For the year ended 31 December 2006

## 1. GENERAL AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated and registered as an exempted company with limited liability on 11 August 2006 under the Companies Law of the Cayman Islands and acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 34.

The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report. Its ultimate holding company is Rightmass Agents Limited, a company which is incorporated in the British Virgin Islands.

Through a group reorganisation to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares (the "Group Reorganisation"), the Company became the holding company of the Group on 20 November 2006. Details of the Group Reorganisation are more fully explained in Appendix VII to the prospectus of the Company dated 4 December 2006. The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements for the year ended 31 December 2005 have been prepared using the principles of merger accounting. The consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements for the years ended 31 December 2005 and 31 December 2006 have been prepared on the basis as if the current group structure had been in existence throughout the periods. The consolidated balance sheets of the Group as at 31 December 2005 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at those dates.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 December 2006.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS"s)

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards ("HKAS"s) and Hong Kong Financial Reporting Standards ("HKFRS"s) and Interpretations (hereinafter collectively referred to as "new HKFRS"s) which are effective for accounting periods beginning on or after 1 January 2005, 31 December 2006 or 1 January 2006. For the purposes of preparing and presenting the consolidated financial statements, the Group has early adopted all these new and revised HKFRSs.

For the year ended 31 December 2006

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS"s) – CONTINUED

The Group has not early applied the following new Standards, Amendment or Interpretations ("INT"s) that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards, Amendment or INTs will have no material impact on the results and the financial position of the Group.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital disclosures [1] |
| HKFRS 7 | Financial instruments: Disclosures [1] |
| HKFRS 8 | Operating segments [2] |
| HK(IFRIC) - INT 7 | Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [3] |
| HK(IFRIC) - INT 8 | Scope of HKFRS 2 [4] |
| HK(IFRIC) - INT 9 | Reassessment of embedded derivatives [5] |
| HK(IFRIC) - INT 10 | Interim financial reporting and impairment [6] |
| HK(IFRIC) - INT 11 | HKFRS 2 - Group and treasury share transactions [7] |
| HK(IFRIC) - INT 12 | Service concession arrangements [8] |

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historic cost convention except for investments held for trading which are carried at fair value. In additions, the consolidated financial statements have been prepared in accordance with HKFRSs and include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

### Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Basis of consolidation – continued**

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

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

All significant inter-company transactions, balances, income and expenses within the Group are eliminated on consolidation.

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

**Business combination under common control**

The consolidated financial statements incorporate the financial statement items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

For the year ended 31 December 2006

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Goodwill

*Goodwill arising on acquisitions prior to 1 January 2005*

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities of the associate recognised at the date of acquisition is recognised as goodwill. From 1 January 2005 onwards, the Group has discontinued amortisation of goodwill and such goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

*Goodwill arising on acquisitions on or after 1 January 2005*

Goodwill arising on the acquisition of associate represents excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill arising on the acquisition of an associate is included in interests in associates and is assessed for impairment as part of the investments. Any impairment loss identified is recognised and is allocated first to goodwill. On disposal of the associate, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

### Investment in associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate are not recognised.

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

### Joint ventures

*Jointly controlled entities*

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

For the year ended 31 December 2006

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Joint ventures – continued

*Jointly controlled entities – continued*

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

### Revenue recognition

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

Sales of goods are recognised when goods are delivered and title has passed.

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

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

For the year ended 31 December 2006

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Investment properties**

Investment property, which is property held for capital appreciation, is carried at cost less accumulated depreciation and accumulated impairment loss, if any. The cost of investment property is depreciated over its lease term of the land use right using the straight line method. Gains or losses arising from disposal of the property is determined as difference between the sales proceeds and the carrying amount of the property and is recognised in the income statement.

**Property, plant and equipment**

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and any identified impairment loss at the balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefit is expected to arise from the continue use of the assets. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Construction in progress is stated at cost which includes all development expenditure and other direct costs, attributable to such projects. They are not depreciated until completion of construction and the asset is put into use. Cost of completed construction works is transferred to the appropriate category of property, plant and equipment.

For the leasehold land and buildings in Hong Kong where the cost of leasehold land cannot be reliably separated from the cost of leasehold land and buildings, the cost of leasehold land and buildings is depreciated over 50 years on a straight line basis.

The cost of buildings in Mainland China (the "PRC") is depreciated over 10 years using the straight line method.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives and after taking into accounting of their estimated residual value, using the straight line method, at the following rates per annum:

| | |
|---|---|
| Furniture, fixtures and equipment | 15% – 20% |
| Leasehold improvements | 20% |
| Motor vehicles | 20% |
| Moulds | 20% |
| Plant and machinery | 15% – 20% |
| Yacht | 15% |

For the year ended 31 December 2006

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Land use rights**

Payment for obtaining land use right is considered as operating lease payment and charged to income statement over the period of the right using the straight line method.

**Intangible assets**

On initial recognition, intangible assets acquired separately are recognised at cost. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

*Research and development costs*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit and loss in the period in which it is incurred.

**Inventories**

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

**Financial instruments**

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

For the year ended 31 December 2006

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Financial instruments – continued

*Loans and receivables*

Loans and receivables (including trade and other receivables and bank balances and bank deposits) are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

*Investments*

Investments held-for-trading are measured at initial recognition and at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are included in profit or loss for the period.

*Financial liabilities and equity*

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

*Other liabilities*

Trade and other payables, amount due to a director and bank loans/mortgage loan are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest method.

### Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets 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 the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group 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.

For the year ended 31 December 2006

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Impairment of tangible and intangible assets – continued

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 (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

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

### Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable 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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

For the year ended 31 December 2006

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Share-based payment transactions

***Equity-settled share-based payment transactions***

*Share options granted to employees*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share options reserve).

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

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

### Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong Dollar ("HK$"), which is the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are included in profit or loss for the period. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period.

For the year ended 31 December 2006

## 3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### Foreign currencies – continued

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in HK$ using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

### Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

## 4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### Credit risk

The Group's principal financial assets are trade and other receivables and bank balances and cash, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, if any, estimated by the Group's management based on prior experience and their assessment of the current lighting industry environment.

In order to minimise the credit risk in relation to trade receivables, the management of the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

For the year ended 31 December 2006

## 4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

**Interest rate risk**

The Group has exposed to cash flows interest rate risk through the impact of the rate changes on floating interest rate bank loans and mortgage loans respectively.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider repaying bank loans when significant interest rate exposure is anticipated.

**Currency risk**

The Group's sales were mainly denominated in United States Dollars, no significant currency risk exposure was expected on this respect. The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

On the other hand, several subsidiaries of the Company have RMB sales and purchases, and certain receivables and payables of the Group are denominated in RMB, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy in this respect. In order to mitigate the foreign currency risk, management closely monitors such risks and will consider hedging significant foreign currency exposure should the need arise.

**Fair value**

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

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

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

## 5. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold by the Group to outsider customers during the year.

The geographical market is considered by the directors as the Group's primary reporting segment.

For the year ended 31 December 2006

## 5. TURNOVER AND SEGMENT INFORMATION – CONTINUED

### Business segments

The Group's operation is regarded as a single business segment, being an enterprise engaged in the research and development, manufacture and distribution of lighting products including incandescent-based decorative lighting products, light emitting diode ("LED") - based decorative lighting products and entertainment lighting products.

### Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of origin of the goods:

**Consolidated income statement**

| | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| Turnover | | |
| – America | **357,599** | 292,764 |
| – Europe | **428,868** | 352,482 |
| – PRC | **144,166** | 67,216 |
| – Asia Pacific, Middle East and Russia (excluding PRC) | **322,043** | 253,762 |
| – Others | **6,149** | 5,106 |
| | **1,258,825** | 971,330 |
| Results | | |
| – America | **86,522** | 56,558 |
| – Europe | **109,808** | 72,426 |
| – PRC | **35,690** | 8,232 |
| – Asia Pacific, Middle East and Russia (excluding PRC) | **82,457** | 52,142 |
| – Others | **1,574** | 1,049 |
| Unallocated other income | **58,819** | 25,496 |
| Unallocated expenses | **(106,345)** | (47,982) |
| Finance costs | **(8,912)** | (5,940) |
| Write-off of deposits made on acquisition of investment properties | **–** | (11,201) |
| Share of results of associates | **2,004** | (1,500) |
| Share of profits of a jointly controlled entity | **4,118** | 3,064 |
| Profit before taxation | **265,735** | 152,344 |
| Taxation | **(5,026)** | (8,875) |
| Profit for the year | **260,709** | 143,469 |

For the year ended 31 December 2006

## 5. TURNOVER AND SEGMENT INFORMATION – CONTINUED

**Geographical segments – continued**

**Consolidated income statement – continued**

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Allowance for bad and doubtful debts | | |
| – America | 2,593 | 90 |
| – Europe | 2,789 | 145 |
| – PRC | 862 | 11,238 |
| – Asia Pacific, Middle East and Russia (excluding PRC) | 2,372 | 67 |
| | 8,616 | 11,540 |

**Total assets**

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Trade and bills receivables | | |
| – America | 48,384 | 35,332 |
| – Europe | 61,188 | 57,066 |
| – PRC | 18,946 | 15,097 |
| – Asia Pacific, Middle East and Russia (excluding PRC) | 42,200 | 26,095 |
| Trade and bills receivables | 170,718 | 133,590 |
| Unallocated assets* | 2,272,642 | 1,010,010 |
| Total assets | 2,443,360 | 1,143,600 |

* The directors consider that it is not practical to prepare further segment analysis on the assets and liabilities of the Group in accordance with its geographical market.

For the year ended 31 December 2006

## 5. TURNOVER AND SEGMENT INFORMATION – CONTINUED

**Geographical segments – continued**

The following is an analysis of the carrying amount of the Group's assets, liabilities, capital additions and depreciation and amortisation analysed by the geographic area in which they are located.

**Consolidated balance sheet**

| | Segment assets | | Segment liabilities | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| PRC | **1,080,342** | 624,333 | **145,208** | 129,933 |
| Hong Kong | **101,006** | 78,365 | **70,880** | 58,249 |
| Macau | **47,037** | 78,241 | **3,430** | 4,357 |
| Unallocated | **1,214,975** | 362,661 | **199,861** | 139,240 |
| | **2,443,360** | 1,143,600 | **419,379** | 331,779 |

| | Capital additions | | Depreciation and amortisation | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Macau | **345** | 17,753 | **366** | 359 |
| Hong Kong | **1,616** | 71,022 | **2,825** | 2,653 |
| PRC | **202,698** | 138,184 | **64,762** | 55,634 |
| | **204,659** | 226,959 | **67,953** | 58,646 |

## 6. FINANCE COSTS

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest on bank borrowings | | |
| - wholly repayable within five years | **(6,164)** | (2,854) |
| - not wholly repayable within five years | **(2,748)** | (3,086) |
| | **(8,912)** | (5,940) |

For the year ended 31 December 2006

## 7. PROFIT BEFORE TAXATION

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Profit before taxation has been arrived at after charging: | | |
| Directors' remuneration (note 8) | **15,489** | 16,832 |
| Other staff's retirement benefits scheme contributions | **4,444** | 2,917 |
| Other staff costs | **165,404** | 135,279 |
| | **185,337** | 155,028 |
| Less: Staff costs included in research and development costs | **(7,886)** | (3,645) |
| | **177,451** | 151,383 |
| Depreciation of property, plant and equipment | **67,591** | 58,291 |
| Less: Depreciation included in research and development costs | **(665)** | (392) |
| | **66,926** | 57,899 |
| Allowance for bad and doubtful debts | **8,616** | 11,540 |
| Allowance for inventories | **–** | 4,560 |
| Amortisation of intangible assets included in administrative expenses | **2,097** | – |
| Auditor's remuneration | **2,500** | 1,500 |
| Cost of inventories recognised as an expense | **776,305** | 627,626 |
| Depreciation of investment properties | **362** | 355 |
| Impairment loss recognised for goodwill of an associate included in administrative expenses | **6,274** | – |
| Loss on disposal of property, plant and equipment | **958** | 3,878 |
| Operating lease rentals in respect of | | |
| – land use rights | **277** | 473 |
| – rented premises | **1,055** | 478 |
| Research and development costs, net of staff cost and depreciation | **10,804** | 9,311 |
| Share of tax of associates | **1,057** | – |

## 7. PROFIT BEFORE TAXATION – CONTINUED

| | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| and after crediting: | | |
| Change in fair value of listed investments held for trading | **–** | 228 |
| Dividend income from investments held for trading | **866** | 590 |
| Gain on disposal of a subsidiary | **3,340** | – |
| Gain on disposal of associates | **754** | – |
| Gain on disposal of investments held for trading | **11,780** | – |
| Gain on disposal of investment properties | **–** | 10,744 |
| Gain on disposal of land use rights and buildings | **–** | 5,383 |
| Interest income | **9,082** | 3,892 |
| Net exchange gain | **28,703** | 7,964 |
| Write back of allowance for inventories | **17,587** | – |

## 8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of directors during the year are analysed as follows:

| | **2006** | | | | 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Fees HK$'000** | **Salaries and other benefits HK$'000** | **Retirement benefits scheme contributions HK$'000** | **Total HK$'000** | Fees HK$'000 | Salaries and other benefits HK$'000 | Retirement benefits scheme contributions HK$'000 | Total HK$'000 |
| Executive directors | | | | | | | | |
| Mr. Ben Fan | **–** | **13,555** | **–** | **13,555** | – | 14,910 | – | 14,910 |
| Madam Michelle Wong | **–** | **1,383** | **12** | **1,395** | – | 1,380 | 12 | 1,392 |
| Mr. Fan Pong Yang | **–** | **503** | **–** | **503** | – | 530 | – | 540 |
| Non-executive director | | | | | | | | |
| Dr. Leong Ka Cheong Christopher | **–** | **9** | **–** | **9** | – | – | – | – |
| Independent non-executive directors | | | | | | | | |
| Mr. Wu Tak Lung | **–** | **9** | **–** | **9** | – | – | – | – |
| Madam Fung Siu Wan Stella | **–** | **9** | **–** | **9** | – | – | – | – |
| Mr. Lam Yin Ming | **–** | **9** | **–** | **9** | – | – | – | – |
| | **–** | **15,477** | **12** | **15,489** | – | 16,820 | 12 | 16,832 |

For the year ended 31 December 2006

## 8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – CONTINUED

The five highest paid individuals included two directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining three highest paid individuals are as follows:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Employees | | |
| - basic salaries and allowances | **2,013** | 1,931 |
| - retirement benefit scheme contributions | **9** | – |
| | **2,022** | 1,931 |

The emoluments of each of the highest paid individual employee did not exceed HK$1,000,000.

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

## 9. TAXATION

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| The charge comprises: | | |
| PRC enterprise income tax | **(9,104)** | (4,451) |
| Taxation in other overseas jurisdictions | **(528)** | (401) |
| | **(9,632)** | (4,852) |
| Hong Kong profits tax | **(270)** | (1,583) |
| Over(under)provision in prior years | **812** | (80) |
| | **542** | (1,663) |
| Deferred taxation | **4,064** | (2,360) |
| | **(5,026)** | (8,875) |

Pursuant to the relevant laws and regulations in the PRC, certain Group's PRC subsidiaries are entitled to exemption from PRC enterprise income tax for two years commencing from their first profit making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. This exemption concession will expire in years 2007 and 2008.

The PRC enterprise income tax and overseas taxation are calculated at the rates prevailing in the respective jurisdictions while Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the year.

For the year ended 31 December 2006

## 9. TAXATION – CONTINUED

The charge for the year is reconciled to profit before taxation as follows:

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | **HK$'000** | **%** | HK$'000 | % |
| Profit before taxation | **265,735** | | 152,344 | |
| Tax at the applicable income tax rate | **(87,693)** | **(33.0)** | (50,273) | (33.0) |
| Tax effect of share of results of associates | **661** | **0.2** | (495) | (0.3) |
| Tax effect of share of profits of a jointly-controlled entity | **1,359** | **0.5** | 1,011 | 0.7 |
| Tax effect of expenses not deductible for tax purposes | **(27,721)** | **(10.4)** | (32,719) | (21.5) |
| Tax effect of income not taxable for tax purposes | **7,654** | **2.9** | 6,922 | 4.5 |
| Tax effect of deemed deductions in the PRC | **52,736** | **19.8** | 33,139 | 21.8 |
| Effect of tax exemptions granted to subsidiaries | **43,315** | **16.3** | 31,719 | 20.8 |
| Effect of different tax rates on subsidiaries operating in other jurisdictions | **(1,451)** | **(0.5)** | 106 | 0.1 |
| Income tax on concessionary rate | **5,333** | **2.0** | 1,797 | 1.2 |
| Over(under)provision in prior years | **812** | **0.3** | (80) | (0.1) |
| Others | **(31)** | **–** | (2) | – |
| Tax charge and effective tax rate for the year | **(5,026)** | **(1.9)** | (8,875) | (5.8) |

## 10. DIVIDENDS

No dividends have been paid or declared by the Company since its incorporation. However, during the year, a subsidiary Neo-Neon Holdings (BVI) Limited ("NNH") distributed dividends of HK$120,000,000 (2005: HK$65,300,000) to its then shareholders prior to the Group Reorganisation.

For the year ended 31 December 2006

## 11. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to equity holders of the Company of HK$259,965,000 (2005: HK$142,871,000) and on the weighted average number of 607,452,054 (2005: 600,000,000) shares in issue during the year on the assumption that the Group Reorganisation and the capitalisation issue as detailed in note 26 have been effective on 1 January 2005.

No diluted earnings per share is presented as there were no potential dilutive shares during the year.

## 12. INVESTMENT PROPERTIES

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| COST | | |
| At 1 January | **17,753** | – |
| Additions | **345** | 63,285 |
| Disposals | **–** | (45,532) |
| At 31 December | **18,098** | 17,753 |
| DEPRECIATION | | |
| At 1 January | **355** | – |
| Provided for the year | **362** | 355 |
| At 31 December | **717** | 355 |
| CARRYING VALUE | | |
| At 31 December | **17,381** | 17,398 |

The investment properties which are situated in Macau are held under medium-term lease. All of the Group's investment properties are held for capital appreciation purposes and have been pledged to secure the credit facilities granted by certain banks to the Group.

For the year ended 31 December 2006

## 12. INVESTMENT PROPERTIES – CONTINUED

The fair value of the Group's investment properties at the balance sheet date was HK$31,300,000 (2005: HK$30,300,000). The fair value has been arrived at based on a valuation as at 30 September 2006 carried out by Sallmanns (Far East) Limited, independent valuers not connected with the Group. The valuation, which conforms with Hong Kong Institute of Surveyors Valuation Standards on Properties, was determined by reference to recent market prices for similar properties. The directors consider that the valuation of the Group's investment properties as at 31 December 2006 approximates their value at 30 September 2006.

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings | Furniture, fixtures and equipment | Leasehold improve-ments | Motor vehicles | Moulds | Plant and machinery | Yacht | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| COST | | | | | | | | | |
| At 1 January 2005 | 168,213 | 33,951 | 52,436 | 14,099 | 19,586 | 168,569 | 2,603 | 7,978 | 467,435 |
| Currency realignment | 4,852 | 885 | 1,488 | 329 | 565 | 4,858 | – | 230 | 13,207 |
| Additions | 70,157 | 4,603 | 18,063 | 5,747 | 7,973 | 35,398 | – | 21,733 | 163,674 |
| Disposals | (18,282) | (1,833) | (10,961) | (2,628) | (640) | (15,616) | – | – | (49,960) |
| Transfers | 6,505 | – | 7,472 | – | – | – | – | (13,977) | – |
| At 31 December 2005 | 231,445 | 37,606 | 68,498 | 17,547 | 27,484 | 193,209 | 2,603 | 15,964 | 594,356 |
| Currency realignment | 5,486 | 1,096 | 2,109 | 384 | 881 | 6,034 | – | 512 | 16,502 |
| Additions | 357 | 10,634 | 13,761 | 5,446 | 17,613 | 75,082 | – | 66,214 | 189,107 |
| Disposals | (1,949) | (11,308) | (109) | (2,817) | (927) | (12,670) | – | – | (29,780) |
| Transfers | 4,143 | 84 | 3,536 | – | 4,797 | (4,881) | – | (7,679) | – |
| At 31 December 2006 | 239,482 | 38,112 | 87,795 | 20,560 | 49,848 | 256,774 | 2,603 | 75,011 | 770,185 |
| DEPRECIATION | | | | | | | | | |
| At 1 January 2005 | 54,856 | 19,219 | 34,470 | 7,853 | 13,604 | 101,781 | 217 | – | 232,000 |
| Currency realignment | 1,582 | 476 | 983 | 182 | 392 | 2,935 | – | – | 6,550 |
| Provided for the year | 18,454 | 4,697 | 8,391 | 2,873 | 2,678 | 20,981 | 217 | – | 58,291 |
| Eliminated on disposals | (11,321) | (1,783) | (10,426) | (2,068) | (629) | (11,791) | – | – | (38,018) |
| At 31 December 2005 | 63,571 | 22,609 | 33,418 | 8,840 | 16,045 | 113,906 | 434 | – | 258,823 |
| Currency realignment | 2,545 | 550 | 1,222 | 223 | 578 | 3,929 | – | – | 9,047 |
| Provided for the year | 17,902 | 5,454 | 10,792 | 3,042 | 9,073 | 20,807 | 521 | – | 67,591 |
| Eliminated on disposals | (1,256) | (10,146) | (84) | (2,580) | (520) | (9,924) | – | – | (24,510) |
| At 31 December 2006 | 82,762 | 18,467 | 45,348 | 9,525 | 25,176 | 128,718 | 955 | – | 310,951 |
| NET BOOK VALUES | | | | | | | | | |
| At 31 December 2006 | 156,720 | 19,645 | 42,447 | 11,035 | 24,672 | 128,056 | 1,648 | 75,011 | 459,234 |
| At 31 December 2005 | 167,874 | 14,997 | 35,080 | 8,707 | 11,439 | 79,303 | 2,169 | 15,964 | 335,533 |

## 13. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| The carrying value of the Group's property interests which are held under medium-term leases comprises: | | |
| Land and buildings in Hong Kong | **66,574** | 67,956 |
| Buildings in the PRC | **90,146** | 99,918 |
| | **156,720** | 167,874 |
| Properties included in construction in progress held under medium-term land use rights in the PRC | **75,011** | 15,766 |
| | **231,731** | 183,640 |

The Group has pledged certain of its buildings with an aggregate net book value of HK$27,109,000 (2005: HK$25,753,000) to secure the credit facilities granted by certain banks to the Group.

For the year ended 31 December 2006

## 14. LAND USE RIGHTS

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| CARRYING VALUE | | |
| At 1 January | **12,234** | 16,271 |
| Currency realignment | **387** | 469 |
| Additions | **527** | – |
| Disposals | **–** | (4,033) |
| Charged to income statement for the year | **(277)** | (473) |
| At 31 December | **12,871** | 12,234 |

The amount represents the prepayment for land use rights situated in the PRC for a period of 50 years.

## 15. INTANGIBLE ASSETS

| | **Licenses and trademarks** |
|---|---|
| | HK$'000 |
| COST | |
| Additions during the year and balance at 31 December 2006 | 14,680 |
| AMORTISATION | |
| Amortised for the year and balance at 31 December 2006 | 2,097 |
| CARRYING VALUE | |
| At 31 December 2006 | 12,583 |
| At 31 December 2005 | – |

The intangible assets are amortised over their contractual life of 7 years using the straight line method.

For the year ended 31 December 2006

## 16. INTERESTS IN ASSOCIATES

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Overseas listed investments, at cost | **12,327** | 18,601 |
| Unlisted investments, at cost | **–** | 3,494 |
| | **12,327** | 22,095 |
| Share of post-acquisition reserves and profits, net of dividends received | **4,476** | 692 |
| | **16,803** | 22,787 |
| Fair value of listed investments | **14,694** | 17,693 |

In 2006, in the opinion of the directors, the associate that principally affected the results of the year or form a significant portion of the net assets of the Group is the Group's 20% equity interest in LCX Leblanc Chromex ("LCX"), a company listed on the Paris Stock Exchange and incorporated in France and engaged in the manufacture and distribution of lighting decorations.

Included in the cost of investments in associates is goodwill of HK$7,239,000 arising on acquisition of associates in prior years. The movement of goodwill is set out below.

For the year ended 31 December 2006

## 16. INTERESTS IN ASSOCIATES – CONTINUED

Movement of goodwill attributable to an associate is as follows:

| | HK$'000 |
|---|---|
| COST | |
| At 1 January 2005 and 31 December 2005 and 31 December 2006 | 7,239 |
| IMPAIRMENT | |
| At 1 January 2005 and 31 December 2005 | 965 |
| Impairment loss recognised for the year | 6,274 |
| At 31 December 2006 | 7,239 |
| CARRYING VALUE | |
| At 31 December 2006 | – |
| At 31 December 2005 | 6,274 |

*Impairment testing of goodwill*

Goodwill is included in the carrying amount of interests in associates for impairment testing.

The recoverable amounts of the associate have been determined based on the value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by management covering a five-year period. The discount rate applied to the cash flow projections is approximately 5%. No growth has been projected beyond the five-year period.

For the year ended 31 December 2006

## 17. INTEREST IN A JOINTLY CONTROLLED ENTITY

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **15,600** | 15,600 |
| Share of post-acquisition profits, net of dividends received | **7,182** | 3,064 |
| | **22,782** | 18,664 |

The Group's investment in jointly controlled entity at 31 December 2006 represents its 50% equity interest in Tivoli, LLC which was incorporated in the United States of America and engaged in the trading of lighting products.

## 18. DEFERRED TAXATION

The following is the deferred tax asset recognised by the Group and movements thereon during the year:

| | **Difference in depreciation** |
|---|---|
| | HK$'000 |
| At 1 January 2005 | 13,404 |
| Charge to income statement for the year | (2,360) |
| At 31 December 2005 | 11,044 |
| Currency realignment | 139 |
| Credit to income statement for the year | 4,064 |
| At 31 December 2006 | 15,247 |

For the year ended 31 December 2006

## 18. DEFERRED TAXATION – CONTINUED

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Deferred tax assets | **15,247** | 11,307 |
| Deferred tax liabilities | **–** | (263) |
| | **15,247** | 11,044 |

## 19. INVENTORIES

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Raw materials | **98,664** | 49,401 |
| Work in progress | **334,288** | 138,463 |
| Finished goods | **62,777** | 31,342 |
| | **495,729** | 219,206 |

During the year, certain raw materials and finished goods on which allowance was made in prior years were used in the production process and sold. As a result, a reversal of allowance of inventories of HK$17,587,000 has been recognised and included in cost of goods sold.

For the year ended 31 December 2006

## 20. FINANCIAL ASSETS

### Trade and other receivables

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Trade receivables | | |
| – related companies in which a family member of a director of the Company has beneficial interests | **1,042** | 3,843 |
| – associates | **29,702** | 40,567 |
| – others | **112,106** | 20,720 |
| Bills receivables | **27,868** | 68,460 |
| | **170,718** | 133,590 |
| Deposits paid to suppliers | **18,440** | 15,750 |
| Amounts due from shareholders | **5,879** | – |
| Receivable from disposal of a subsidiary | **2,000** | – |
| Consideration receivable from disposal of property interests | **–** | 20,192 |
| Other receivables | **29,398** | 10,863 |
| | **226,435** | 180,395 |

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable from 60 days to 90 days of issuance, except for certain well established customers in which the credit terms are up to 180 days. The following is an aged analysis of trade and bills receivables at the balance sheet date:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Age | | |
| 0 to 60 days | **66,514** | 104,398 |
| 61 to 90 days | **16,074** | 17,579 |
| 91 to 180 days | **63,897** | 10,935 |
| 181 to 360 days | **17,809** | 659 |
| Over 1 year | **6,424** | 19 |
| | **170,718** | 133,590 |

For the year ended 31 December 2006

## 20. FINANCIAL ASSETS – CONTINUED

**Pledged bank deposits and bank balances and cash**

The pledged bank deposits are carrying at the prevailing market interest rate.

Pledged bank deposits represents deposits pledged to banks to secure credit facilities granted to the Group. Deposits amounting to HK$1,985,000 (2005: HK$16,129,000) which have been pledged to secure short-term bank loans (2005: short-term bank loans and securities trading accounts) are therefore classified as current assets.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. At 31 December 2006, the bank deposits carry at the prevailing market interest rate of approximately 3.82% (2005: 3.15%) per annum.

## 21. TRADE AND OTHER PAYABLES

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade payables | | |
| – related companies, in which a family member of a director of the Company has beneficial interests | **9,181** | 11,801 |
| – associates | **3,333** | 1,190 |
| – others | **87,985** | 64,929 |
| Bills payables | **2,543** | 1,479 |
| | **103,042** | 79,399 |
| Customers' deposits | **54,361** | 43,754 |
| Payroll and welfare payables | **32,226** | 45,193 |
| Payables for acquisition of property, plant and equipment | **–** | 457 |
| Other tax payables | **9,237** | 11,605 |
| Other payables | **20,652** | 11,868 |
| | **219,518** | 192,276 |

## 21. TRADE AND OTHER PAYABLES – CONTINUED

The following is an aged analysis of trade and bills payables at the balance sheet date:

| | At 31 December | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Age | | |
| 0 to 30 days | **41,126** | 50,349 |
| 31 to 60 days | **21,610** | 10,944 |
| 61 to 90 days | **8,801** | 4,686 |
| 91 to 120 days | **15,473** | 2,768 |
| 121 days to 360 days | **16,032** | 10,652 |
| | **103,042** | 79,399 |

## 22. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and is repayable on demand.

## 23. MORTGAGE LOAN

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| The mortgage loan is repayable as follows: | | |
| Within one year | **5,747** | 5,747 |
| Between one to two years | **5,747** | 5,747 |
| Between two to five years | **17,240** | 17,240 |
| After five years | **23,012** | 28,759 |
| | **51,746** | 57,493 |
| Less: Amount due within one year shown under current liabilities | **5,747** | 5,747 |
| Amount due after one year | **45,999** | 51,746 |

The mortgage loan carries floating interest of 0.85% per annum over Hong Kong Interbank offered Rate ("HIBOR") and is denominated in Hong Kong Dollar.

For the year ended 31 December 2006

## 24. BANK LOANS

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Bank loans are repayable: | | |
| Within one year | **18,000** | 18,000 |
| Between one to two years | **15,500** | 18,000 |
| Between two to five years | **40,000** | 19,500 |
| | **73,500** | 55,500 |
| Less: Amount due within one year shown under current liabilities | **18,000** | 18,000 |
| Amount due after one year | **55,500** | 37,500 |

The bank loans are unsecured, carry floating interest at the rate of 1% per annum over HIBOR and are denominated in Hong Kong Dollar.

## 25. SECURED SHORT-TERM BANK LOANS

The carrying amounts of the Group's short-term bank loans are denominated in Hong Kong Dollar and carry floating interests at the rates ranging from 0.96% to 1% per annum over HIBOR.

At 31 December 2006, the Group's borrowings that are denominated in a currency other than the functional currency of the relevant group entity are HK$52,635,000 (2005: HK$11,212,000).

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## 26. SHARE CAPITAL

| | Authorised | | Issued and fully paid | |
|---|---|---|---|---|
| | Number of shares | Amount | Number of shares | Amount |
| | '000 | HK$'000 | '000 | HK$'000 |
| Ordinary shares of HK$0.10 each | | | | |
| – on incorporation | 3,800 | 380 | 1 | 1 |
| – increase in authorised share capital | 4,996,200 | 499,620 | – | – |
| – issued pursuant to the Group Reorganisation | – | – | 300,000 | 30,000 |
| – issue of shares on capitalisation issue | – | – | 299,999 | 29,999 |
| – issue of shares by global offering | – | – | 160,000 | 16,000 |
| – at 31 December 2006 | 5,000,000 | 500,000 | 760,000 | 76,000 |

The Company was incorporated on 11 August 2006 with an authorised share capital of HK$380,000 of HK$0.10 each.

Pursuant to shareholders' resolutions of the Company on 20 November 2006, the authorised share capital of the Company was increased from HK$380,000 to HK$500,000,000 by the creation of an additional 4,996,200,000 shares of HK$0.10 each.

On the same date, 300,000,000 shares of HK$30,000,000 were issued in consideration for the acquisition of the entire issued share capital of NNH.

According to the written shareholders' resolution of the Company dated 20 November 2006, an amount of HK$29,999,000 was capitalised to the Group's share premium account pursuant to the Group Reorganisation.

On 15 December 2006, 160,000,000 shares of HK$0.10 each of the Company were issued at HK$6.9 per share by way of global offering.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

The share capital of the Group as at 31 December 2005 represented the issued share capital of NNH.

## 27. SHARE OPTION SCHEME

**Equity-settled share option scheme:**

The Company's share option scheme (the "Scheme"), was adopted pursuant to a shareholders' written resolution passed on 20 November 2006 for the primary purpose of providing incentives to and recognising significant contributions from directors and eligible employees, and will expire on 15 February 2015. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company May from time to time, grant share options to outside third parties for settlement in respect of goods or services to the Company and for the purpose of rewarding their contribution to the long term success of the Group by providing the opportunity to obtain ownership interest in the Group.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue on the date of listing of shares on the Stock Exchange in issue which represents 76,000,000 shares (excluding the over-allotment portion), without prior approval from the Company's shareholders. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under this Scheme shall not in aggregate exceed 20% of the shares in issue from time to time. No option may be granted under this Scheme and any other share option scheme of the Company if such limit is exceeded. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share in issue or with an aggregate value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

There is no general requirement that an option must be held for any minimum period before it can be exercised but the board of directors is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. Options may be exercised at any time immediately from the date of grant of the share option and during the period in which notified by the board of directors at date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Up to 31 December 2006, no options were granted to directors, eligible employees and other outside third parties under the Scheme.

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## 28. MAJOR NON-CASH TRANSACTION

In 2005, NNH had distributed dividends of HK$65,300,000 to its then shareholders (who are also directors) through directors' current accounts with the Group prior to the Group Reorganisation.

## 29. DISPOSAL OF A SUBSIDIARY

In September 2006, the Group entered into a sale and purchase agreement with Luck King Investment Limited, an independent third party, pursuant to which the Group has agreed to dispose of its entire 100% interest in 真明麗燈飾電子(番禺)有限公司 (Neo-Neon Industrial (Panyu) Co., Ltd.) ("NNI (Panyu)") to Luck King for a consideration of HK$2 million. The disposal was completed in October 2006. The net assets of NNI (Panyu) at the date of disposal were as follows:

| | HK$'000 |
|---|---|
| Net assets disposed of: | |
| Other receivables | 13,115 |
| Other payables | (525) |
| Bank balances and cash | 6 |
| | 12,596 |
| Release of reserve upon disposal | (1,223) |
| Waiver of amount due to the subsidiary | (12,713) |
| Gain on disposal | 3,340 |
| Total consideration | 2,000 |
| Satisfied by: | |
| Cash | – |
| Other receivables | 2,000 |
| | 2,000 |
| Net cash inflow arising on disposal: | |
| Cash consideration | – |
| Bank balances and cash disposed of | (6) |
| | (6) |

During the year, NNI (Panyu) paid HK$1,227,000 (2005: HK$36,940,000) to the Group's net operating cash flows and contributed HK$1,000 (2005: HK$34,919,000) in respect of investing activities.

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## 30. CAPITAL COMMITMENTS

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment | **60,431** | 10,420 |

## 31. RETIREMENT BENEFITS SCHEME

The Group's qualifying employees in Hong Kong participate in the Mandatory Provident Fund (the "MPF") in Hong Kong. The assets of the MPF are held separately from those of the Group in funds under the control of trustee. The Group and each of the employees make monthly mandatory contributions to the MPF schemes.

The employees of the PRC subsidiaries are members of the state-managed retirement benefit scheme operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

## 32. RELATED PARTY TRANSACTIONS

During the year, the Group has the following significant transactions with its related companies:

| **Relationship** | **Nature of transactions** | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|---|
| A company in which a family member of a director of the Company has a beneficial interest | Sales of goods | **7,537** | 12,042 |
| | Purchase of goods | **9,717** | 8,734 |
| Associates | Sales of goods | **49,256** | 55,523 |
| | Purchase of goods | **2,695** | 94 |

The Company's directors represented the Group's key management and their emoluments for the year are set out in note 8.

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## 33. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 December 2006:

(a) On 5 January 2007, an over-allotment option was exercised pursuant to a written shareholders' resolution of the Company for further issuance of 30,000,000 shares of HK$0.10 each of the Company.

(b) In February 2007, the Company granted 15,110,000 share options to its employees at an exercise price of HK$8.72 with various vesting periods between February 2007 and February 2015. The estimated fair value of the options granted is HK$42,036,000.

## 34. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2006 are as follows:

| Name of subsidiary | Place of incorporation/ establishment/ operations | Nominal value of issued and fully paid share capital/ registered capital | Attributable proportion of nominal value of issued share capital/registered capital held by the Company | Principal activity |
|---|---|---|---|---|
| Billion Choice Trading Limited | British Virgin Islands/Macau | US$1 | 100% | Property holding |
| Cashware Technology Limited | British Virgin Islands/PRC | US$1 | 100% | Provision of research and development services |
| Ever Green Lighting, Inc. | United States of America | US$120,000 | 100% | Trading of lighting products |
| Geni Electronics Company Limited | Hong Kong | HK$1,000,000 | 51% | Trading of lighting products |
| Mentle International Limited | British Virgin Islands/PRC | US$1 | 100% | Trading of lighting products |
| Mitcham Profits Limited | British Virgin Islands/PRC | US$1 | 100% | Provision for marketing services |

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## 34. PRINCIPAL SUBSIDIARIES – CONTINUED

| Name of subsidiary | Place of incorporation/ establishment/ operations | Nominal value of issued and fully paid share capital/ registered capital | Attributable proportion of nominal value of issued share capital/registered capital held by the Company | Principal activity |
|---|---|---|---|---|
| Neo-Neon Enterprises Limited | Hong Kong | HK$10,000 | 100% | Trading of lighting products |
| Neo-Neon Holdings (BVI) Limited * | British Virgin Islands | US$1,000,000 | 100% | Investment holding |
| Neo-Neon International Limited | Western Samoa/ PRC | US$10,000 | 100% | Trading of lighting products |
| Star Bright International (Macao Commercial Offshore) Limited | Macau | MOP100,000 | 100% | Trading of lighting products |
| 鶴山麗得電子實業有限公司 (Heshan Lide Electronic Enterprise Limited) | PRC as a wholly foreign owned enterprise for a term of 11 years commencing 9 May 2003 | US$35,000,000 | 100% | Manufacture and sales of lighting products |
| 鶴山真明麗燈飾有限公司 (Heshan Neo-Neon Light-Decoration Ltd.) | PRC as a wholly foreign owned enterprise for a term of 26 years commencing 3 December 1996 | US$36,000,000 | 100% | Property holding and trading of lighting products |
| 鶴山市銀雨照明有限公司 (Heshan Yingyu Illumination Co., Ltd.) | PRC as a limited liability company for a term of 44 years commencing 2 September 2005 | RMB15,000,000 | 100% | Manufacture and sales of lighting products |

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## 34. PRINCIPAL SUBSIDIARIES – CONTINUED

| Name of subsidiary | Place of incorporation/ establishment/ operations | Nominal value of issued and fully paid share capital/ registered capital | Attributable proportion of nominal value of issued share capital/registered capital held by the Company | Principal activity |
|---|---|---|---|---|
| 鶴山銀雨燈飾有限公司 (Heshan Yinyu Light-Decoration Ltd.) | PRC as a wholly foreign owned enterprise for a term of 20 years commencing 27 December 1991 | US$6,500,000 | 100% | Manufacture and sales of lighting products |

* Directly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of all the subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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