairment provision of HK\$4,500,000) respectively.

PROSPECT

The Company is one of the few investment companies in Hong Kong focusing investment in dual usage of military and civil sectors. We invest in listed and non-listed civil and military joint ventures with high quality to strive for medium-term gains from capital appreciation in the course of securitization of corporate assets invested, and apply the same as our key operation strategy and income source.

Leveraging on our experience and well-connected network in the Mainland market over years, the Company recently invested in military and civil dual-used charge storage batteries, new models of lighting products, eco-equipment materials and energy-saving media terminals respectively through its investment. With energy conservation as our development goal, our investments have achieved breakthroughs in realising the four new industries of "New Energy", "New Light", "New Materials" and "New Media", military and civil dual-application in real projects.

For "New Energy", the Company invests in Topsun Creation Limited ("Topsun"), which adopts the power reserve patent technology of military aviation as its own core to develop the strategy of "Production — Research — Preliminary Research" for the research and manufacturing of solar photovoltaic system. With features of high capacity, fully sealed and maintenance-free, the system is widely used in military equipment and civil vehicles as well as construction, etc.

For "New Light", the Company invests in Aesthetic Vision Limited ("Aesthetic Vision"). Aesthetic Vision's major product is LED lighting. It possesses of LED ergonomics technology with features including LED illuminant, appropriate light flux, free colour temperature, healthy spectrum and compliance to ergonomics.

For "New Materials", the Company invests in United Crown Century Company Limited ("United Crown Century"). Being the pioneer in the new energy-saving eco-sheet industry in the PRC market, United Crown Century mainly specializes in research and development of energy-saving eco-sheet materials for walls.

CHAIRMAN'S STATEMENT

For "New Media", the Company invests in Blue Angel (H.K.) Limited ("Blue Angel"), which mainly engages in producing and assembly of solar products with the use of solar energy and LED technologies, so as to develop a completed industry chain of four new energy and provide a one-stop production setting with synergy effect.

Being dedicated to outline a completed industry chain of four energy conservation, the Company is actively seeking more investment opportunities in new technologies like solar energy and LED, in order to build a greener low-carbon living.

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

APPRECIATION

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

Xiang Xin

Chairman and Chief Executive Officer

Hong Kong, 12 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL REVIEW

On 31 December 2011, the Company entered a cooperative framework agreement with 中國寶安集團資產管理有限公司 (transliterated China Baoan Group Asset Management Limited, "China Baoan"), intend to invest in military industry and four new industries (new energy resources, new light resources, new materials, new media), make use their respective advantage, cooperate set up two equity investment funds in Mainland China. Two funds have a total scale of RMB1 billion respectively, the initial scale is RMB200 million. The fund can be set up after getting 50% of initial scale of capital contributions subscribed. Two funds will not be mandatory for China Baoan or the Company.

INVESTMENT PORTFOLIOS

As at 31 December 2011, the Company hold the following investments:

- (i) Topsun Creation Limited ("Topsun") is incorporated in Hong Kong and principally engaged in investment holding. At 31 December 2011, Topsun directly held 100% interest in a company incorporated in the PRC, which the principal activity mainly dedicated to the research and development as well as marketing in the area of the lead acid batteries with energy-saving batteries for new energies as its major products. The characteristics of such product is high volume, whole sealing and maintenance free. The Company holds 2,710 "B" non-voting shares in Topsun, representing 67.75% interest in the issued share capital of Topsun. The Company did not receive any dividend from Topsun during the year.
- (ii) Aesthetic Vision Limited ("Aesthetic") is incorporated in Hong Kong and principally engaged in investment holding. The principal assets of Aesthetic Vision include its wholly-owned subsidiaries incorporated in the PRC of which its major product is LED lighting. Aesthetic possesses LED ergonomics technology with features including LED illuminant, appropriate light flux, free colour temperature, healthy spectrum and compliance to ergonomics. Its products are widely used in military production as well as civic purposes. The Company holds 8,500 "B" non-voting shares in Aesthetic, representing 85% interest in the issued share capital of Aesthetic. No dividend was received during the year.
- (iii) United Crown Century Company Limited ("United Crown") is incorporated in Hong Kong and principally engaged in investment holding. The principal asset of United Crowed was indirectly 100% interest in a company incorporated in the PRC, of which is principally engaged in conducting research and development of energy-saving eco-materials for walls. The Company holds 12,644 "B" non-voting shares in United Crown, representing 52.68% interest in the issued share capital of United Crown. The Company did not receive any dividend from United Crown during the year.
- (iv) Blue Angel (H.K.) Limited ("BA") is incorporated in Hong Kong and principally engaged in investment holding. BA holds a wholly-owned subsidiary incorporated in the PRC, of which the principal activity is producing and assembly of new products such as solar electric cars, solar energy electronic books and solar energy advertising screens with the use of solar energy and LED technologies, so as to develop a completed industry chain of four new energy and provide a one-stop production setting with synergy effect. As at 31 December 2011, the Company holds 48,500 "B" non-voting shares in BA, which represented 62.99% interest in the issued share capital of BA. No dividend was received during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL POSITION

As at 31 December 2011, the Company had cash and bank balances of approximately HK\$97,909,000. 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 2011. 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

During the year, the Company conducted its business transactions principally in Renminbi and Hong Kong dollars. The Directors considered that the Company had no significant exposure to foreign exchange fluctuations and believed it was not necessary to hedge against any exchange risk. Nevertheless, management will continue to monitor the foreign exchange exposure position and will take any future prudent measure it deems appropriate.

CHARGE ON COMPANY ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2011, the Company has not pledged its assets and the Company did not have significant contingent liabilities.

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 2011.

EMPLOYEE INFORMATION

As at 31 December 2011, the Company had 9 (2010: 7) employees and the total remuneration paid to staff (including directors' remuneration) was approximately of HK\$2,707,000 (2010: of approximately HK\$5,683,000) during the year under review. The Company ensured that its employees were remunerated according to the prevailing manpower market condition, and individual performance with its remuneration policies reviewed on a regular basis.

CORPORATE GOVERNANCE REPORT

The Board of Directors (the “Board”) of the Company is committed to establish and maintain 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 2011, 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 Xin (“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.

BOARD OF DIRECTORS

The Board currently consists of four executive Directors, one non-executive Director and three independent non-executive Directors. One of the independent non-executive Directors has the appropriate professional and accounting qualifications required by Rule 3.10(2) of the Listing Rules.

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

CORPORATE GOVERNANCE REPORT

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

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

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

The attendance of individual members at board meetings and executive committee meetings held during the year ended 31 December 2011 are set out as below:

Name of Directors	Board meetings Attendance	Executive Committee meetings Attendance
<i>Executive Directors:</i>		
Mr. Xiang Xin	5/6	13/14
Mr. Chan Cheong Yee	2/6	7/14
Mr. Li Zhou (appointed on 2 June 2011)	2/2	5/5
Mr. Wong Chak Keung (resigned on 20 June 2011)	4/4	8/8
Mr. Jook Chun Kai Raymond (appointed on 1 March 2012)	N/A	N/A
<i>Non-executive Director:</i>		
Mr. Ng Kwong Chue Paul	1/6	N/A
<i>Independent non-executive Directors:</i>		
Mr. David Wang Xin	2/6	N/A
Mr. Zang Hong Liang	2/6	N/A
Mr. Lee Wing Hang	2/6	N/A

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

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

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

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Xiang Xin is the Chairman of the Board and the Chief Executive Officer of the Company.

Such practice deviates from code provision A.2.1 of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules, 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.

The chairman's and the chief executive officer's responsibility is to manage the Board and the Company's day-to-day business, respectively.

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

EXECUTIVE COMMITTEE

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

The Executive Committee held periodical meetings during the year ended 31 December 2011 to review, discuss and evaluate the investment performance and other business and operational matters of the Company.

REMUNERATION COMMITTEE

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

Mr. David Wang Xin (*Chairman*)

Mr. Zang Hong Liang

Mr. Lee Wing Hang

The Remuneration Committee met at least once during the year and the respective attendance at such meeting during the year ended 31 December 2011 was:

	Attendance
Mr. David Wang Xin	1/1
Mr. Zang Hong Liang	1/1
Mr. Lee Wing Hang	1/1

CORPORATE GOVERNANCE REPORT

The principal duties of the Remuneration Committee include formulation of the remuneration policy; review and recommending to the Board the annual remuneration; make recommendation to the Board of the remuneration of non-executive directors; and determination of the remuneration of executive directors and members of the senior management.

NOMINATION COMMITTEE

A nomination committee (the "Nomination Committee") was set up in August 2007 with terms of reference as set out in the Code.

The Nomination Committee consists of three Directors. As at the date of this report, the members of the Nomination Committee are as follows:

Mr. Xiang Xin (*Chairman*)
Mr. David Wang Xin
Mr. Zang Hong Liang

In considering the new appointment of Directors, the Nomination Committee will make reference to certain criteria such as integrity, independent mindedness, experience, skill and the ability to commit time and effort to carry out his duties and responsibility effectively.

AUDIT COMMITTEE

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

Mr. David Wang Xin is the chairman of the Audit Committee. Each member of the Audit Committee shall abstain from voting on any resolutions in respect of matter in which he is interested. The Audit Committee met at least twice during the year and the respective attendance at such meeting during the year ended 31 December 2011 was:

Name of Directors	Attendance
Mr. David Wang Xin	2/2
Mr. Zang Hong Liang	2/2
Mr. Lee Wing Hang	1/2

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

The Audit Committee has reviewed both the half-year results for the period ended 30 June 2011 and the annual results for the year ended 31 December 2011 of the Company before announcement of both results.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL

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

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

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

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

FINANCIAL REPORTING

The Directors are responsible for the preparation and the true and fair presentation of the financial statements which give a true and fair view of the state of affairs and of the results and cash flow of the Company for each financial year. In preparing the financial statements for the year ended 31 December 2011, the Directors have:

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

EXTERNAL AUDITORS

The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Independent Auditor's Report" on pages 24 and 25.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid and payable to the Company's auditors, ANDA CPA Limited and other professional parties are set out as follow:

Audit fee for the year

HK\$125,000

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Xiang Xin, aged 48, an executive Director, the chief executive officer and is a chairman of the executive committee and the nomination committee of the Company, joined the Company in January 2003. Mr. Xiang has worked for quite a few large organisations in the PRC and engaged in technology project management and corporate strategy research for a long time. Mr. Xiang also has many years of experience in project investment and telecommunications network businesses. Mr. Xiang holds a bachelor degree in Science and a master degree in Engineering from Nanjing University of Science & Technology. Mr. Xiang is also an executive director of China Trends Holdings Limited, a company listed on the Growth Enterprise Market (the “GEM”) of the Stock Exchange, with effect from 25 February 2008.

Mr. Chan Cheong Yee, aged 48, an executive director of the Company and is a member of the executive committee of the Company, joined the Company in June 2003. Mr. Chan holds a bachelor degree of science majoring in finance and he is a registered and licensed person under the Securities and Futures Ordinance to carry on regulated activities in dealing in securities, advising on securities, dealing in futures contracts and undertaking asset management. Mr. Chan is currently the sales director and the responsible officer of China Everbright Securities (HK) Limited and has been in the financial and investment field for over 20 years. Mr. Chan is directly involved in identifying investment opportunities, conducting due diligence, performing valuation, monitoring performance of investment portfolios and providing investment and divestment recommendations. Mr. Chan is the executive director of Agritrade Resources Limited and INED of Garron International Limited, which are listed on the main board respectively, and also the executive director of Bingo Group Holdings Limited, a company listed on GEM.

Mr. Li Zhou, aged 33, an executive director of the Company and is a member of the executive committee of the Company, joined the Company in June 2011. Mr. Li holds a master degree of business administration from the University of Hong Kong. Prior to his joining of the Company, Mr. Li has worked in several listed companies and investment companies in the People’s Republic of China. Mr. Li has extensive experience in the areas of telecommunications, information technology, project management, financing, and mergers and acquisitions.

Mr. Jook Chun Kui Raymond, aged 45, an executive director of the Company and is a member of the executive committee of the Company, joined the Company in March 2012. Mr. Jook is the managing director of Avant Capital Management (HK) Limited. Mr. Jook is the licenced responsible officer of Avant Capital under Section 120 of the SFO, authorised to carry out Advising in Securities and Asset Management defined as Type 4 and Type 9. Mr. Jook has worked as hedge fund manager in other investment management company and has fourteen years analyst experiences in research department in investment banks, managed about US\$ 1 billion. Mr. Jook holds a bachelor degree of statistics and master degree of actuarial science from the University of Wisconsin-Madison, master degree of Business Administration from the University of British Columbia and CFA qualification.

BIOGRAPHICAL DETAILS OF DIRECTORS

NON-EXECUTIVE DIRECTOR

Mr. Ng Kwong Chue Paul, aged 41, a non-executive Director, joined the Board as an executive Director in April 2003 and had been re-designated as non-executive Director in May 2006. He was the co-founder of the Company. Mr. Ng holds a bachelor degree in Commerce from the University of Melbourne. He is a member of each of CPA Australia, Hong Kong Institute of Certified Public Accountants and Hong Kong Securities Institute. He has years of experience in audit, taxation and corporate finance gained from international accounting firms. He serves as the executive director, company secretary and chief investment officer of JLF Investment Company Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited. In 2008, Mr Ng was elected as the honourable president for Macao ASEAN International Chamber of Commerce and the honourable chairman for Fujian Province Shishi Yuhu Care Charity Association.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. David Wang Xin, aged 49, an independent non-executive Director and is a chairman of the audit committee and the remuneration committee of the Company, and is a member of the nomination committee joined the Company in October 2002. Mr. Wang is the founder and the president of Sun & Sun group of companies, a Singapore-based investment and consultancy group. Mr. Wang graduated with a bachelor's degree in Mechanical Engineering in 1982 and a master's degree in Business Administration in 1985.

Mr. Zang Hong Liang, aged 44, an independent non-executive Director and is a member of the audit committee, the remuneration committee and the nomination committee of the Company, joined the Company in September 2004. Mr. Zang is at present a partner of Global Law Office, a large law firm in the PRC. Mr. Zang graduated from the Faculty of Law of Xiamen University in 1991 and Postgraduate Institute of China University of Political and Law Science in 1994. Mr. Zang holds a bachelor degree in International Economic Law and a master degree in Commercial Law. Mr. Zang's area of practice includes laws on commercial litigation, arbitration, investment and anti-dumping.

Mr. Lee Wing Hang, aged 43, an independent non-executive Director and a member of the audit committee and the remuneration of the Company, joined the Company in December 2006. Mr. Lee is the partner of Tony W. H. Lee & Co., Certified Public Accountants (Practising). Mr. Lee holds a bachelor degree in accountancy from Australia. Mr. Lee has over 15 years of experience in corporate finance, accounting, auditing and taxation sectors. Mr. Lee is a member of Hong Kong Institute of Certified Public Accountants and CPA Australia.

REPORT OF THE DIRECTORS

The directors (the "Directors") of the Company have pleasure to present their report and the audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITY

The principal activity of the Company has not changed during the year and is principally engaged in investment holding.

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

RESULTS AND APPROPRIATIONS

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

The Board has resolved not to declare any dividend (2010: nil) for the year under review.

RESERVES

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

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movement in property, plant and equipment, and investment properties of the Company during the year are set out in notes 14 and 15 to the financial statements, respectively.

DISTRIBUTABLE RESERVES

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

As at 31 December 2011, the Company had distributable reserves amounting to approximately HK\$293,505,000 (2010: approximately HK\$294,194,000).

REPORT OF THE DIRECTORS

FINANCIAL SUMMARY

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

	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000
Revenue (note)	5,867	2,848	10,801	17,922	4,102
Profit/(loss) attributable to owners of the Company	(689)	3,586	30,739	(28,165)	(5,089)
Total assets	452,900	404,569	348,224	258,882	201,961
Total liabilities	(60,783)	(11,763)	(319)	(7,340)	(1,601)
Net assets	392,117	392,806	347,905	251,542	200,360

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

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 22 to the financial statements.

DIRECTORS

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

Executive Directors:

Mr. Xiang Xin (*Chairman and Chief Executive Officer*)
Mr. Chan Cheong Yee
Mr. Li Zhou
Mr. Jook Chun Kui Raymond

Non-executive Director:

Mr. Ng Kwong Chue Paul

Independent non-executive Directors:

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

REPORT OF THE DIRECTORS

In accordance with Article 99(1) of the Articles of Association of the Company, Mr. David Wang Xin and Mr. Zang Hong Liang shall retire and, being eligible, shall offer themselves for re-election at the forthcoming annual general meeting of the Company. In accordance with Article 98(3) of the Articles of Association of the Company, Mr. Li Zhou and Mr. Jook Chun Kui Raymond shall retire and, being eligible, shall offer themselves for re-election at the forthcoming annual general meeting of the Company.

Pursuant to A.4.3 of the CG Code, the further appointment of any independent non-executive director who has served the Company for more than nine years should be subject to a separate resolution to be approved by Shareholders. Mr. David Wang Xin has served as director of the Company for more than nine years. The circular to Shareholders accompanying that resolution would include the reasons why the board believes he is still independent and should be re-elected.

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS

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

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

As at 31 December 2011, the following Directors and the chief executive of the Company or any of their respective associates had the following interests and short positions in the ordinary shares of HK\$0.01 each in the capital of the Company (the "Share"), underlying shares, and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules (the "Model Code").

(i) Long position in the Shares

Name	Interest in Shares	Capacity	Approximate percentage of interests
Xiang Xin	1,723,335,379	Corporate interests (<i>note 1</i>)	24.69%

Note:

1. The 1,723,335,379 shares are held by Harvest Rise Investments Limited and Mr. Xiang is the sole director of the company and Mr. Xiang Xin and his family member(s) are the ultimate beneficiaries of such company.

REPORT OF THE DIRECTORS

(ii) Long position in the underlying shares — share options

Name	Date of grant	Exercise period	Number of share options outstanding as at 31 December 2011	Exercise price per share	Number of total underlying Shares	Approximate percentage of interests
Xiang Xin	18.10.2007	18.10.2007 to 15.10.2010 (note 1)	17,040,000	0.0500	17,040,000	0.24%
Ng Kwong Chue Paul	29.1.2003	28.8.2003 to 27.8.2013	10,244,262	0.0244	18,764,262	0.27%
	18.10.2007	18.10.2007 to 15.10.2010 (note 1)	8,520,000	0.0500		
David Wang Xin	29.1.2003	28.8.2003 to 27.8.2013	4,097,704	0.0244	21,137,704	0.30%
	18.10.2007	18.10.2007 to 15.10.2010 (note 1)	17,040,000	0.0500		
Zang Hong Liang	18.10.2007	18.10.2007 to 15.10.2010 (note 1)	17,040,000	0.0500	17,040,000	0.24%
Lee Wing Hang	18.10.2007	18.10.2007 to 15.10.2010 (note 1)	10,000,000	0.0500	10,000,000	0.14%

Note:

1. The original exercise period of these share options were lapsed on 15 October 2010. By a board of directors' resolution dated 15 October 2010, which is subject to the approval of the shareholder of the Company at a general meeting to be convened, the exercise period of the outstanding options will be extended to 17 October 2013.

REPORT OF THE DIRECTORS

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

<u>Name</u>	<u>Number of underlying Shares (in respect of the 2008 Warrants) held</u>	<u>Capacity</u>	<u>% to the issued share capital of the Company</u>
Xiang Xin	800,000,000	Corporate interest (note 1)	11.46%

Note:

1. The underlying Shares are held by Harvest Rise Investments Limited and Mr. Xiang Xin is the sole director of the company and Mr. Xiang Xin and his family member(s) are the ultimate beneficiaries of such company.

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

Save as disclosed above, none of the Directors or the chief executive of the Company or any of their respective associates had, as at 31 December 2011, any interests and short positions in the shares, underlying shares, and debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

SHARE OPTION SCHEME

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

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

REPORT OF THE DIRECTORS

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

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

As at 31 December 2011, a total of 167,511,966 share options (representing approximately 2.4% of the existing issued share capital of the Company at that date) have been granted and outstanding pursuant to the Scheme.

Details of the options granted under the Scheme and outstanding at 31 December 2011 are as follows:

Name	Date of grant	Exercise period	Number of share options				Outstanding as at 31 December 2011	Price per share to be paid on exercise of options HK\$
			Outstanding as at 1 January 2011	Granted during the year	Lapsed during the year	Exercised during the year		
Xiang Xin	18.10.2007	18.10.2007 to 15.10.2010 (note 1)	17,040,000	—	—	—	17,040,000	0.0500
	14.1.2008	1.2.2008 to 31.1.2011	5,000,000	—	(5,000,000)	—	—	0.2000
Chan Cheong Yee	14.1.2008	1.2.2008 to 31.1.2011	20,000,000	—	(20,000,000)	—	—	0.2000
Ng Kwong Chue Paul	29.1.2003	28.8.2003 to 27.8.2013	10,244,262	—	—	—	10,244,262	0.0244
	18.10.2007	18.10.2007 to 15.10.2010 (note 1)	8,520,000	—	—	—	8,520,000	0.0500
	14.1.2008	1.2.2008 to 31.1.2011	5,000,000	—	(5,000,000)	—	—	0.2000
David Wang Xin	29.1.2003	28.8.2003 to 27.8.2013	4,097,704	—	—	—	4,097,704	0.0244
	18.10.2007	18.10.2007 to 15.10.2010 (note 1)	17,040,000	—	—	—	17,040,000	0.0500
	14.1.2008	1.2.2008 to 31.1.2011	5,000,000	—	(5,000,000)	—	—	0.2000
Zang Hong Liang	18.10.2007	18.10.2007 to 15.10.2010 (note 1)	17,040,000	—	—	—	17,040,000	0.0500
	14.1.2008	1.2.2008 to 31.1.2011	5,000,000	—	(5,000,000)	—	—	0.2000

REPORT OF THE DIRECTORS

Name	Date of grant	Exercise period	Number of share options				Outstanding as at 31 December 2011	Price per share to be paid on exercise of options HK\$
			Outstanding as at 1 January 2011	Granted during the year	Lapsed during the year	Exercised during the year		
Lee Wing Hang	18.10.2007	18.10.2007 to 15.10.2010 (note 1)	10,000,000	—	—	—	10,000,000	0.0500
	14.1.2008	1.2.2008 to 31.1.2011	5,000,000	—	(5,000,000)	—	—	0.2000
Wong Chak Keung (resigned on 20 June 2011)	18.10.2007	18.10.2007 to 15.10.2010 (note 1)	6,384,000	—	(6,384,000)	—	—	0.0500
	14.1.2008	1.2.2008 to 31.1.2011	20,000,000	—	(20,000,000)	—	—	0.2000
<i>Others</i>								
Business advisors	29.1.2003	28.8.2003 to 27.8.2013	104,901,217	—	(104,901,217)	—	—	0.0244
	18.10.2007	18.10.2007 to 15.10.2010 (note 1)	73,584,000	—	—	—	73,584,000	0.0500
	14.1.2008	1.2.2008 to 31.1.2011	45,000,000	—	(45,000,000)	—	—	0.2000
Employees	18.10.2007	18.10.2007 to 15.10.2010 (note 1)	1,426,000	—	—	—	1,426,000	0.0500
Steering committee members	18.10.2007	18.10.2007 to 15.10.2010 (note 1)	8,520,000	—	—	—	8,520,000	0.0500
	14.1.2008	1.2.2008 to 31.1.2011	35,000,000	—	(35,000,000)	—	—	0.2000
			423,797,183	—	(256,285,217)	—	167,511,966	

Note:

- The original exercise period of these share options were lapsed on 15 October 2010. By a board of directors' resolution dated 15 October 2010, which is subject to the approval of the shareholder of the Company at a general meeting to be convened, the exercise period of the outstanding options will be extended to 17 October 2013.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the persons/companies, other than a Director or chief executive of the Company, who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

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

Name	Capacity	Number of issued shares held	Approximate percentage of interests
Harvest Rise Investments Limited	Beneficiary	1,723,335,379	24.69%
New Times Global Capital Inc. (note 1)	Deemed	1,723,335,379	24.69%
Kung Ching (note 2)	Deemed	1,723,335,379	24.69%
Guard Max Limited	Beneficiary	800,000,000	11.46%
Zhang Gui Sen (note 3)	Deemed	800,000,000	11.46%
China Seed International Limited	Beneficiary	800,000,000	11.46%
Yu Wang Shen (note 4)	Deemed	800,000,000	11.46%

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

Name	Number of underlying Shares (in respect of the 2008 Warrants) held	Capacity	% to the issued share capital of the Company
Harvest Rise Investments Limited (note 1)	800,000,000	Beneficiary	11.46%
Kung Ching (note 2)	800,000,000	Deemed	11.46%

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

Notes:

1. Harvest Rise Investments Limited is a private company wholly and beneficially owned by New Times Global Capital Inc.. Accordingly, New Times Global Capital Inc. is interested in the shares and the underlying shares of the company held by Harvest Rise Investments Limited.
2. Ms. Kung Ching, the spouse of Mr. Xiang, owns 50% share of New Times Global Capital Inc. and is also the director of the company. Ms. Kung Ching is deemed to have interested in underlying Shares held by Harvest Rise Investments Limited.
3. Guard Max Limited is a private company wholly and beneficially owned by Mr. Zhang Gui Sen. Mr. Zhang Gui Sen is deemed to have interest in 800,000,000 shares held by Guard Max Limited.
4. China Seed International Limited is a private company wholly and beneficially owned by Mr. Yu Wang Shen. Mr. Yu Wang Shen is deemed to have interest in 800,000,000 shares held by China Seed International Limited.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2011, the Company has not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTOR'S RIGHT TO ACQUIRE SHARES AND DEBENTURES

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

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

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 28 to the financial statements, no contracts of significance in relation to the Company's business to which the Company was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

Save as disclosed in note 28 to the financial statements, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CONNECTED TRANSACTIONS

All significant connected transactions entered by the Company during the year ended 31 December 2011 are disclosed in note 28 to the financial statements.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS

RETIREMENT BENEFITS SCHEME

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

For the year ended 31 December 2011, no forfeited contribution to the retirement benefits scheme was credited to the income statement (2010: nil).

CORPORATE GOVERNANCE

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2011.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events after the reporting period of the Company are set up in note 27 to the financial statements.

AUDITORS

The financial statements for the years ended 31 December 2010 were audited by Ascenda Cachet CPA Limited.

During the year, Ascenda Cachet CPA Limited resigned as auditors of the Company and ANDA CPA Limited was appointed as auditors of the Company to fill the causal vacancy so arising.

The financial statements for the year ended 31 December 2011 have been audited by ANDA CPA Limited who retire and, being eligible, offer themselves for reappointment. A resolution for the re-appointment of ANDA CPA Limited as auditors of the Company until the conclusion of the next annual general meeting is to be proposed at the forthcoming annual general meeting.

By order of the Board

Xiang Xin

Chairman and Chief Executive Officer

Hong Kong, 12 March 2012

INDEPENDENT AUDITOR'S REPORT



TO THE SHAREHOLDERS OF CHINA INNOVATION INVESTMENT LIMITED

中國創新投資有限公司

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of China Innovation Investment Limited (the "Company") set out on pages 26 to 29 which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of these financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2011, and of its results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirement of the Hong Kong Companies Ordinance.

ANDA CPA Limited

Certified Public Accountants

Sze Lin Tang

Practising Certificate Number P03614

Hong Kong, 12 March 2012

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
Gross sales proceeds of investments		16	44,331
REVENUE			
Interest income		5,867	2,187
Dividend income arising from available-for-sale investments		—	661
	8	5,867	2,848
OTHER INCOME AND GAINS			
Sundry income		105	—
Net realised gains on disposal of available-for-sale investments		—	7,955
Fair value gains on investment properties		—	6,000
Gain on disposal of property, plant and equipment		2,065	—
	8	2,170	13,955
Net realised losses on disposal of financial assets at fair value through profit or loss		(113)	(2,439)
Administrative and other operating expenses		(8,613)	(10,778)
(LOSS)/PROFIT BEFORE TAX	9	(689)	3,586
Income tax expense	11	—	—
(LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		(689)	3,586
OTHER COMPREHENSIVE INCOME:			
Available-for-sale investments:			
— Reclassification adjustments for gains included in profit or loss		—	(2,862)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		—	(2,862)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		(689)	724
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	12		
Basic		(0.01 cents)	0.05 cents
Diluted		N/A	0.05 cents

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 HK\$'000	2010 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	3,426	5,730
Investment properties	15	—	54,000
Available-for-sale investments	16	313,274	100,017
Loan receivables	17	—	158,795
Deposit for acquisition of available-for-sale investments	18	35,790	—
Total non-current assets		352,490	318,542
CURRENT ASSETS			
Interest receivables		—	2,058
Prepayments, deposits and other receivables		2,501	2,823
Cash and bank balances	20	97,909	81,146
Total current assets		100,410	86,027
CURRENT LIABILITIES			
Other payables and accruals	21	60,783	11,763
Total current liabilities		60,783	11,763
NET CURRENT ASSETS		39,627	74,264
TOTAL ASSETS LESS CURRENT LIABILITIES		392,117	392,806
NET ASSETS		392,117	392,806
EQUITY			
Issued share capital	22	69,794	69,794
Reserves	23	322,323	323,012
Total equity		392,117	392,806
Net asset value per share	25	HK\$0.06	HK\$0.06

Approved by:

Xiang Xin
Director

Li Zhou
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Available- for-sale investment revaluation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2010	61,709	281,187	25,221	2,862	(23,074)	347,905
Total comprehensive income for the year	—	—	—	(2,862)	3,586	724
Issue of shares for acquisition of available-for-sale investments	4,000	16,000	—	—	—	20,000
Issue of shares for acquisition of a shareholder loan in an investee company	4,000	16,000	—	—	—	20,000
Exercise of share options	85	495	(154)	—	—	426
Change in fair value of share options arising from extension of exercise period	—	—	3,751	—	—	3,751
At 31 December 2010 and 1 January 2011	69,794	313,682	28,818	—	(19,488)	392,806
Total comprehensive income for the year	—	—	—	—	(689)	(689)
At 31 December 2011	69,794	313,682	28,818	—	(20,177)	392,117

STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before tax	(689)	3,586
Adjustments for:		
Loss on disposal of financial assets at fair value through profit or loss	113	2,439
Gain on disposal of available-for-sale investments	—	(7,955)
Fair value gains on investment properties	—	(6,000)
Depreciation	1,148	841
Interest income	(5,867)	(2,187)
Dividend income arising from available-for-sale investments	—	(661)
Fixed assets written off	6	—
Gain on disposal of property, plant and equipment	(2,065)	—
Equity-settled share option expenses	—	3,751
Operating cash flows before working capital changes	(7,354)	(6,186)
Change in prepayments, deposits and other receivables	321	570
Change in other payables and accruals	(150)	(45)
Net cash used in operating activities	(7,183)	(5,661)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for deposit for acquisition of available-for-sale investments	(35,790)	—
Payment for acquisition of available-for-sale investments	(1,415)	(2,638)
Proceeds from disposal of available-for-sale investments	—	41,810
Proceeds from disposals of property, plant and equipment	58,535	—
Loss on disposal of financial assets at fair value through profit or loss	(113)	(2,439)
Payment for acquisition of property, plant and equipment	(155)	(3,752)
New loan receivables granted	—	(70,759)
Interest received	2,884	1,102
Dividend received arising from available-for-sale investments	—	661
Net cash generated from/(used in) investing activities	23,946	(36,015)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of shares upon exercise of share options	—	426
Net cash generated from financing activities	—	426
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	16,763	(41,250)
Cash and cash equivalents at beginning of year	81,146	122,396
CASH AND CASH EQUIVALENTS AT END OF YEAR	97,909	81,146
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	20,474	16,075
Non-pledged time deposits with original maturity of less than three months when acquired	77,435	65,071
	97,909	81,146

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. CORPORATE INFORMATION

China Innovation Investment Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business is situated at 26/F., 9 Des Voeux Road West, Sheung Wan, Hong Kong. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 28 August 2002.

The Company’s principal activity has not changed during the year and is principally engaged in investment holding. Its principal investment objective is to achieve short and medium-term capital appreciation by investing in listed and unlisted companies mainly in Hong Kong and the People’s Republic of China (the “PRC”).

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and accounting principles generally accepted in Hong Kong. In addition, the financial statements include applicable disclosure required by the Rules Governing the Listing on Securities of the Stock Exchange and the disclosure requirements of Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, except for investment properties and certain available-for-sale investments, which are stated at fair value.

These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except otherwise indicated.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Company has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2011. The adoption of these new and revised HKFRSs did not result in significant changes to the Company’s accounting policies, presentation of the Company’s financial statements and amounts reported for the current year and prior years.

Except for the early adoption of amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets, the Company has not applied the new HKFRSs that have been issued but are not yet effective. The Company has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The preparation of financial statements in conformity with HKFRSs requires the use of key assumptions and estimates. It also requires the directors to exercise its judgments in the process of applying the accounting policies. The areas involving critical judgments and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 5 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Transactions and balances in financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss. Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	Over the lease terms – 20%
Office equipments	20%
Furniture and fixtures	20%
Yacht	20%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

Operating leases

Leases that do not substantially transfer to the Company all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Company transfers substantially all the risks and rewards of ownership of the assets; or the Company neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income 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 is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss: Financial assets at fair value through profit or loss are either investments held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in profit or loss.

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or are determined to be impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Company's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

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

Provisions and contingent liabilities

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the shareholders' right to receive payment are established.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

Employee leave entitlements: Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Pension obligations: The Company contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Company and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Company to the funds.

Termination benefits: Termination benefits are recognised when, and only when, the Company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Share-based payment

The Group issues equity-settled share-based payments to certain directors, employees and consultants.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss 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 Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. 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, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Impairment of assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets except investments and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A related party is a person or entity that is related to the Company.

- (A) A person or a close member of that person's family is related to the Company if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.

- (B) An entity is related to the Company if any of the following conditions applies:
 - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
 - (vi) The entity is controlled or jointly controlled by a person identified in (A).
 - (vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Events after the reporting period

Events after the reporting period that provide additional information about the Company's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Valuation of available-for-sale investments

The available-for-sale investments are 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. In the absence of current prices in an active market for similar unlisted securities, the management determines the fair values by using valuation techniques based on information from a variety of sources, including the latest information of the available-for-sale investments.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Useful lives of property, plant and equipment

The management of the Company determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment of available-for-sale investments

The management of the Company assesses the possible impairment of the Company's available-for-sale investments at end of each reporting period.

At the end of the reporting period, the carrying value of available-for-sale investments were approximately HK\$313,274,000. The Company is confident that the carrying amount of the available-for-sale investments will be recovered in full. This situation will be closely monitored, and adjustments made in future periods, if future market activity indicates that such adjustments are appropriate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's major financial instruments include investments and receivables, bank and cash balances and accruals and payables. The risks associated with these financial instruments include market risk (currency risk and interest rate 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.

(a) Foreign currency risk

Foreign exchange risk mainly arises from monetary assets and liabilities denominated in a currency that is not the functional currency of the Company. The Company will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

During the reporting period, certain assets of the Company are denominated in Renminbi ("RMB").

At 31 December 2011, if Hong Kong dollar had weakened or strengthened by 5% (2010: 5%) against RMB, with all other variables held constant, loss before tax for the reporting period would have been approximately HK\$4,513,000 (2010: approximately HK\$3,632,000) lower or higher, mainly as a result of foreign exchange gains or losses on translation of bank and cash balances in Hong Kong.

The Company currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(b) Interest rate risk

The Company is exposed to cash flow interest rate risk in relation to variable-rate bank deposit.

The Company currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

At the end of the reporting period, if interest rates had been increased or decreased by 100 basis points (2010: 100 basis points) and all other variables were held constant, the loss before tax of the Company would decrease or increase by approximately HK\$903,000 (2010: approximately HK\$811,000).

(c) Credit risk

The Company is exposed to credit risk mainly in relation to its securities trading, loan receivables and interest receivables of the Company, deposits with banks and securities companies.

In order to minimise the credit risk, the management of the Company reviews the recoverable amount of each individual debtor at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Company's credit risk is significantly reduced.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk (Continued)

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

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

(d) Liquidity risk

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. available-for-sale investments, loan receivables and interest receivables) and projected cash flows from operations.

The following table detailed the contractual maturity of the Company for its financial liabilities. The table has been drawn up based on the undiscounted cash flow of financial liabilities based on the earliest date on which the Company can be required to pay. The amounts represented both interest and principal cash flow.

	At 31 December 2011				
	On demand or no fixed terms of repayment HK\$'000	Less than 3 months HK\$'000	Held to 3 to less than 12 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Other payables and accruals	60,632	151	—	—	60,783
	At 31 December 2010				
	On demand or no fixed terms of repayment HK\$'000	Less than 3 months HK\$'000	Held to 3 to less than 12 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Other payables and accruals	11,460	303	—	—	11,763
Undrawn loan commitment	3,500	—	—	—	3,500
	14,960	303	—	—	15,263

(e) Fair value

The carrying amounts of the Company's financial assets and financial liabilities as reflected in the statement of financial position approximate their respective fair values.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. OPERATING SEGMENT INFORMATION

The Company's operating segment is investment holding which comprises the investing in unlisted companies in order to achieve short and medium-term capital appreciation. Since this is the only operating segment of the Company, no further analysis thereof is presented.

Geographical information

The Company's revenue analysed by geographical location and information about its non-current assets (excluding available-for-sale investments, loan receivables and deposit for acquisition of available-for-sale investments) by geographical location are detailed below:

	Hong Kong		PRC (not including Hong Kong)		Total	
	2011 HK'000	2010 HK'000	2011 HK'000	2010 HK'000	2011 HK'000	2010 HK'000
REVENUE						
Interest income	5,867	2,187	—	—	5,867	2,187
Dividend income arising from available-for-sale investments	—	661	—	—	—	661
	5,867	2,848	—	—	5,867	2,848
NON-CURRENT ASSETS						
Property, plant and equipment	3,426	5,730	—	—	3,426	5,730
Investment properties	—	54,000	—	—	—	54,000
	3,426	59,730	—	—	3,426	59,730

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

8. REVENUE, OTHER INCOME AND GAINS

An analysis of the revenue, other income and gains of the Company is as follows:

	2011 HK\$'000	2010 HK\$'000
Revenue		
Interest income	5,867	2,187
Dividend income arising from available-for-sale investment	—	661
Total revenue	5,867	2,848
Other income and gains		
Sundry income	105	—
Net realised gains on disposal of available-for-sale investments	—	7,955
Fair value gains on investment properties	—	6,000
Gain on disposal of property, plant and equipment	2,065	—
Total other income and gains	2,170	13,955

9. (LOSS)/PROFIT BEFORE TAX

The Company's (loss)/profit before tax is arrived at after charging/(crediting):

	2011 HK\$'000	2010 HK\$'000
Auditors' remuneration	116	128
Depreciation	1,148	841
Investment manager's fee	300	300
Net realised losses on disposal of financial assets at fair value through profit or loss	113	2,439
Employee benefits expenses (including directors' remuneration):		
Wages, salaries and welfare	2,630	1,870
Pension scheme contributions	77	62
Equity-settled share option expenses	—	3,751
Total employee benefits expenses	2,707	5,683
Minimum lease payments under operating leases, land and buildings	960	960
Interest income	(5,867)	(2,187)
Net realised gains on disposal of available-for-sale investments	—	(7,955)
Fair value gains on investment properties	—	(6,000)
Gain on disposal of investment properties	(2,065)	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

10. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

(a) Directors' emoluments

	For the year ended 31 December 2011				
	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Equity- settled share option benefits <i>HK\$'000</i>	Pension scheme contribution <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive directors:					
Xiang Xin	5	—	—	—	5
Chan Cheong Yee	5	—	—	—	5
Li Zhou (appointed on 2 June 2011)	3	209	—	—	212
Wong Chak Keung (resigned on 20 June 2011)	—	321	—	6	327
	13	530	—	6	549
Non-executive directors:					
Ng Kwong Chue, Paul	5	—	—	—	5
Independent non-executive directors:					
David Wang Xin	5	—	—	—	5
Zang Hong Liang	5	—	—	—	5
Lee Wing Hang	5	5	—	—	10
	15	5	—	—	20
Total	33	535	—	6	574

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

10. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

(Continued)

(a) Directors' emoluments (Continued)

	For the year ended 31 December 2010				
	Fees	Salaries, allowances and benefits in kind	Equity-settled share option benefits	Pension scheme contribution	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors:					
Xiang Xin	5	—	401	—	406
Chan Cheong Yee	5	—	—	—	5
Wong Chak Keung	—	618	150	12	780
	10	618	551	12	1,191
Non-executive directors:					
Ng Kwong Chue, Paul	5	—	200	—	205
Independent non-executive directors:					
David Wang Xin	5	—	401	—	406
Zang Hong Liang	5	—	401	—	406
Lee Wing Hang	5	5	235	—	245
	15	5	1,037	—	1,057
Total	30	623	1,788	12	2,453

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2010: Nil).

During the year, no emoluments have been paid to the directors as an inducement to join or upon joining the Company; or as compensation for loss of office (2010: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

10. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

(Continued)

(a) Directors' emoluments (Continued)

The number of directors, whose remuneration fell within the following bands is as follows:

	Number of directors	
	2011	2010
HK\$nil – HK\$1,000,000	8	7

(b) Five highest paid individuals

Of the five highest paid individuals of the Company, two (2010: four) were Directors whose emoluments are set out in the above. For the year ended 31 December 2011, the remaining three (2010: one) senior management's emoluments of the Company were as follows:

	2011 HK\$'000	2010 HK\$'000
Salaries, allowances and benefit-in-kind	1,084	239
Equity-settled share-based payments	—	—
Retirement benefit costs	35	11
	1,119	250

The number of employees whose remuneration fell within the following bands are as follows:

	Number of individuals	
	2011	2010
HK\$1,000,000 or below	3	1

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

11. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been provided for the years ended 31 December 2011 and 2010 since the Company has no assessable profit arose in Hong Kong for both years.

The reconciliation between the income tax expense and the (loss)/profit before tax is as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
(Loss)/profit before tax	(689)	3,586
Tax at the statutory tax rate	(114)	592
Income not subject to tax	(407)	(2,425)
Expenses not deductible for tax	—	618
Tax loss not recognised/(utilised)	521	1,215
Tax charge at the Company's effective tax rate	—	—

As at 31 December 2011, the Company had unused tax losses of approximately HK\$27,644,000 (2010: HK\$23,944,000) 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 end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

12. (LOSS)/EARNING PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

Basic (loss)/earning per share

The calculation of basic (loss)/earning per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK\$689,000 (2010: profit of approximately HK\$3,586,000) and the weighted average number of ordinary shares of 6,979,385,753 (2010: 6,576,842,630) in issue during the year.

Diluted (loss)/earnings per share

No diluted loss per share for the year ended 31 December 2011 is presented as the warrants and options for the year ended 31 December 2011 are either no dilutive potential or anti-dilutive.

The calculation of diluted earning per share for the year ended 31 December 2010 attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK\$3,586,000 and the weighted average number of ordinary shares of 6,681,840,531 being the weighted average number of ordinary shares of 6,576,842,630 in issue during the year used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 104,997,901 assumed to have been issued at no consideration on the deemed exercise of the share options outstanding at the balance sheet date.

13. DIVIDENDS

The Directors did not recommend the declaration of any dividend for the years ended 31 December 2011 and 2010.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement <i>HK\$'000</i>	Office equipments <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Yacht <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST					
At 1.1.2010	2,400	152	285	—	2,837
Additions	—	—	29	4,026	4,055
At 31.12.2010 and 1.1.2011	2,400	152	314	4,026	6,892
Additions	136	—	19	—	155
Disposal	(1,561)	(118)	178	—	1,857
Write off	—	—	(13)	—	(13)
At 31.12.2011	975	34	142	4,026	5,177
ACCUMULATED DEPRECIATION					
At 1.1.2010	271	11	40	—	322
Charge for the year	480	30	62	268	840
At 31.12.2010 and 1.1.2011	751	41	102	268	1,162
Charge for the year	287	15	40	806	1,148
Disposal	(468)	(33)	(51)	—	(552)
Write back	—	—	(7)	—	(7)
At 31.12.2011	570	23	84	1,074	1,751
CARRYING AMOUNT					
At 31.12.2011	405	11	58	2,952	3,426
At 31.12.2010	1,649	111	212	3,758	5,730

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

15. INVESTMENT PROPERTIES

	2011 HK\$'000	2010 HK\$'000
Carrying amount at 1 January	54,000	48,000
Additions	—	—
Gain on fair value adjustment	—	6,000
Disposal	(54,000)	—
Carrying amount at 31 December	—	54,000

16. AVAILABLE-FOR-SALE INVESTMENTS

	2011 HK\$'000	2010 HK\$'000
Unlisted equity securities, at cost	317,774	104,517
Less: Impairment	(4,500)	(4,500)
Net carrying value	313,274	100,017

Notes:

- (a) The following is a list of the Company's unlisted available-for-sale investments as at 31 December 2011:

Unlisted equity securities

Name of investee company	2011						2010
	Cost HK\$'000	Impairment loss recognised HK\$'000	Carrying amount HK\$'000	% of total assets of the Company	% of equity interest	% of voting right	Carrying amount HK\$'000
Blue Angel (H.K.) Limited ("Blue Angel") (note (i))	82,800	(4,500)	78,300	17%	63%	—	13,527
United Crown Century Company Limited ("United Crown") (note (ii))	78,700	—	78,700	17%	53%	—	15,133
Aesthetic Vision Limited ("Aesthetic") (note (iii))	78,349	—	78,349	17%	85%	—	51,355
Topsun Creation Limited ("Topsun") (note (iv))	77,925	—	77,925	17%	68%	—	20,002
	317,774	(4,500)	313,274				100,017

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

16. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Notes:

(i) Investment in Blue Angel (H.K.) Limited

The Company held 3,750 class A ordinary shares ("Blue Angel Class A Shares") in Blue Angel with a carrying value of HK\$4,500,000 (after an impairment loss of HK\$4,500,000), which represented 7.5% equity interest in the issued share capital of Blue Angel at 31 December 2009.

On 20 April 2010, the Company entered into a shares swap agreement (the "Blue Angel Shares Swap Agreement") with Freewin Group Limited ("Freewin Group"), a shareholder of Blue Angel who held 8,750 Blue Angel Class A Shares, representing 17.5% equity interest in Blue Angel. Pursuant to the Blue Angel Shares Swap Agreement, the Company swapped all its 250 ordinary shares in Jinan LuGu (representing 25% equity interest in Jinan LuGu) for 8,750 Blue Angel Class A shares (representing 17.5% equity interest in Blue Angel) with Freewin Group at a consideration of HK\$9,000,000. Upon completion of the shares swap, the Company's equity interest in Blue Angel was increased from 7.5% to 25%.

On 25 June 2010, the Company further entered into a shareholder agreement, a subscription agreement and a loan agreement with Blue Angel (Holdings) Limited, the major shareholder of Blue Angel. Pursuant to which, Blue Angel issued and allotted 27,000 class B shares ("Blue Angel Class B Shares") to the Company at a consideration of HK\$27,000 while the Company agreed to provide a shareholder loan of HK\$40,000,000 to Blue Angel which is unsecured, interest-free and repayable on 27 May 2039 and the remaining balance to be satisfied by cash upon on demand. The Class B shares rank *pari passu* with the Class A shares in all aspects except for their non-voting rights.

On 31 December 2011, the Company, Blue Angel (Holdings) Limited and Freewin Group entered into a memorandum. Pursuant to which, all parties agreed that the shareholder loan by the Company to Blue Angel will be capitalized as part of the Company's investment in Blue Angel.

On 31 December 2011, the Company further agreed to acquire 9,000 Class A shares held by Blue Angel (Holdings) Limited at a consideration of HK\$16,200,000. The consideration was satisfied by the Promissory notes issued by Morgan Strategic Limited held by the Company worth for amounting to HK\$15,000,000 plus interest receivables amounting to HK\$767,550.69. The remaining amount is to be settled by cash amounting to HK\$432,449.31. The Company agreed that all of the acquired Class A shares and also the Class A shares held by the Company are to be converted into Class B shares and forfeited the voting right. At the end of the reporting period, the Company held 48,500 Class B shares of Blue Angel without voting right.

Blue Angel is not accounted for as a subsidiary or an associate of the Company as the directors of the Company are of the opinion that the Company is not in a position to control or exercise any significant influence over its financial and operating decisions. Accordingly, the investment in Blue Angel of approximately HK\$78,300,000 (after impairment loss of HK\$4,500,000) is classified as "available-for-sale investments" in the financial statements. No dividend was received from Blue Angel for the years ended 31 December 2011 and 2010.

The investment in Blue Angel 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.

Background information of Blue Angel

Blue Angel is incorporated in Hong Kong and is principally engaged in investment holding. In previous years, Blue Angel indirectly held 38.5% equity interest in a company (the "Blue Angel Subsidiary A") which was established in the PRC, and was principally engaged in manufacturing and trading of 發光二極管芯片. The investment in Blue Angel was impaired by HK\$4,500,000 as the Blue Angel Subsidiary A was deregistered during the year ended 31 December 2009.

During the year ended 31 December 2010, Blue Angel was principally invested in another wholly owned subsidiary (the "Blue Angel Subsidiary B") which was established in the PRC and is principally engaged in conducting research and development, manufacturing and the distribution of products applying the solar energy technology. The net assets of the Blue Angel subsidiary B amounted to approximately HK\$138,249,000 as at 31 December 2011 (2010: approximately of HK\$135,142,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

16. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Notes: (Continued)

(ii) Investment in United Crown Century Company Limited

On 30 June 2010 and 2 July 2010, the Company entered into a shares and shareholder loans swap agreements (the "United Crown Swap Agreements") with Miden Fair Group Limited ("Miden Fair"), a major shareholder of United Crown, who held (i) 8,526 class A shares (representing 61%) ("United Crown Class A Shares"); and (ii) 4,644 class B shares (representing 33%) ("United Crown Class B Shares"). Pursuant to the United Crown Swap Agreements, (a) United Crown issued and allotted 8,000 United Crown Class B Shares to the Company at a consideration of HK\$8,000; United Crown Class B Shares to Miden Fair at a consideration of HK\$2,000; (b) the Company swapped all its 30 ordinary shares in Takenaka (representing 30% equity interest in Takenaka) for 4,644 United Crown class B shares with Miden Fair at a consideration of approximately HK\$15,125,000; and (c) the Company swapped its shareholder loan granted to Takenaka of approximately HK\$23,576,000 for a shareholder loan with the same amount due by United Crown to Miden Fair.

On 31 December 2011, the Company and Miden Fair entered into a memorandum. Pursuant to which, all parties agreed that the shareholder loan by the Company to United Crown will be capitalized as part of the Company's investment in United Crown.

The United Crown class B shares rank *pari passu* with the United Crown class A shares in all aspects except for their non-voting rights. Upon completion of the allotment and shares Swap, the Company held approximately 53% equity interest in United Crown.

United Crown is not accounted for as a subsidiary or an associate of the Company as the directors of the Company are of the opinion that the Company is not in a position to control or exercise any significant influence over its financial and operating decisions. Accordingly, investment in United Crown of approximately HK\$78,700,000 is classified as "available-for-sale investments" in the financial statements. No dividend was received from United Crown for the years ended 31 December 2011 and 2010.

The investment in United Crown 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.

Background information of United Crown

United Crown is incorporated in Hong Kong and is principally engaged in investment holding. At 31 December 2011, the principal asset of United Crown was its indirect 100% equity interest in a company established in the PRC, which is principally engaged in conducting research and development of energy saving eco-material for walls. The net assets of this subsidiary was approximately HK\$168,062,000 as at 31 December 2011 (2010: approximately of HK\$164,128,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

16. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Notes: (Continued)

(iii) Investment in Aesthetic Vision Limited

On 15 November 2010, the Company entered into a shares swap and subscription agreement (the "Aesthetic Shares Swap Agreement") with Joy China Group Limited ("Joy China"), the sole shareholder of Aesthetic who holds (i) 1,000 class A shares (representing 33%) ("Aesthetic Class A Shares"); and (ii) 2,000 class B shares (representing 67%) ("Aesthetic Class B Shares") in Aesthetic. Pursuant to the Aesthetic Shares Swap Agreement, the Company swapped its 2,250 non-voting shares and 150 voting shares in Dooda (representing 80% equity interest in Dooda) with Joy China for (a) 1,890 Aesthetic Class B Shares at a consideration of approximately HK\$2,000; and (b) the subscription of 4,410 Aesthetic Class B Shares from Aesthetic at a consideration of approximately HK\$51,353,000.

On 31 December 2010, Aesthetic issued and allotted (a) 2,590 Aesthetic Class B Shares to Joy China at a consideration of approximately HK\$30,160,000; and (b) 4,410 Aesthetic Class B Shares to the Company at a consideration of approximately HK\$51,353,000. The Aesthetic Class B Shares rank *pari passu* with the Aesthetic Class A Shares in all aspects except for their non-voting right.

On 31 December 2011, the Company and Joy China entered into a memorandum. Pursuant to which, the Company agreed to acquire 2,200 Class B shares held by Joy China at a consideration of approximately HK\$26,993,865.03. The consideration was satisfied by the Promissory notes issued by Morgan Strategic Limited held by the Company worth for amounting to HK\$25,000,000 plus interest receivables amounting to HK\$1,279,251.15. The remaining amount is to be settled by cash amounting to HK\$714,613.88. At the end of the reporting period, the Company held 8,500 Class B shares of Aesthetic without voting right.

On 31 December 2011, the Company further entered into a subscription agreement with Aesthetic. Pursuant to which, the Company subscribed 2,200 Aesthetic Class B Shares at a consideration of RMB22,000,000 (equivalent to approximately HK\$26,993,865.03). The consideration was satisfied by convertible note issued by Morgan Strategic Limited held by the Company, principal amount of HK\$25,000,000 plus relevant bond interest receivables amounting to HK\$1,279,251.15. The remaining amount is to be settled by cash amounting to HK\$714,613.88. At the end of the reporting period, the Company held 8,500 Aesthetic Class B Shares without voting right.

Aesthetic is not accounted for as a subsidiary or an associate as the directors of the Company are of the opinion that the Company is not in a position to control or exercise any significant influence over its financial and operating decisions. Accordingly, investment in Aesthetic of approximately HK\$78,349,000 is classified as "available-for-sale investments" in the financial statements. No dividend was received from Aesthetic for the years ended 31 December 2011 and 2010.

The investment in Aesthetic 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.

Background information of Aesthetic

Aesthetic is incorporated in Hong Kong and is principally engaged in investment holding. The principal asset of Aesthetic is the 100% equity interest in a company established in the PRC, which is principally engaged in manufacturing of LED lighting. Aesthetic, through the subsidiary, possesses of LED ergonomics technology with features including LED illuminant, appropriate light flux, free colour temperature, healthy spectrum and compliance to ergonomics. Its products are widely used in military production as well as civic purposes. The net assets of the subsidiary of Aesthetic amounted to approximately HK\$112,964,000 as at 31 December 2011 (2010: approximately of HK\$119,342,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

16. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Notes: (Continued)

(iv) Investment in Topsun Creation Limited

The Company entered into a sales and purchase agreement with China Seed International Limited (“China Seed”), which held 690 class A shares (“Topsun Class A Shares”) and 310 class B shares (“Topsun Class B Shares”) in Topsun, on 8 May 2009. Pursuant to which, among other things, the Company acquired 310 Topsun Class B Shares from China Seed at a consideration of HK\$20,000,000. The consideration was satisfied by the issue of consideration shares of HK\$0.01 each of the Company at an issue price of HK\$0.05 per share. Accordingly, 400,000,000 shares of HK\$0.01 each of the Company were allotted and issued as fully paid on 30 March 2010.

The Company further entered into a supplemental subscription agreement and a shareholder loan agreement with Topsun on 6 May 2010 and 17 May 2010 respectively, pursuant to which, (a) Topsun issued and allotted 1,000 Topsun Class B Shares to the Company at a consideration of HK\$1,000; and (b) the Company agreed to provide a shareholder loan (the “Topsun Loan”) of approximately HK\$17,259,000 to Topsun which is unsecured, interest-free and repayable on 26 March 2039.

On 28 June 2010 and 12 October 2010, the Company entered into a sales and purchase agreement with China Seed and a shareholder loan agreement with China Seed and Topsun. Pursuant to which, the Company acquired from China Seed (a) 1,100 Topsun Class B Shares at a consideration of RMB958 (equivalent to approximately HK\$1,100); and (b) a shareholder loan to Topsun of RMB27,500,000 (equivalent to approximately HK\$31,460,000) (the “Topsun Loan”). Part of the consideration of the Topsun Loan of HK\$20,000,000 was satisfied by the issue of 400,000,000 consideration shares of HK\$0.01 each of the Company at an issue price of HK\$0.05. Accordingly, 400,000,000 shares of HK\$0.01 each of the Company were allotted and issued on 14 October 2010. The remained consideration of approximately HK\$11,460,000 was included in other payable in the statement of financial position.

On 31 December 2011, the Company and China Seed entered into a memorandum. Pursuant to which, all parties agreed that the shareholder loan by the Company to Topsun will be capitalized as part of the Company’s investment in Topsun.

On 31 December 2011, the Company further agreed to acquire 300 Class B shares held by China Seed at a consideration of RMB7,500,000 (equivalent to approximately HK\$9,202,453.99). The consideration was satisfied by the Promissory notes issued by Morgan Strategic Limited held by the Company worth for amounting to HK\$8,500,000 plus interest receivables amounting to HK\$434,945.39. The remaining amount is to be settled by cash amounting to HK\$267,508.60. At the ended of the reporting period, the Company held 2,710 Topsun Class B Shares without voting right. Topsun Class B Shares rank pari passu with Topsun Class A Shares in all aspects except for their non-voting rights.

Topsun is not accounted for as a subsidiary or an associate of the Company as the directors of the Company are of the opinion that the Company is not in a position to control or exercise any significant influence over its financial and operating decisions. Accordingly, investment in Topsun of approximately HK\$77,925,000 is classified as “available-for-sale investments” in the financial statements. No dividend was received from Topsun for the years ended 31 December 2011 and 2010.

The investment in Topsun 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.

Background information of Topsun

Topsun is incorporated in Hong Kong and is principally engaged in investment holding. As at 31 December 2011, the principal asset of Topsun was its 100% equity interest in a company established in the PRC, which is principally engaged in conducting research and development, manufacturing and distribution of products applying the solar energy technology. A new energy battery is one of the major products of Topsun. This battery has the characteristics of high capacity, fully sealed and maintenance-free, and are substantially used in tanks, submarines and barracks as well as civil vehicles and construction. Topsun is also planning to step into the industry of photovoltaic integration. The net assets of the subsidiary of Topsun was approximately HK\$108,641,000 as at 31 December 2011 (2010: approximately of HK\$116,624,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

17. LOAN RECEIVABLES

	2011 HK\$'000	2010 HK\$'000
Interest-bearing loan receivable		
— Morgan Strategic Loan (<i>note (i)</i>)	—	46,500
Shareholder loan receivables		
— United Crown Loan (<i>note (ii)</i>)	—	23,576
— Blue Angel Loan (<i>note (iii)</i>)	—	40,000
— Topsun Loan (<i>note (iv)</i>)	—	48,719
	—	158,795

- (i) On 30 September 2009, the Company entered into a loan agreement with Morgan Strategic Limited (“Morgan Strategic”), an independent third party, pursuant to which, the Company agreed to provide a loan facility of up to HK\$40,000,000 (“the Morgan Strategic Loan”) to Morgan Strategic of which HK\$33,000,000 was drawn by Morgan Strategic as at 31 December 2009. The Morgan Strategic Loan is unsecured, repayable on 25 May 2014 and bears interest at an effective interest rate (which equals to contractual interest rate) of 5% per annum.

On 22 June 2010, the Company further entered into a supplemental loan agreement with Morgan Strategic, pursuant to which, the Company increased the loan facility to HK\$50,000,000 to Morgan Strategic, which is unsecured, bears an interest rate at 5% per annum and is repayable on 21 June 2015. As at 30 December 2011, the outstanding amount of the Morgan Strategic Loan was HK\$48,500,000 and the corresponding interest receivable of approximately HK\$2,482,000 (2010: approximately of HK\$2,058,000).

On 31 December 2011, the Company had entered into the memorandums with the shareholders of Blue Angel (H.K.), Aesthetic and Topsun. Pursuant to the memorandums, the Company agreed to acquire shares of those companies and the consideration will be partially satisfied by the principal amount and the corresponding interest receivables of the loan to Morgan Strategic Limited (*note 16*).

- (ii) The Company had a shareholder loan due from United Crown (the “United Crown Loan”) of approximately HK\$23,576,000 in prior year. The United Crown Loan was unsecured and interest-free and repayable on 27 September 2039. During the year, pursuant to the memorandum with Miden Fair on 31 December 2011, the United Crown Loan had been settled by capitalizing into the equity interest of United Crown (*note 16*).
- (iii) On 25 June 2010, the Company entered into a loan agreement with Blue Angel, pursuant to which, the Company had provided a shareholder loan (the “Blue Angel Loan”) of HK\$40,000,000 to Blue Angel, which is unsecured, interest-free and repayable on 27 May 2039. During the year, pursuant to the memorandum with Blue Angel (Holdings) on 31 December 2011, the Blue Angel Loan had been settled by capitalizing into the equity interest of Blue Angel (*note 16*).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

17. LOAN RECEIVABLES (Continued)

- (iv) On 17 May 2010, the Company entered into a loan agreement with Topsun, pursuant to which, the Company provided a shareholder loan of HK\$17,259,000 to Topsun. On 28 June 2010 and 12 October 2010, the Company further entered into a sales and purchase agreement with China Seed and a shareholder loan agreement with China Seed and Topsun, pursuant to which, the Company acquired from China Seed a shareholder loan to Topsun in the amount of approximately HK\$31,460,000. The loan in aggregate amount of approximately HK\$48,719,000 (the "Topsun Loan") is unsecured, interest free and repayable on 26 March 2039. During the year, pursuant to the memorandum with China Seed on 31 December 2011, the Topsun Loan had been settled by capitalizing into the equity interest of Topsun (note 16).

18. DEPOSIT FOR ACQUISITION OF AVAILABLE-FOR-SALE INVESTMENT

	2011 HK\$'000	2010 HK\$'000
Deposit for acquisition of available-for-sale investment (note i)	35,790	—

- (i) On 31 December 2011, the Company had entered into an agreement with 王卓, which the Company agreed to acquire 6,300 Class B shares as well as the shareholder loan amounting to RMB63,000,000 of Grand Far Sky Limited (廣遠星空有限公司), a company incorporated in Hong Kong under limited liability. The total consideration is RMB63,000,000 plus HK\$6,300 which the Company had made RMB30,000,000 (equivalent to approximately HK\$35,790,000) as the deposit for the acquisition.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2011 HK\$'000	2010 HK\$'000
Prepayments	2,268	2,607
Deposits	161	216
Other receivables	72	—
	2,501	2,823

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

20. CASH AND CASH EQUIVALENTS

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Cash at banks		
Bank balances	19,121	1,741
Time deposits	77,435	65,071
	96,556	66,812
Cash on hand	3	3
Cash held in securities account of securities companies	1,350	14,331
	97,909	81,146

Cash at banks and held in 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.

At the end of the reporting period, the bank and cash balances of the Company denominated in "RMB" amounted to approximately RMB75,012,000 (2010: approximately RMB33,844,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

21. OTHER PAYABLES AND ACCRUALS

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Consideration for acquisition of investment (<i>note (a) & (b)</i>)	60,025	11,460
Other payables	605	—
Accruals	153	303
	60,783	11,763

Notes:

- (a) As at 31 December 2010, the amount represented part of the consideration payable of approximately HK\$11,460,000 for acquisition of (a) 1,100 Topsun Class B Shares; and (b) a shareholder loan to Topsun of RMB27,500,000 which has not been settled.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

21. OTHER PAYABLES AND ACCRUALS (Continued)

Notes: (Continued)

- (b) As at 31 December 2011, the amount represented part of the consideration payable for acquisition of available for sale investments as below, which has not been settled:

Available for sale investments	Details of acquisition	Consideration HK\$'000
Blue Angel	27,000 Blue Angel Class B shares	8,573
United Crown	8,000 United Crown Class B shares	39,992
Topsun	1,100 Topsun Class B Shares and the shareholder loan to Topsun amounting to RMB 27,000,000	11,460
		60,025

22. SHARE CAPITAL

	2011 HK\$'000	2010 HK\$'000
Authorised:		
15,000,000,000 ordinary shares of HK\$0.01 each	150,000	150,000
Issued and fully paid:		
6,979,385,753 ordinary shares of HK\$0.01 each	69,794	69,794

(a) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the two years ended 31 December 2011 and 2010.

(b) Warrants

The Company had 800,000,000 warrants granted on 27 December 2007 which remained outstanding as at 31 December 2011 entitling the holder of the warrants to subscribe for 800,000,000 shares of HK\$0.01 each of the Company at an exercise price of HK\$0.20 each on or before 29 January 2013. No warrants has been exercised during the two years ended 31 December 2011 and 2010.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

23. RESERVES

(i) Share premium account

Pursuant to the Companies Law (1998 Revision) of the Cayman Islands and the Company's Articles of Association, the share premium of the Company is distributable to the equity holders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Share option reserve

The share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 4 to the financial statements.

(iii) Available-for-sale investment revaluation reserve

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

24. SHARE OPTIONS

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

24. SHARE OPTIONS (Continued)

Details of the options granted under the Scheme and outstanding at 31 December 2011 and 2010 are as follows:

Date of grant	Exercise period	Outstanding as at 1 January 2010	Granted during the year	Lapsed during the year	Outstanding at 31 December 2010	Lapsed during the year	Outstanding at 31 December 2011	Exercise price per share option HK\$
29.1.2003	28.8.2003 to 27.8.2013	119,243,183	—	—	119,243,183	(104,901,217)	14,341,966	0.0244
18.10.2007	18.10.2007 to 17.10.2013	168,074,000	—	(8,520,000)	159,554,000	(6,384,000)	153,170,000	0.0500
14.1.2008	1.2.2008 to 31.1.2011	145,000,000	—	—	145,000,000	(145,000,000)	—	0.2000
		432,317,183	—	(8,520,000)	423,797,183	(256,285,217)	167,511,966	

25. NET ASSET VALUE PER SHARE

As at 31 December 2011 and 2010, the net asset value per share of the Company was HK\$0.06 and HK\$0.06, respectively. The calculation of net asset value per share is based on the net asset value of the Company as at 31 December 2011 of approximately HK\$392,117,000 (2010: HK\$392,806,000) and 6,979,385,753 (2010: 6,979,385,753) ordinary shares in issue at the end of each reporting period.

26. COMMITMENTS

(a) Lease commitments

As at 31 December 2011, the total future minimum lease payments of the Company under non-cancellable operating leases are payable as follows:

	2011 HK\$'000	2010 HK\$'000
Future aggregate minimum lease payments under operating leases in respect of land and buildings and motor vehicles:		
— within one year	1,500	480
— in the second to fifth years inclusive	2,520	—
	4,020	480

Operating lease payments represent rentals payable by the Company for its offices and motor vehicles. Leases are negotiated for an average term of 3 years and rentals are fixed over the lease terms and do not include contingent rentals.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

26. COMMITMENTS *(Continued)*

(b) Capital commitments

The Company had the following capital commitments at the end of the reporting period:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Commitment on:		
Available-for-sale investments	40,263	18,193

27. EVENTS AFTER THE END OF THE REPORTING PERIOD

There is no significant subsequent event after the end of the reporting period.

28. RELATED PARTY TRANSACTIONS

- (i) Save as those disclosed elsewhere in the financial statements, the Company had the following material transactions with related parties and China Everbright Securities (HK) Limited during the year:

	<i>Notes</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Investment management fee paid to China Everbright Securities (HK) Limited	<i>(a)</i>	300	300
Brokerage commission and handling fee paid to China Everbright Securities (HK) Limited	<i>(b)</i>	—	29
Rental expenses paid to New Era Group (China) Limited	<i>(c)</i>	960	960
Rental deposit paid to New Era Group (China) Limited	<i>(c)</i>	160	160
Proceeds from disposal of investment properties received from New Era Group (China) Limited	<i>(d)</i>	1,000	—

The related party transactions were conducted on terms negotiated between the Company and the related companies, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

28. RELATED PARTY TRANSACTIONS (Continued)

(i) (Continued)

Notes:

- (a) The Company entered into an investment management agreement with China Everbright Securities (HK) Limited ("CES") for a period of three years commencing from 1 June 2003 in consideration of a payment of a fee calculated at 0.25% per annum of the net asset value of the Company as at the last dealing date on the Stock Exchange in each calendar month or such other valuation date as considered appropriate by the Board and payable on a monthly basis on a business date immediately after each valuation date. The agreement is renewed automatically for a period of three years upon expiry unless a written notice of termination by either party for not less than 3 months is served.

In addition, CES is entitled to a bonus fee equivalent to 10% of the audited profit before tax of each financial year of the Company payable on the business date immediately after the publication of the Company's final audited result for the year. On 23 October 2007, a supplemental agreement was entered into between the Company and CES whereas the service fee was fixed at HK\$300,000 per annum by a monthly payment of HK\$25,000 and the annual bonus was maximised to HK\$1,000,000 with effect from 1 January 2008. CES is regarded as a connected person of the Company for the purpose of the Listing Rules. Mr. Chan Cheong Yee, a director of the Company, is the authorised representative of CES.

- (b) Brokerage commission rate is charged at the rate ranged from 0.25% to 1% of the value of the transactions. Handling fee is charged at HK\$100 per each IPO application.
- (c) The Company entered into a tenancy agreement (the "Tenancy Agreement") with New Era Group (China) Limited ("NEG"), a company of which Mr. Xiang Xin, is a director of the Company has control, for the occupancy of an office premises for a 3 years term commenced from 1 July 2008 with rent-free period from 1 July 2008 to 31 August 2008. Pursuant to the Tenancy Agreement, the Company shall pay a deposit of HK\$160,000 and a monthly rental of HK\$80,000 to NEG. The deposit was included in deposit and prepayment in the statement of financial position. During the reporting period, the Tenancy agreement had been renewed for further 3 years commenced from 1 July 2011 with the same terms and conditions.
- (d) The Company entered into a sale and purchase agreement with NEG on 9 May 2010. Pursuant of which, the Company agreed to sell investment property located in Hong Kong to NEG at a consideration of HK\$999,900.

(ii) Compensation of key management personnel of the Company:

	2011 HK\$'000	2010 HK\$'000
Short term employee benefits	568	2,441
Post-employment benefits	—	—
Pension	6	12
Total compensation paid to key management personnel	574	2,453

(iii) The investment manager was remunerated based on their respective investment management agreement as follows:

	2011 HK\$'000	2010 HK\$'000
China Everbright Securities (HK) Limited ("CES")	300	300

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

31 December 2011

Financial assets

	Loans and receivables <i>HK'000</i>	Available- for-sale financial assets <i>HK'000</i>	Total <i>HK'000</i>
Available-for-sale investments	—	313,274	313,274
Deposit for acquisition of available-for-sale investment	—	35,790	35,790
Financial assets included in prepayments, deposits and other receivables	2,501	—	2,501
Cash and bank balances	97,909	—	97,909
	100,410	349,064	449,474

Financial liabilities

	Financial liabilities at amortised cost <i>HK'000</i>
Financial liabilities included in other payables and accruals	60,783

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

29. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

31 December 2010

Financial assets

	Loans and receivables <i>HK'000</i>	Available- for-sale financial assets <i>HK'000</i>	Total <i>HK'000</i>
Available-for-sale investments	—	100,017	100,017
Loan receivables	158,795	—	158,795
Interest receivables	2,058	—	2,058
Financial assets included in prepayments, deposits and other receivables	216	—	216
Cash and bank balances	81,146	—	81,146
	<u>242,215</u>	<u>100,017</u>	<u>342,232</u>

Financial liabilities

	Financial liabilities at amortised cost <i>HK'000</i>
Financial liabilities included in other payables and accruals	<u>11,763</u>

30. CONTINGENT LIABILITIES

The Company did not have any significant contingent liabilities at 31 December 2011 and 2010.

31. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 12 March 2012.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

RESULTS

	Year ended 31 December				
	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000
Turnover	16	44,331	49,832	237,252	54,705
(Loss)/Profit before tax	(689)	3,586	30,739	(28,165)	(5,089)
Income tax	—	—	—	—	—
(Loss)/Profit attributable to owners of the Company	(689)	3,586	30,739	(28,165)	(5,089)

ASSETS AND LIABILITIES

	As at 31 December				
	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000
Total assets	452,900	404,569	348,224	258,882	201,961
Total liabilities	(60,783)	(11,763)	(319)	(7,340)	(1,601)
Net assets	392,117	392,806	347,905	251,542	200,360