2008

ANNUAL REPORT

Professional **LED** product research, development and production.

We grow and color the world green

NEO-NEON HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 1868

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ben FAN *(Chairman)*
Mr. JANG Jann Huan *(CEO)*
Ms. Michelle WONG
Mr. FAN Pong Yang

Independent non-executive Directors

Mr. WU Tak Lung
Mr. ZHAO Shan Xiang
Mr. WENG Shih Yuan

AUDIT COMMITTEE

Mr. WU Tak Lung *(Chairman)*
Mr. Weng Shih Yuan
Mr. ZHAO Shan Xiang

REMUNERATION COMMITTEE

Mr. WENG Shih Yuan *(Chairman)*
Ms. Michelle WONG
Mr. WU Tak Lung
Mr. ZHAO Shan Xiang

NOMINATION COMMITTEE

Mr. ZHAO Shan Xiang *(Chairman)*
Ms. Michelle WONG
Mr. WU Tak Lung
Mr. WENG Shih Yuan

AUTHORIZED REPRESENTATIVES

Ms. Michelle WONG
Mr. LEUNG Wai Chuen

COMPANY SECRETARY

Mr. LEUNG Wai Chuen

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

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Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

13/F, Tower A
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14 Science Museum Road
Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Cayman) Limited
Butterfield House
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P.O Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

COMPANY WEBSITE ADDRESS

www.neo-neon.com

STOCK CODE

1868

Chairman's Statement

Dear Shareholders,

I am pleased to present the annual report of Neo-Neon Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2008.

BUSINESS REVIEW

The consolidated turnover of the Group was HK$1,617.7 million in 2008, showing an increase of 2.9%. The Group's turnover from LED in decorative lighting recorded HK$758.6 million in 2008, showing an increase of 11.0%. The turnover from LED in general lighting amounted to HK$61.7 million in 2008, showing a huge increase of 84.2%. The turnover from incandescent-based decorative lighting and entertainment lighting were respectively HK$515.7 million and HK$222.7 million in 2008, showing a decrease of 5.5% and of 15.1%. In 2008, the Group recorded an overall gross profit of HK$526.1 million and a gross profit margin of 32.5% respectively. The consolidated profit attributable to equity holders of the Company amounted to HK$138.7 million in 2008, showing a decrease of 58.5%. As shown above, the core business still showed a growth in sales but inversely affected by soaring material costs and labour costs, as well as huge increase in depreciation of property, plant and equipments, decline in other incomes, decrease in other gains net losses and fair value decline of investment properties. So, the consolidated net profit was considerably lower in 2008 as compared to 2007. Although the financial performance was deteriorated following the global financial tsunami, the Group still recommended a final dividend of HK$0.011 per share, including the paid interim dividend of HK$0.034 per share, the total dividend for 2008 represented 24.7% of the basic earnings per share.

The LED applications progressively replace incandescent-based lighting in our sales' mix and positively reinforce the Group's continued research and development efforts (R&D) in LED as future green lighting technology. During the year under review, the Group continued to expand the present LED packaging capacity, following the expansion of LED packaging plant in 2008, and reached a production capacity of 450 million LEDs on average per month. Our high power LED emitter can achieve 100 lumens per watt, reaching the highest mass-produced level in the LED industry. We continued our R&D efforts in replacing existing HID and halogen light bulbs by high-power LED emitter to increase the variety and flexibility in entertainment lighting applications. In LED-based general lighting, we have firstly produced the whole series of LED street and tunnel lights. These series include the new 180-watt and 240-watt street lights series coupled with sophisticated optical design and thermal management, applicable to street lights in expressway, and replace the 400-watt high pressure sodium lights. The Group has also developed thorough series of LED lighting products which can be extensivley used indoors and outdoors.

In the fourth quarter of 2008, the construction of new chip manufacturing plant of approximately 40,000 square metres was completed. Most of the precise machines and equipments like the Metal Organic Chemical Vapra Deposition ("MOCVD") were duly delivered near the end of 2008. Those advanced machines have been installed and have pilot run in the first quarter of 2009 with mass production of wafers/chips anticipated in the second quarter of 2009. The LED chips will suffice the demand of our present LED packaging production and shorten delivery time to end customers under such one integrated supply chain. In 2008, the Group established showrooms in Shanghai and India to capture the markets in Northern China and in the Middle Asian region respectively. The Group also established a new plant in Vietnam in 2008 in order to shift the production of incandescent-based lightings products involving labour intensive processes from China to Vietnam to counteract the escalating labour costs resulted from the new PRC Labour Law effective in 2008. The new Vietnam plant commenced operations in the second half of 2008 with over 200 employees thereof.

THE OUTLOOK

When high-power white LED has technology breakthrough with successful launch in the past few years, the reality to use LED in general lighting comes true. Many countries have announced the abandonment of incandescent-based lightings (the "Abandonment") in the past periods. Globally, the market for in general lighting totaled approximately US$100 billion in 2008. The Governments in Europe has announced the Abandonment commencing in 2010. The Australian Government has announced the Abandonment commencing in 2010. The Governments of the California in United States of America ("USA"), Japan and China have announced similar abandonment commencing in 2012 onwards. As such, LED lighting, a leading green lighting technology, will tap the greatest benefits subsequent to the Abandonment over the coming decades. Currently, LED-based general lighting only accounted for only 2% of global illumination market. The global demand of LED-based general lighting will swiftly fill up the gap following the abandonment of incandescent-based lightings in other countries very soon. A good news as of today is our securing of orders of LED-based general lighting products for home use through one of the largest DIY stores, Home Depot. This tremendously indicates that the era of LED-based general lighting for home use taking off.

In the PRC, the potential market for general lighting in LED is estimated at RMB22 billion currently and will reach RMB34 billion in 2010. To counteract the global financial tsunami, the PRC central government has committed an investment of RMB4,000 billion in infrastructure projects nationwide from the end of 2008 onwards. To echo with the central government policy, different PRC municipal governments have accelerated many local infrastructure projects. With escalating environment consciousness of the PRC central government, an enormous demand in the new LED market for general lighting, outdoors (like street lights and tunnel lights etc) and indoors (like office and commercial uses), are anticipated with explosive rate in the next decades.

The year of 2008 was an extremely tough year as a result of the unprecedented global financial tsunami. Economic recession will greatly spread in 2009 all around the world and the global warming effect deteriorates at a great speed. Many developed countries as well as under-developed countries are searching various alternate energy and energy-saving, environmental friendly technology. LED, as a future green lighting technology, can be applied to decorative use, commercial use to general illumination that many governments from different countries are enthusiastic to apply it. For instance, many PRC municipal governments show great interest in the application of LED street lights. For overseas main markets like USA, Europe, the Group has a long history with reputation but the current market sentiment will be surely affected. However, past experience teaches us that more enterprises will still emphasize commercial advertising with fine-toned budgets to maintain or expand the market share in a period of slump. We are confident that the growth in such markets will slow down but remain healthy in the forthcoming future. As declared in the 9-th International Lighting Fair held in Tokyo under the theme of "Lighting, Friendly to People and Earth", the year of 2009 is the year of birth for LED in illumination. The Group will continue its effort in expanding the network in the PRC and overseas markets for LED applications in both decorative and general lighting.

In cost curtailment aspect, we have implemented a series of programs like: (i) streamlining and realignment of the current group hierarchy by merging different sub-plants and departments, (ii) lowering the labour costs with replacement by automated machines, shifting products with labour intensive processes from China to Vietnam plant, adopting employees' vacation shift and transitional pay adjustments of directors and executives, (iii) speeding up the schedule of mass production of in-house wafers/chip manufacturing for lowering the current imported costs of chips, as well as enjoying the synergistic benefits of one integrated supply chain from wafers manufacturing to LED end application and (iv) freezing CAPEX, not critical to business expansion.

APPRECIATION

On behalf of the Board of the Directors (the "Board"), I would like to thank all our staff for their continuous hard work and dedication. We also express my heartfelt gratitude to our customers, suppliers and government bodies for their precious support and comments. With the constant vigilance of our expertise management and responsive strategic thinking, I am confident that the Group can have a swift pick-up in the ensuring periods comparing to the others once the global economy recession gradually recovers.

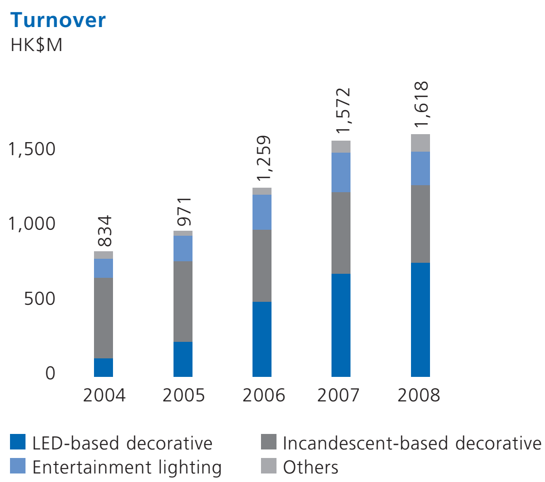
Ben Fan
Chairman

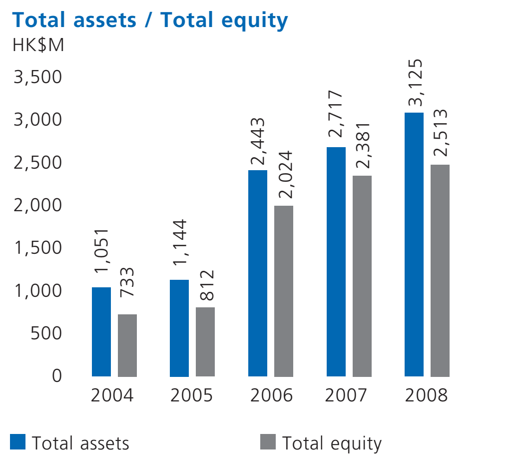
Hong Kong, 17 April 2009

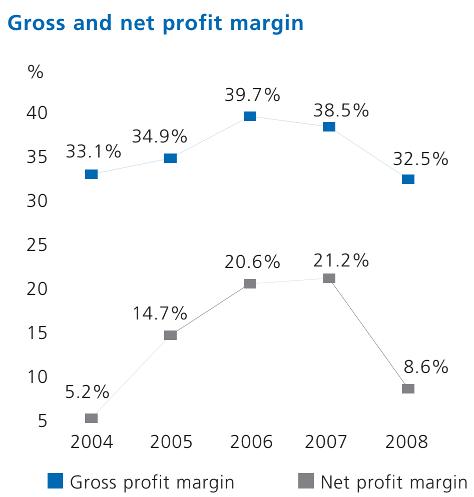
Financial Highlights

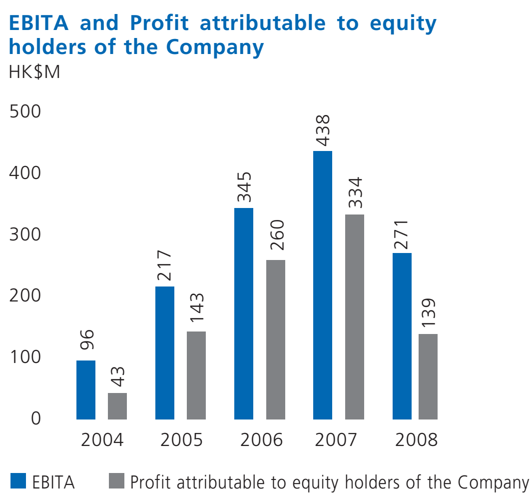
Expressed in HK$ million	2004	2005	Year 2006	2007	2008
Turnover	834	971	1,259	1,572	**1,618**
Gross profit	276	339	500	605	**526**
Profit attributable to equity holders of the Company	43	143	260	334	**139**
EBITA	96	217	345	438	**271**
Total assets	1,051	1,144	2,443	2,717	**3,125**
Total equity	733	812	2,024	2,381	**2,513**
Gross profit margin	33.1%	34.9%	39.7%	38.5%	**32.5%**
Net profit margin	5.2%	14.7%	20.6%	21.2%	**8.6%**
EPS-basic (HK cents)	7	24	43	44	**18**

Note: The Company was listed on the Hong Kong Stock Exchange on 15 December 2006. Financial information for 2004 & 2005, extracted from the Company's prospectus dated 4 December 2006, were prepared on combined basis as if the Group had been in existence throughout those years.









Directors, and Senior Management Profiles

EXECUTIVE DIRECTORS

Mr. Ben FAN (樊邦弘)

Mr. Fan, aged 55, is the founder and Chairman of the Group. He commenced decorative lighting business in 1981. Mr. Fan is responsible for overall management, strategic planning and major decision-making of the Group, including sales and marketing, research and development as well as customer relationships. Mr. Fan has over 27 years of experience in the decorative lighting industry. In 1977, Mr. Fan graduated from Shih Hsin College in Taiwan where he studied journalism. During the course of his career in the decorative lighting industry, Mr. Fan received many awards such as "1998 Hong Kong Youth Industrialist Awards" which was granted to Mr. Fan in recognition of his success and contribution to the industrial sector. Mr. Fan was appointed as an executive Director in August 2006.

Mr. JANG Jann Huan (張震寰)

Mr. Jang, aged 54, joined the Group in 2000 and is currently the chief executive officer of the Group. Mr. Jang oversees the Group's global sales and marketing activities and is responsible for the strategic planning and development of the sales and marketing activities of the Group. Mr. Jang graduated from the Department of Business of the Texas Tech University where he obtained a Doctor of Philosophy degree in Business Administration. Mr. Jang was appointed as an executive Director in January 2007.

Ms. Michelle WONG (翁翠端)

Ms. Wong, aged 45, is the wife of Mr. Ben Fan and the younger sister of Mr. Weng Hsin Chuan, the chief operating officer of the chip manufacturing plant. Ms. Wong has been with the Group since 1986. She is responsible for general administration, human resources management and procurement of the Group. Ms. Wong has over 21 years of experience in corporate management and business administration. Ms. Wong graduated from Yu Da High School of Commerce Home Economics in 1982 where she studied integrated commerce. Ms. Wong was appointed as an executive Director in September 2006.

Mr. FAN Pong Yang (樊邦揚)

Mr. Fan, aged 53, is the younger brother of Mr. Ben Fan. He is responsible for liaison with relevant government authorities involving land use rights application, incorporation of wholly foreign-owned enterprises and factory building constructions. He has been managing our legal department for eight years and has been in charge of all legal matters in relation to the Group, including patent applications, litigations, environmental protection with the support and legal advice of a team of internal legal counsel. Mr. Fan Pong Yang has been representing our Company for liaising with government authorities in respect of various legal matters and will, whenever necessary, represent the Company to engage external legal advisors for more complex legal matters. Mr. Fan Pong Yang was appointed as an executive Director in October 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WU Tak Lung (吳德龍)

Mr. Wu, aged 43, is currently a director and the head of investment banking of CSC Asia Limited, an investment bank licensed by SFC in Hong Kong. Mr. Wu is also an independent non-executive director of some companies listed on the Stock Exchange, namely China Water Industry Group Ltd, Aupu Group Holding Co. Ltd, Finet Group Ltd, i-Merchants Ltd and RBI Holdings Ltd. Mr. Wu had worked for an international audit firm, Deloitte Touche Tohmatsu, and was then employed by several listed and private companies in Hong Kong as head of corporate finance, chief financial officer and executive director. Mr. Wu hold a Master Degree in Business Administration. Mr. Wu is a fellow member of the Association of Chartered Certified Accountants, Hong Kong Institute of Chartered Secretaries and the Taxation Institute of Hong Kong. He is also a full member of the Hong Kong Securities Institute and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Wu was appointed as an independent non-executive Director in November 2006.

Mr. ZHAO Shan Xiang (趙善祥)

Mr. Zhao, aged 64, is currently the chairman of Jiangmen Education Promotion Association. Mr. Zhao was formerly a representative of Guangdong Provincial Party Representative Congress, a member of Guangdong Provincial People's Political Consultative Congress and a member of Guangdong Provincial Commission for Discipline Inspection of the Communist Party of China. Between 1985 to 2007, he was the secretary of Discipline Committee of Jiangmen City Party, the vice secretary of Jiangmen City Party Committee and the chairman of Jiangmen People's Political Consultative Congress. Mr. Zhao was also a member of the Standing Committee and the secretary of the Discipline Committee of Xinhui County Party from 1976 to 1985. Mr. Zhao graduated from the Renmin University of China, Beijing in 1968 where he obtained a Graduate Certificate in Statistics. Mr. Zhao was appointed as an independent non-executive Director in August 2007.

Mr. WENG Shih Yuan (翁世元)

Mr. Weng, aged 54, is currently the deputy chairman of Beijing Gang Yuan Architectural Decoration Engineering Co. Ltd which is one of the "top one hundred" national decoration companies in China, engaging in land development, decoration, curtain wall, mechanical and engineering projects. Mr. Weng has over 30 years of senior managerial experience, previously holding the positions like general manager and chairman in several companies in Taiwan, United States of America and China. Mr. Weng was appointed as an independent non-executive Director in March 2009.

SENIOR MANAGEMENT

Mr. WU Ming Hung (吳明鴻)

Mr. Wu, aged 50, joined the Group in February 2008. He is currently the chief operating officer and the head of LED packaging factory. Mr. Wu graduated from the Department of Electronic Engineer of the United University in Taiwan and had more than 10 years of management experience in the manufacture of LED. Before joining the Group, he was the head of a LCD display manufacturer in China.

Mr. WENG Hsin Chuan (翁新川)

Mr. Weng, aged 49, joined the Group in 2002 and is the chief operating officer of the Group's chip manufacturing plant. Mr. Weng graduated from Tam Kang University in Taiwan with a Bachelor of International Trade in 1988. Mr. Weng is the elder brother of Ms. Michelle Wong.

Mr. YEH Kuo Kuang (葉國光)

Mr. Yeh, aged 38, joined the Group in 2008 as the chief technical officer of our chip manufacturing plant. He previously worked for the technical department of some optoelectronic specialty corporations as well as the Nagoya Institute of Technology Micro-device Center. He also began development work on epitaxy and chip processing of LED and Laser Diode (LD), focusing on mass production. He was also in charge of initializing LED mass production line and training engineers in China. Prior to joining the Group, he was the Chief Technical Officer of an optoelectronic material company in Shanghai, the PRC. Mr. Yeh obtained a Master of Science from National Tsing Hua University (Taiwan) in 1996, major in photo-detector efficiency.

Mr. WANG Chuan Han (王傳漢)

Mr. Wang, aged 40, is the vice president of sale department under US Division and also of our research and development (R&D) department. Before joining the Group in 2006, Mr. Wang worked as a project manager of an industrial automation corporation in Finland and also as a R&D manager in thermal management for a computer company listed in Taiwan. Mr. Wang obtained a Doctor of Philosophy degree from the University of Cambridge in 2004 with major in Thermal Engineering, a Master of Science degree in Combustion and Energy from the University of Leeds in 1994 and also a Bachelor of Science degree in Engineering from the National Taiwan University of Science and Technology in 1992.

Mr. CHAN Cheung (陳璋)

Mr. Chan, aged 53, joined the Group as the chief financial officer in 2009. He is an associate member of the Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants of the United Kingdom. Mr. Chan graduated from the Chinese University of Hong Kong in 1983 with a Bachelor of Social Science, major in Economic. Mr. Chan has over 25 years of experience in financial, taxation and general management with both international banking and manufacturing organisations in various fields and industries.

Mr. LEUNG Wai Chuen (梁偉泉)

Mr. Leung, aged 43, is the Group's company secretary and financial controller, joining the Group in 2008. Mr. Leung has over 19 years of experience in auditing, accounting and finanical management. He had previously worked for an international accounting firm and several companies listed in Hong Kong and Singapore as financial controller. He graduated from the University of Hong Kong with a Bachelor in Social Sciences (Honors) in 1989 and holds a Master of Business Administration as well as a Master of Business in Logistics Management. Mr. Leung is a fellow member of The Association of Chartered Certified Accountants and an associate of The Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Chartered Secretaries and The Institute Chartered Secretaries and Administration.

Mr. JANG Shuh Jou (張述周)

Mr. Jang, aged 44, joined the Group in 1994 as the branch manager of our Guangzhou office and is currently the head of the sales department under Europe Division. Mr. Jang graduated from Tam Kang University in Taiwan with a Bachelor of Arts in French Language Studies in 1988 and had further pursued postgraduate study of international business in France.

Mr. LAM Chung Tak (林宗德)

Mr. Lam, aged 37, joined the Group in 1997 and is currently the head of the sales and marketing department under Asia Division. Mr. Lam graduated from Monash University in Australia in 1997 with a Bachelor Degree with honors in Digital Technology.

Mr. CHIEN Tang Hao (錢塘豪)

Mr. Chien, aged 44, joined the Group in 1992 and is currenlty the operating chief of our entertainment lighting factory.

Mr. CHENG Yun (程雲)

Mr. Cheng, aged 42, joined the Group in 1997. He is the deputy head of our manufacturing plant and also research and development department. Mr. Cheng graduated from the South China Agricultural University in 1990.

Management's Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 December 2008, the Group's turnover was HK$1,617.7 million (2007: HK$1,572.1 million), representing an increase of 2.9%. Gross profit of the Group was HK$526.1 million for 2008 (2007: HK$605.2 million), showing a decrease of 13.1%. Profit attributable to equity holders of the Company decreased from HK$334.0 million in 2007 to HK$138.7 million in 2008, representing a decline of 58.5%. Basic earnings per share was HK cents 18.2 for 2008 (2007: HK cents 43.9), representing a decrease of 58.5%.

Turnover

(a) *By product category*

(i) LED-based decorative lighting products

The Group's turnover from LED in decorative lighting recorded HK$758.6 million in 2008 (2007: HK$683.6 million), showing an increase of 11.0%. With the completion of LED production factory and continued R&D efforts in new LED products, the Group continued to expand its market share in LED-based decorative lighting products and play as the market leader in the aforesaid industry.

(ii) LED-based general lighting products

The turnover from LED in general lighting amounted to HK$61.7 million in 2008 (2007: HK$33.5 million), showing a huge increase of 84.2%. Since its first launch to the commercial market in 2007, the technology breakthrough is progressively improved. The market in LED-based general lighting is brand-new and enormous with non-unifying standardization. Many large corporations already voiced out their core focus in the market in the coming decades.

(iii) Incandescent-based decorative lighting products

The incandescent-based decorative lighting reached a turnover of HK$515.7 million in 2008 (2007: HK$545.9 million), showing a decrease of 5.5%. Following the announcement of impending abandonment of incandescent-based lighting products by many developed countries, the incandescent-based lighting products will be gradually replaced in our sales mix by the green LED-based decorative lighting products.

(iv) Entertainment lighting products

The entertainment lighting, made a turnover of HK$222.7 million in 2008 (2007: HK$262.4 million), showing a decrease of 15.1%. The decline in 2008 was largely due to current economic crisis. The current entertainment lighting is applying HID (High Intensity Discharge) and halogen lighting technology. With gradual replacement of LED components in entertainment lighting products, the variability and multi-featuring will be largely enhanced, progressively increasing the attractiveness of such entertainment lighting products.

(b) *By geographical region*

The turnover from America region recorded HK$522.6 million for 2008 (2007: HK$468.8 million), representing an increase of HK$53.8 million or 11.5%. The turnover from Europe region was HK$562.1 million for 2008 (2007: HK$516.3 million), representing an increase of HK$45.8 million or 8.9%. The turnover from Asia Pacific and Middle East reached HK$306.7 million in 2008 (2007: HK$292.6 million), showing an increase of HK$14.1 million or 4.8%. The turnover from Russia was HK$100.2 million in 2008 (2007: HK$102.4 million), showing a decrease of HK$2.2 million or 2.1%. The turnover from the PRC was HK$118.7 million in 2008 (2007: HK$182.3 million), showing a decrease of HK$63.6 million or 34.9%. The decrease in the PRC region was mainly due to our tightening policy of granting credit to the PRC customers during the year as we need to collect most of the receipts before delivery to such customers.

Cost of Goods Sold and Gross Profit Margin

The cost of goods sold was HK$1,091.7 million in 2008 (2007: HK$966.9 million), increased by HK$124.8 million or 12.9%. The increase was mainly attributable to: (i) an increase in material costs by HK$78.6 million or 11.8%, (ii) an increase in labour costs and subcontracting costs of HK$9.8 million or 6.6%, and (iii) an increase in depreciation of HK$22.3 million or 40.7% resulted from additions of moulds and machinery catering for the expansion of production capacity. The increase in material costs was mainly due to high raw material prices for most of the time in 2008. As the cost of goods sold recorded an increase of 12.9% exceeding the increase in sales of 2.9%, the Group's gross profit margin decreased from 38.5% in 2007 to 32.5% in 2008.

Other Income

Other incomes was HK$9.6 million in 2008 (2007: HK$50.3 million), representing a decrease of HK$40.7 million or 80.9%, mainly due to a decrease of bank interest incomes of HK$22.2 million from HK$30.3 million in 2007 to HK$8.1 million in 2008. As the proceeds from initial public offer (IPO) was received and deposited to banks near the year end of 2006 upon the listing of the Company's shares on the Stock Exchange on 15 December 2006, the interest incomes was much higher in 2007 as compared to 2008.

Other Gains, Losses and Expenses

Other gains, losses and expenses showed a loss of HK$45.8 million in 2008 (2007: a gain of HK$12.9 million). The decrease was mainly due to an increase in fair value of listed investments held-for-trading of HK$7.2 million in 2007 to a decrease in fair value of listed investments held-for-trading of HK$13.1 million in 2008, an increase in allowance for bad and doubtful debts from a net write-back of allowance for bad and doubtful debt of HK$15.0 million in 2007 to a net allowance for bad and doubtful debts of HK$53.7 million in 2008, a gain on disposal of an associate of HK$7.3 million in 2008 (2007: nil), partly offset by an increase in net exchange gain from HK$20.8 million in 2007 to HK$41.5 million in 2008.

Operating Expenses

The distribution and selling expenses mainly compose of staff costs, promotion and advertising, freight and transportation, agency and custom costs, rent and rates. The distribution and selling expenses decreased from HK$91.4 million in 2007 to HK$90.3 million in 2008, representing a decrease of HK$1.1 million or 1.2%.

The administrative expenses mainly compose of staff costs and directors remuneration, depreciation charge, professional and legal fee, research and development costs, business tax. The administrative expenses increased from HK$249.5 million in 2007 to HK$251.1 million in 2008, representing an increase of HK$1.6 million or 0.6%.

Change in Fair Value of Investment Properties

In 2008, the change in fair value of investment properties recorded a decrease of HK$6.1 million (2007: an increase in fair value of HK$21.1 million). Such change was explained by (i) a decrease in fair value of an investment property in Guangzhou, the PRC, in 2008 of HK$1.7 million (2007: an increase in fair value of HK$3.3 million), (ii) a decrease in fair value of HK$3.6 million (2007: not applicable) for an investment property in Taiwan newly acquired in 2008, and (iii) a loss arising from disposing an investment property in Macau of HK$0.7 million in 2008 (2007: an increase in fair value of HK$17.8 million).

Finance Costs

The finance costs was HK$5.5 million in 2008 (2007: HK$1.5 million), representing an increase of HK$4.0 million or 266.7%. The increase was mainly due to an increase of new bank loans, amounted HK$331.9 million, in 2008 for financing the purchase of machinery and an investment property, were raised whereas bank loans in 2007 were fully repaid in early 2007 after the Company's successful IPO on 15 December 2006.

Disposal of an Associate

The Group owned 20% equity interest of an associate, LCX Leblanc Chromex, which was disposed in 2008 at a gain.

Taxation

For 2008, the Group's tax credit of HK$0.4 million (2007: tax charge of HK$14.8 million) included profit tax charge of HK$6.2 million (2007: HK$9.2 million), deferred tax charge of HK$6.9 million (2007: HK$4.2 million), offset by overprovision of PRC income tax in prior years of HK$13.9 million (2007: nil).

Profit Attributable to Equity Holders of the Company and EBITA

For 2008, the profit attributable to equity holders of the Company amounted to HK$138.7 million (2007: HK$334.0 million), showing a decrease of 58.5%. The decrease was mainly attributable to a decrease in gross profit and gross profit margin, decrease in other income, decrease in other gains net losses and fair value decline of investment properties. The overall net profit margin decreased from 21.2% in 2007 to 8.6% in 2008. Earnings before interest, tax, depreciation and amortisation (EBITA) drops from HK$437.8 million in 2007 to HK$270.5 million in 2008, showing a decrease of 38.2%.

FINANCIAL RESOURCES AND LIQUIDITY

Cash Flows

Cash inflow from operating activities in 2008 was HK$157.2 million (2007: HK$89.9 million). Cash outflow from investing activities in 2008 was HK$532.0 million (2007: HK$447.0 million). Cash inflow from financing activities in 2008 was HK$231.0 million (2007: cash outflow of HK$195.2 million). Cash outflow from investing activities in 2008 was mainly due to additions of property, plant and machinery and deposits paid on acquisition of property, plant and equipment of about HK$511.1 million. Cash inflow from financing activities was mainly due to new bank loans of HK$331.9 million raised in 2008. An overall net decrease in cash and cash equivalents in 2008 was HK$143.9 million (2007: HK$552.3 million). The Group's major financial resources derived from cash generated from operating activities.

Assets and Liabilities

As at 31 December 2008, the Group's current assets and non-current assets were respectively HK$1,713.7 million (as at 31 December 2007: HK$1,760.4 million) and HK$1,410.9 million (as at 31 December 2007: HK$956.4 million). The increase in non-current assets was mainly due to an increase in fixed assets of HK$445.7 million. As at 31 December 2008, the Group's current liabilities and long-term liabilities were respectively HK$294.8 million (as at 31 December 2007: HK$335.1 million) and HK$316.6 million (as at 31 December 2007: nil). The increase in long-term liabilities was mainly due to new bank loans of HK$331.9 million raised in 2008. As at 31 December 2008, the Group's bank balance and cash was HK$458.9 million (as at 31 December 2007: HK$609.8 million). The Group's gearing ratio increased from zero gearing as at 31 December 2007 to 13.1% as at 31 December 2008 (Basis: consolidated total bank loans divided by consolidated total equity). The increase in gearing was mainly due to an increase of new bank loans in 2008 for financing the purchase of machinery and an investment property whereas bank loans in 2007 were fully repaid in early 2007 after the Company's successful IPO on 15 December 2006.

The existing cash resources together with the steady cash flows generated from operations are sufficient for the Group to meet its business requirements.

FOREIGN EXCHANGE RISK

Several subsidiaries of the Company have sales and purchases denominated in currencies other than the functional currency of respective entity, which expose the Group to foreign currency risk.

The Group currently does not have a foreign currency hedging policy to eliminate the currency exposures. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposures should the need arise.

CHARGE OF ASSETS

As at 31 December 2008, the Group has pledged one of its investment properties with a fair value of HK$42,072,000 (as at 31 December 2007: nil), certain of its land and buildings with an aggregate carrying value of HK$63,802,000 (as at 31 December 2007: nil) and also bank deposits of aggregate carrying value of HK$2,269,000 (as at 31 December 2007: HK$2,105,000) to secure bank credit facilities granted to the Group.

CAPITAL COMMITMENTS

As at 31 December 2008, the Group has capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment of HK$84.7 million (as at 31 December 2007: HK$158.7 million), acquisition of land use rights of nil amount (as at 31 December 2007: HK$4.4 million) and PRC investment projects of HK$89.9 million (as at 31 December 2007: HK$217.7 million).

CONTINGENT LIABILITIES

As at 31 December 2008, the Group did not have any material contingent liabilities.

CAPITAL STRUCTURE

As at 31 December, 2007 and 2008, the issued share capital of the Company was HK$76,119,750, divided into 761,197,500 ordinary shares of HK$0.10 each.

MATERIAL ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT

Saved as disclosed above, the Group had no material acquisition, disposal and significant investment during the year.

BUSINESS REVIEW

Production Facilities and Capacity

With the expansion of LED packaging plant in 2008, the Group reached a production capacity of 450 million LEDs on average per month as compared to 250 million LEDs on average in 2007. Our high power LED emitter can achieve 100 lumens per watt, reaching the highest mass-produced level in the LED industry. Our R&D efforts in replacing existing HID and halogen light bulbs by high-power LED emitter continued to increase the variety and flexibility in entertainment lighting applications. In LED-based general lighting, we have firstly produced the whole series of LED street and tunnel lights. These series include the new 180-watt and 240-watt street lights series coupled with sophisticated optical design and thermal management, applicable in expressway and capable of replacing the 400-watt high pressure sodium lights.

The production capacity of our incandescent light bulb will continue to maintain a moderate utilization rate. The Group will not invest new resources in the incandescent lighting products business following the impending abandonment of such lighting products.

In the fourth quarter of 2008, the construction of new chip manufacturing plant of approximately 40,000 square metres was completed. Mass production of wafers/chips will be expected in the second quarter of 2009 when all advanced machines are duly fixed and tested. At that time, the in-house LED chips can suffice all the demand of our present LED packaging production.

The Group also established a new plant in Vietnam in 2008 and commenced operations in the second half of 2008 so as to shift the production of incandescent-based lightings products involving labour intensive processes from China to Vietnam to counteract the escalating PRC labour costs. The Group will further expand the plant in Vietnam in 2009.

Quality Control

Product quality has always been the most important objective for the Group since its establishment. The Group implemented strict quality controls throughout the entire processes of procurement, production, sales and logistics. Our standards and compliance department is responsible for obtaining certifications for our products with certification agencies, some of which are country specific. Our products have to comply with the standards of the country in which our customers conduct business. We ensure full compliance with the required standards in the manufacturing and sales process for our products.

Sales and Distribution

The Group maintained a saleforce over 500 staff. We believe that the demand for LED-based decorative lighting and LED-based general lighting products will increase at a fast speed, following the replacement of incandescent-based decorative lighting products in the coming periods. The Group will not only consolidate its saleforce in overseas markets like America, Europe and Middle Asia but also expand smartly its sale team in the PRC to tap the huge growth opportunities in the LED-based lighting in both decorative and illumination aspects in the PRC.

RESEARCH & DEVELOPMENT

Our research and development capabilities are important in maintaining our position as one of the world's leading manufacturers in the decorative lighting industry. Our research and development efforts focus on product design, new product development and improving production efficiency of our products to reduce overall manufacturing costs. In 2008, seven new product lines launched, including street light series (enhanced), i-panel series (enhanced), LED lamp series (enhanced). We believe there is a huge market potential in the LED-based general lighting industry.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2008, the Group's total number of employees was 8,756 approximately (as at 31 December 2007: 11,850). The basic remunerations of the employees are determined with reference to the industry remuneration benchmark, the employees' experience and their performance. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each director. Apart from the basic remuneration and statutory benefits required by laws, the Group also provides discretionary bonus based upon the Group's results and the individual performance of the staff.

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff. The Group maintains a good relationship with its employees. Most members of senior management have been working for the Group for more than 10 years. The Group also adopts an employee share option scheme.

FUTURE PLANS AND PROSPECTS

Globally, the surge in oil and natural resources prices and rising concerns on global warming effect stimulate the enormous demand in searching for alternate energy and energy savings technologies, like LED as a clean and green lighting sources, which will, in turn, also benefit our business in the forthcoming future.

Our growth drivers in the coming years will emerge from the following sectors:

1. **LED-based general lighting** – 2007 was the first year we entered this market and the results were promising. In 2008, we generate a turnover of 84% higher than that in 2007. We can offer superior prices to top performance products on the market as our technological expertise is at the cutting-edge of the lighting industry. A good news as of today is that we have successfully launched LED-general lighting products in home use through Home Depot, one of the largest DIY stores. Although the orders placed was estimated involving few million of US Dollars, it positively proves the era of LED-based general lighting for home use taking off. With this in mind, the growth in this industry will be expectedly accelerated in 2009 and thereafter.

2. **LED-based decorative lighting** – Following the abandonment of incandescent lighting products gradually from 2010 onwards as announced by different countries, LEDs in decorative sector will surely grow rapidly over the mid- to long-term.

3. **LED-based entertainment lighting** – As we have developed high-power LED emitters to replace exiting HIDs and halogen light bulbs, these super high-tech bulbs can be easily flexibly applied to the entertainment lighting industry indifferent aspects.

With the completion of our new chip manufacturing plant at the end of 2008, we estimated the mass production of in-house chips/wafers commencing on the second quarter of 2009, saving LED chip manufacturing costs by 25%~40% approximately as compared to imported LED chips and fully sufficing the internal LED packaging demand.

Attracting and retaining top management and executive talent is the key for sustaining Neo-Neon's future growth. The Group's existing performance-based incentive scheme and employee share-option scheme are helping to achieve this goal. These schemes will also improve overall management quality and business professionalism through on-the-job as well as formal training programmes. This will help develop team spirit and reinforce a sense of unity and belonging between management and staff.

The year of 2009 is a volatile year. On one hand, we will carefully monitor the effectiveness of cost control measures and diligently freeze any non-core CAPEX. On the other hand, we keep on searching for opportunities of merger and acquisition in expanding our market share as well as escalating our technological standing so as to add value to the Company's shareholders ultimately.

Directors' Report

The Directors are pleased to present their annual report and the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 35 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 34. The Directors recommend the payment of a final dividend of HK$0.011 per ordinary share of the Company for the year ended 31 December 2008, payable to holders of the ordinary shares on the register of members on 3 June 2009. The final dividend will be paid approximately in mid July 2009.

For the year under review, the Directors have declared an interim dividend of HK$0.034 per ordinary share, which was paid in November 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 1 June 2009 (Monday) to 3 June 2009 (Wednesday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares of the Company accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 29 May 2009 (Friday).

PROPERTY, PLANT AND EQUIPMENT

Movements during the year in the Group's property, plant and equipment are set out in note 15 to the consolidated financial statements.

Movements during the year in the Group's investment properties are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 26 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DIRECTORS

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

Executive Directors

Mr. Ben FAN *(Chairman)*	
Mr. JANG Jann Huan *(CEO)*	
Ms. Michelle WONG	
Mr. FAN Pong Yang	
Mr. TONG Yee Ming	(resigned on 16 July 2008)

Independent non-executive Directors

Mr. WU Tak Lung	
Mr. ZHAO Shan Xiang	
Mr. WENG Shih Yuan	(appointed on 10 March 2009)
Ms. FUNG Siu Wan Stella	(resigned on 10 March 2009)
Mr. LAM Yin Ming	(retired on 26 May 2008)

In accordance with Article 87(1) of the Company's articles of association (the "Articles"), Mr. Ben FAN, Mr. JANG Jann Huan and Mr. Wu Tak Lung will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

In accordance with Article 86(3) of the Articles, Mr. WENG Shih Yuan, appointed by the Board to fill a casual vacancy, will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Details of these Directors, which are required to be disclosed pursuant to Rules 13.51(2) and 13.74 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), are set out in the circular of the Company, sent to Shareholders together with the 2008 Annual Report relating to, inter alia, re-election of Directors.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Ben FAN, Ms. Michelle WONG and Mr. FAN Pong Yang has entered into a service contract with the Company for an initial term of three years commencing from the date (the "Commencement Date") on which dealings in the shares of the Company (the "Shares") commences on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Such contracts will continue thereafter provided that either the Company or the relevant executive Director may, after one year of the Commencement Date, terminate the appointment of the relevant executive Director by giving to the other party not less than three months' written notice of termination or by payment in lieu of such notice.

Mr. JANG Jann Huan has entered into a service contract with the Company for a term of three years upon each re-election from the last annual general meeting. Either party may, after the expiry of the relevant first year of service of the relevant executive Director, terminate the service contract by giving to the other not less than three months' prior written notice.

Mr. WU Tak Lung has entered into a letter of appointment with the Company for a term of three years commencing on the Commencement Date and may be terminated by either party by giving two months' written notice.

Mr. ZHAO Shan Xiang has entered into a letter of appointment with the Company. Under the appointment letter with the Company, Mr. ZHAO's appointment will automatically terminate when he reaches his 65th birthday.

Mr. WENG Shih Yuan has not entered into any service contract with the Company. There is no fixed term on proposed length of service except that he is subject to retirement by rotation and re-election in accordance with the Company's Articles of Association and the Listing Rules.

Save as disclosed above, none of the Directors has a contract of service with the Company or any of its subsidiaries not determinable by the employing company within one year without payment of compensation (except for statutory compensation).

The remuneration of senior management of the Company is aimed at attracting, motivating and retaining high-calibre individuals in a competitive market. The emoluments of the Directors are determined in accordance with this policy.

Every year, the Company received from each of the independent non-executive Directors a confirmation of his independence and the Company considers all of them to be independent.

DIRECTORS' INTERESTS IN CONTRACTS

There were no contract of significance in relation to the Group's business to which the Company or any of subsidiaries and fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement whose object are to enable a Director of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than under the share option scheme of the Company. As at 31 December 2008, the number of outstanding option shares granted by the Company under the share option scheme to Directors to subscribe for shares of the Company, as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO") or otherwise notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), is set out in the section headed "Share Option Scheme" of this report.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors hold any interests in any competing business against the Company or any of its jointly controlled entities and subsidiaries for the year ended 31 December 2008.

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

As at 31 December 2008, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (the "Associated Corporations") 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 HKSE pursuant to the Model Code were as follows:

Long positions in Shares and underlying Shares of the Company

Name of Director	Class of Shares	Number of Shares held: Personal Interests *(Note 1)*	Family Interests	Corporate Interests	Other Interests	Number of Underlying Shares Held under Equity Derivatives	Total	Percentage of Total Issued Share Capital of the Company as at 31 December 2008
Mr. Ben FAN(2)	Ordinary	600,000	44,467,000	351,000,000	–	–	396,067,000	52.032%
Mr. JANG Jann Huan(4)	Ordinary	425,000	–	34,648,000	–	–	35,073,000	4.608%
Ms. Michelle WONG(2)	Ordinary	9,819,000	351,600,000	34,648,000	–	–	396,067,000	52.032%
Mr. FAN Pong Yang(3)	Ordinary	566,000	–	34,648,000	–	–	35,214,500	4.626%
Mr. WU Tak Lung	Ordinary	–	–	–	–	50,000(5)	50,000	0.007%
Ms. FUNG Siu Wan Stella(6)	Ordinary	–	–	–	–	50,000(5)	50,000	0.007%
Mr. ZHAO Shan Xiang	Ordinary	–	–	–	–	50,000(5)	50,000	0.007%

Notes:

(1) This represents interests held by the relevant Director as beneficial owner.

(2) Each of Mr. Ben FAN and Ms. Michelle WONG was taken to be interested in an aggregate of 396,067,000 Shares of the Company held by Mr. Ben FAN (600,000 Shares), Ms. Michelle WONG (9,819,000 Shares), Rightmass Agents Limited ("Rightmass") (351,000,000 Shares) and Charm Light International Limited ("Charm Light") (34,648,000 Shares), respectively as follows:

(a) 351,000,000 Shares of the Company were held by Rightmass which was wholly-owned by Mr. Ben FAN. Mr. Ben FAN was taken to be interested in 351,000,000 Shares of the Company that Rightmass was interested;

(b) 34,648,000 Shares of the Company were held by Charm Light which was owned as to 35% by Ms. Michelle WONG. Ms. Michelle WONG was taken to be interested in 34,648,000 Shares of the Company that Charm Light was interested;

(c) Ms. Michelle WONG is the spouse of Mr. Ben FAN. Ms. Michelle WONG was deemed to be interested in 600,000 Shares of the Company held by Mr. Ben FAN and 351,000,000 shares of the Company held by Rightmass; and

(d) Mr. Ben FAN is the spouse of Ms. Michelle WONG. Mr. Ben FAN was deemed to be interested in 9,819,000 Shares of the Company held by Ms. Michelle WONG and 34,648,000 shares of the Company held by Charm Light.

(3) 34,648,000 Shares of the Company were held by Charm Light which was owned as to 35% by Mr. FAN Pong Yang. Mr. FAN Pong Yang was taken to be interested in 34,648,000 Shares of the Company that Charm Light was interested.

(4) 34,648,000 Shares of the Company were held by Charm Light which was owned as to 10% by Mr. Jang Jann Huan. Mr. Jang was taken to be interested in 34,648,000 Shares of the Company that Charm Light was interested.

(5) This represents interests in options held by the relevant Director as a beneficial owner to subscribe for the relevant underlying Shares in respect of the option shares granted by the Company under the share option scheme, details of which are set out in the section headed "Share Options Scheme" in this report.

(6) Ms. FUNG Siu Wan Stella resigned as Independent Non-Executive Director of the Company on 10 March 2009.

Save as mentioned above, as at 31 December 2008, none of the Directors and chief executives had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations which had been entered in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2008, the interests and short positions of those persons (other than the Directors) in the Shares and underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long positions in Shares of the Company

Name	Capacity in which Shares were Held	Number of Ordinary Shares Held	Percentage of Total Issued Share Capital of the Company as at 31 December 2008
Rightmass[(1)]	Beneficial owner	351,000,000	46.112%
FMR LLC.	Investment Manager	68,468,800	8.995%

Note:

(1) The interests in ordinary shares held by Rightmass were included in the interests of Mr. Ben FAN and Ms. Michelle WONG in the Company as disclosed under the section headed "Directors and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures".

Save as mentioned above, as at 31 December 2008, the Company had not been notified of any interests and short positions in the Shares and underlying Shares of the Company which had been entered in the register required to be kept under Section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year, no connected or continuing connected transactions subsisted or have been entered into by the Group.

SHARE OPTION SCHEME

A share option scheme was adopted by the Company pursuant to the Shareholders' resolutions passed on 20 November 2006 (the "Scheme") for the primary purpose of providing incentives to Directors and eligible employees. The Scheme became effective on 15 December 2006 and the options issued pursuant to the Scheme will expire no later than 10 years from the date of grant of the option. Under the Scheme, the Board may grant options to any employees of the Company or any of its subsidiaries to subscribe Shares of the Company.

For any options granted to Directors, chief executives or substantial shareholders of the Company, options to be granted shall be approved by the Independent Non-Executive Directors of the Company (excluding any Independent Non-Executive Director who is the proposed grantee of options).

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 on 15 December 2006 (representing 76,000,000 Shares of the Company) without prior approval from the Company's shareholders.

The number of Shares issued and to be issued in respect of options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the total Shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

The amount payable on acceptance of an option is HK$1.00. In relation to any options granted under the Scheme, 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.

During the year ended 31 December 2008, 5,985,000 options and 2,357,500 options were granted to eligible employees of the Group respectively on 1 February 2008 and 29 February 2008, and 200,000 options were granted to the Company's directors on 1 February 2008 as shown below. Options granted in February 2008 have an aggregate estimated fair value of HK$14,850,000.

The option period is 8 years whereas the vesting period is 5 years. Details of movement of these options are as below:

Category of participants	Date of grant	Exercise price (HK$)	Exercisable period	Balance as at 01.01.2008	Granted during the year	Lapsed during the year	Outstanding as at 31.12.2008
Directors							
Mr. TONG Yee Ming(2)	15.02.2007	8.72	15.02.2008 – 14.02.2015	412,000	–	(412,000)	–
Mr. WU Tak Lung	01.02.2008	5.03	01.02.2008 – 31.01.2016	–	50,000	–	50,000
Mr. LAM Yin Ming(3)	01.02.2008	5.03	01.02.2008 – 31.01.2016	–	50,000	(50,000)	–
Ms. FUNG Siu Wan Stella	01.02.2008	5.03	01.02.2008 – 31.01.2016	–	50,000	–	50,000
Mr. ZHAO Shan Xiang	01.02.2008	5.03	01.02.2008 – 31.01.2016	–	50,000	–	50,000
Employees							
Employees, in aggregate	15.02.2007	8.72	15.02.2008 – 14.02.2015	12,112,500	–	(2,818,500)	9,294,000
	01.02.2008	5.03	01.02.2008 – 31.01.2016	–	5,985,000	(1,775,000)	4,210,000
	29.02.2008	5.90	29.02.2008 – 28.02.2016	–	2,357,500	(45,000)	2,312,500
				12,524,500	8,542,500	(5,100,500)	15,966,500

The closing price of shares immediately before 15 February 2007, 1 February 2008 and 29 February 2008, the dates on which the share options were granted, were HK$8.50, HK$4.75 and HK$6.00 respectively.

In respect of the share options exercised during 2007, the weighted average share price at dates of exercise was HK$14.77. The weighted average exercise price of options granted during the year, exercised during the year, lapsed during the year and outstanding at the balance sheet date is HK$5.27 (2007: HK$8.72), nil (HK$8.72), HK$7.37 (2007: HK$8.72) and HK$7.30 (2007: HK$8.72), respectively.

The options vest in 5 installments: (i) 20% from the date of grant; (ii) 20% after one year from the date of grant; (iii) 20% after two years from the date of grant; (iv) 20% after three years from the date of grant; and (v) 20% after four years from the date of grant.

No option was exercised during the year.

Notes:

(1) Each of the option holders has to remain employed throughout each of the vesting period before the relevant options granted to each of them can be exercised during the relevant exercisable period.

(2) Mr. TONG Yee Ming resigned as Executive Director of the Company on 16 July 2008.

(3) Mr. LAM Yin Ming retired at the annual general meeting of the Company held on 26 May 2008 and ceased to be an Independent Non-Executive Director.

Save as disclosed above and in note 27 to the consolidated financial statements, during the year, no right has been granted to, or exercised by, the following persons, to subscribe for shares in or debentures of the Company under the Scheme and no option granted to such persons under the Scheme has been cancelled or lapsed:

(i) any Director, chief executive or substantial shareholders of the Company, or their respective associates;

(ii) any participant under the Scheme with options granted in excess of the individual limit;

(iii) any employee working under employment contract that is regarded as "continuous contract" for the purpose of the Employment Ordinance;

(iv) any supplier of goods or services; and

(v) any other participants under the Scheme.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2008, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

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

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the largest supplier accounted for 8.8% of the Group's purchases and the five largest suppliers accounted for 29.0% of the Group's total purchases. The largest customer accounted for 3.9% of the Group's turnover and the five largest customers accounted for 15.5% of the Group's total turnover.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has an interest in the Group's five largest suppliers and customers.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

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

EMPLOYEES

The total number of employees of the Group was approximately 8,756 as at 31 December 2008. The remuneration of each employee of the Group is determined on the basis of his or her performance and responsibility. The Group provides education allowances to all the employees.

CORPORATE GOVERNANCE

Details of corporate governance are set out in the section headed "Corporate Governance Report" on pages 25 to 31 of this annual report.

POST BALANCE SHEET EVENTS

There are no material subsequent events after the balance sheet date.

AUDITOR

Deloitte Touche Tohmatsu will retire and will seek for re-election at the forthcoming annual general meeting.

On behalf of the Board

Ben FAN
Chairman

Hong Kong, 17 April 2009

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed in maintaining high standards of corporate governance ("CG"). The Board believes that commitment in CG practices will definitely add value to the Company's shareholders in long term. The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices ("CCGP") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended 31 December 2008 ("FY2008").

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors of the Company. Following specific enquiry by the Company, all the Directors have confirmed in writing that they have complied with the required standard as set out in the code of conduct during FY2008.

THE BOARD

Board Composition

As at the date of this report, the Board has four executive Directors ("ED") and three independent non-executive Directors ("INED"), as shown on page 2 of this annual report. Biographies of the Company's Directors are shown on pages 7 to 8 of this annual report.

INEDs ensure the Board accounts for the interest of all shareholders and subject matters are considered objectively. The Board has received from each INED an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board considers all of the INEDs to be independent. INEDs has accounted for 40% of the full Board.

The Board focuses on the overall strategic development of the Group, also monitoring the financial performance and the internal controls of the Group. With a wide range of expertise and a balance of skills, the INEDs bring independent judgment on issues of strategic direction, development, performance and risk management through their contribution at Board meetings and committee work.

To the best knowledge of the Directors, there is no financial, business and family relationship among members of the Board except that Ms. Michelle WONG is the spouse of Mr. Ben FAN and Mr. FAN Pong Yang is the younger brother of Mr. Ben FAN.

Chairman and the CEO

Mr. Ben FAN is the Chairman and Mr. JANG Jann Huan serves as the Chief Executive Officer ("CEO"). The role of the Chairman is separate from that of CEO so as to delineate their respective areas of responsibility.

The Chairman has to (i) provide leadership to the Board to ensure that the Board acts in the best interests of the Company, (ii) oversee effective functioning of the Board and application of good CG practices and procedures, (iii) ensure that all directors are properly briefed on issues arising at board meetings, (iv) encourage the Directors to make full and active contributions to the Board's affairs, and (v) ensure that all Directors have unrestricted access to the documents or information kept by the Group and professional advice when necessary.

The Board, led by the Chairman, sets the overall direction, strategy and policies of the Company. Under the leadership of the CEO, management is responsible for executing the Board's strategy and implementing its policies through the day-to-day management and operations of the Company.

Role and Responsibilities of the Board

The Board delegates appropriate aspects of its management and administration functions to management. It also gives clear directions as to the powers of management, in particular, with respect to the matters that management must report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. The Board determines on regular basis which functions are reserved to the Board and which are delegated to management.

The Board exercises a number of authorities which include:

- Formulation of the Group's long-term strategy
- Approving major acquisitions, disposals and capital investment
- Reviewing operational and financial performance
- Approving financial results and public announcements
- Reviewing the effectiveness of internal control
- Authorizing material borrowings
- Setting dividend policy
- Any issue or share repurchase of the Company's securities under general mandate
- Approving appointment to the Board and senior management
- Setting the Group's remuneration policy

To assist in fulfilling its duties and responsibilities, the Board established three committees, namely the audit committee, the remuneration committee and the nomination committee.

Appointment and Re-election

The Directors are also responsible for the appointment of Directors. The Chairman in consultation with other directors nominates for a new appointment as the Company's Directors(s). The Board expects that the new Directors(s) possesses some attributes or expertise, capable of contributing the Company.

Under the Company's articles of association (the "Articles"), all Directors are subject to the general requirement of retirement by rotation of one-third of the Directors at each annual general meeting of the Company, provided that every Director shall be subject to retirement at least once every three (3) years.

A Director appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Mr. WENG Shih Yuan, appointed in March 2009 as an INED of the Company, was subject to retirement at the forthcoming annual general meeting of the Company and being eligible, offers himself for re-election.

All EDs have service contracts with the Company for a term of three (3) years. The EDs may, after first year of service, terminate the service contract by giving three-month written termination notice to the other or by payment in lieu of such notice. The Company has given INEDs letters of appointment. Each INED is eligible for emoluments, participation in share option scheme and expenses reimbursement relevant for their carrying out of duties.

Board Processes

All directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent professional advice at the expense of the Company in the furtherance of their duties. The Company has also arranged appropriate director and officer liability insurance cover in respect of any potential legal actions that might be taken against its Directors.

The Board meets regularly throughout the year to review the overall strategy and to monitor the operation as well as the financial performance of the Group. The Chairman focuses on Group strategy and is responsible for chairing and managing the efficient operation of the Board and ensuring that all key issues are considered by the Board in a timely manner. Notice of at least 14 days has been given to all Directors for all regular Board meetings and the Directors can include matters for discussion in the agenda whenever they consider appropriate and necessary. Agenda and accompanying Board papers in respect of regular Board meetings are dispatched in full to all Directors within a reasonable time before the meeting. Directors have to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at board meetings and abstain from voting as appropriate. Draft minutes of all board meetings are circulated to Directors for comment within a reasonable time prior to confirmation.

Minutes of board meetings and meetings of board committees are kept by the Company Secretary. All Directors have free access to board papers and related materials, and are provided with adequate information in a timely manner, enabling the Board to make informed decision on matters placed before it. In FY2008, six (6) board meetings were held with attendance details shown in the followings:

Directors	**Board Meetings attended/held in FY2008**
Mr. Ben FAN	6/6
Ms. Michelle WONG	5/6
Mr. FAN Pong Yang	4/6
Mr. JANG Jann Huan	6/6
Mr. LAM Yin Ming (retired on 26 May 2008)	2/5
Mr. ZHAO Shan Xiang	1/6
Mr. TONG Yee Ming (resigned on 16 July 2008)	5/5
Ms. FUNG Siu Wan, Stella (resigned on 10 March 2009)	4/6
Mr. WU Tak Lung	3/6
Mr. WENG Shih Yuan (appointed on 10 March 2009)	N/A

BOARD'S COMMITTEES

The Board has established three committees, namely audit committee, remuneration committee, nomination committee. Each of them have specific terms of reference to consider matters relating to specific areas and to advise the Board on such matters. INEDs play a significant role in these committees to ensure that independent and objective views are taken.

(a) Audit Committee

All AC members are INEDs as set out in page 2 of this annual report. The Board considers that each AC member has optimal mix of commercial and managerial experience. The composition and members of the Audit Committee satisfies the requirements under Rule 3.21 of the Listing Rules which requires (i) a minimum of three members, and (ii) at least one of the INEDs has professional accounting qualifications or related financial management expertise.

The AC reviewed with the senior management and external auditors of the Group's significant internal controls and financial matters as set out in the AC's terms of reference, including:

- The Group's interim and annual financial statements with recommendation to the Board for approval
- The Group's compliance of the regulatory and statutory requirements
- The Group's internal control and risk management
- Significant accounting and audit issues
- Connected transactions
- Managing and overseeing with external auditors

The AC has the power to conduct investigations into any matter within the scope of responsibility of the AC and is authorized to obtain independent professional advice if it deems necessary in discharging its responsibilities.

The AC has been satisfied with the review of the audit scope, process and effectiveness, independence of Deloitte and thus recommended the Board for the approval of the 2008 financial statements.

In FY2008, AC held two meetings with 100% attendance by all AC members.

(b) Remuneration Committee

The Remuneration Committee ("RC") currently comprises of three INEDs and one ED, as set out in page 2 of this report. The majority of RC members are INEDs.

The RC advises the Board on the Group's overall policy and structure for the remuneration of Directors and senior management, and ensures that no Director or any of his associate is involved in deciding his/her own remuneration.

In determining the remuneration for Directors, the RC takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and the desirability of performance-based remuneration.

The RC meets to determine the policy for the remuneration of Directors and assess the performance of executive Directors and members of senior management. In FY2008, two RC meetings were held, with 100% attendance by all committee members.

Compensation policy of the Group

The compensation package for each employee is structured in a way to attract and retain the best talents available, and will contain a combination or modification of some or all of the following three main components:

I. *Basic salary*

Basic salary and wage rate ranges are established for each position by evaluating the responsibilities and the duties required to be performed. The actual salary or wage rate for the person filling the position is determined based on the experience and ability of the individual selected for the position.

The basic salary and wage rate ranges are reviewed periodically with reference to the prevailing market level and similar positions of competitors in the relevant industry. The actual salaries and wage rates of employees are reviewed annually and may be adjusted from time to time based on the cost of living and financial performance of the Company.

Salaries and wages are basic compensation and not intended to reward performance, either individually or corporately. Performance is rewarded through the other components of the compensation plan.

II. *Incentive bonus*

Incentive bonus is linked to individual and corporate performance. Every year, profitability and other corporate performance targets are set and incentive bonuses will only be paid for that year if the targets are achieved.

The incentive bonus for each employee is determined with reference to his/her position and his/her individual performance during the year.

III. *Employee Share Option Scheme*

Prior to listing, the Company has set up an Employee Share Option Scheme. Granting of the options to employees from time to time will be at the discretion of the Board. The Employee Share Option Scheme allows the Company to retain valuable human resources and to motivate future performance of the employees.

Options granted to individual employees are determined with reference to their positions, length of service with the Company, their performance and ability to contribute to the overall corporate success.

IV. Other benefits

In addition to the above three main components, the Group offers other customary and/or mandatory benefits to employees, such as retirement fund scheme, medical benefits, insurance and paid holiday, with reference to prevailing industry practices in the relevant jurisdictions.

(c) Nomination Committee

The Nomination Committee ("NC") currently comprises of three INEDs and one ED, as set out in page 2 of this report. The majority of NC members are INEDs.

The NC is mainly responsible for reviewing the candidates' qualification and competence, and making recommendations to the Board on appointment of Directors, so as to ensure that all nominations are fair and reasonable.

The NC meets to discuss the procedures and criteria which should be adopted by them in nominating candidates for directorship and agreed that such criteria should include the candidates' professional background, their experiences and their past track record with other listed companies (if any). In FY2008, one NC meeting was held, with 100% attendance by all committee members.

AUDITORS' REMUNERATION

The existing auditor, Deloitte, of the Company has provided the Group audit and tax advisory services in FY2008. The AC was satisfied that the non-audit service provided by Deloitte did not affect its independence. The remuneration charged by Deloitte in FY2008 was shown below.

Audit services	HK$3,800,000
Non-audit services	HK$2,800,000

INTERNAL CONTROLS

The Board has overall responsibility for maintaining an adequate system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Company's assets.

The Group's internal control system is designed in consideration of the nature of business as well as the organization structure. The system is designed to manage rather than eliminate the risk of failure in operational systems and to provide reasonable, but not absolute, assurance against material misstatement or loss. The system is designed further to safeguard the Group's assets, maintain appropriate accounting records and financial reporting, maintain efficiency of operations and ensure compliance with applicable laws and regulations.

The Board has employed an external auditor, Baker Tilly Hong Kong ("BTY"), to conduct a review of the system of internal controls which covered all relevant financial, operational, compliance controls and risk management functions within an established framework. The principal purpose of the review report by BTY was to obtain sufficient knowledge of the control environment to understand the attitude of management and the governing body, awareness and actions concerning the factors of the control environment.

There is currently no internal audit function within the Group. The Directors have reviewed the need for an internal audit function and are of the view that it would be more cost effective to appoint external independent professionals to perform internal audit functions for the Group currently. The Company will continue to engage external independent professionals to review its system of internal controls annually and the Directors will continue to review regularly the need for setting up in-house internal audit function.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for the preparation of the financial statements, which give a true and fair view of the state of affairs of the Company and comply with the requirement of the Hong Kong Company Ordinance and the applicable disclosure provisions of the Listing Rules. The Auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the Company's shareholders. The Independent Auditor's Report of is set out on pages 32 to 33 of this annual report.

INVESTOR AND SHAREHOLDER RELATION

The Company endeavours to continue maintaining a high level of transparency in communicating with shareholders and the investment community at large. Briefings and meetings with institutional investors and analysts are conducted regularly. The Company is committed to maintain an open and effective investor communication policy and to update investors on relevant information on its business on a timely manner, subject to relevant regulatory requirements.

In order to ensure effective, clear and accurate communications with the investors and analysts, all corporate communications are arranged and handled by the Chief Financial Officer of the Company.

Financial information and all shareholder corporate communications of the Company are made available on the Company's website at http://www.neo-neon.com and updated regularly on a timely basis.

The Board and management shall ensure shareholders' right and all shareholders are treated equitably and fairly. The Company has announced its half-year and annual results in a timely manner, which is well before the time limits set out in the Listing Rules. Separate resolutions will be proposed at the general meetings on each substantially separate issue, including the re-election of individual directors.

The annual general meeting ("AGM") will provide an opportunity for direct communication between the Board and the Company's shareholders. The Company regards the annual general meeting as an important event in which the Chairman and all directors will make an effort to attend. External auditors shall also be invited to attend the Company's AGM and are also available to assist the Directors in addressing queries from shareholders relating to the conduct of the audit and the preparation and content of their auditor report. All shareholders are given prior notice on timely basis together with a detailed agenda. The Board, according to the new Listing Rules, will conduct voting at the forthcoming AGM by poll. The results of the Company will be declared at the meeting, and announced timely at the Stock Exchange website and the Company's website.

FAMILY MEMBERS AND CLOSE PERSONAL RELATIONSHIPS

The Board recognises that talents, relevant experience and skills are the most important considerations in executive officers and staff selection. It is the Group's policy that job positions are filled by suitably qualified candidates selected through internal promotions or from the open market on the merits of qualification, experience, skills and achievements. No employee is hired on account of family or close personal connection to any Board member.

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF NEO-NEON HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Neo-Neon Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 82, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2008 and of its profit 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 requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

17 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	6	**1,617,732**	1,572,126
Cost of goods sold		**(1,091,677)**	(966,914)
Gross profit		**526,055**	605,212
Other income		**9,645**	50,290
Other gains, losses and expenses	7	**(45,799)**	12,927
Distribution and selling expenses		**(90,327)**	(91,373)
Administrative expenses		**(251,145)**	(249,544)
Finance costs	8	**(5,504)**	(1,473)
Change in fair value of investment properties		**(6,065)**	21,083
Share of profits of associates		**–**	285
Share of results of a jointly controlled entity		**407**	(882)
Profit before taxation	9	**137,267**	346,525
Taxation	11	**357**	(14,844)
Profit for the year		**137,624**	331,681
Attributable to			
– equity holders of the Company		**138,676**	334,029
– minority interests		**(1,052)**	(2,348)
		137,624	331,681
Dividends			
– interim dividends of 3.4 Hong Kong cents (2007: 2.7 Hong Kong cents) per share paid		**25,881**	20,550
– final dividends of 8.3 Hong Kong cents (2007: Nil) per share paid		**63,179**	–
		89,060	20,550
– proposed final dividends of 1.1 Hong Kong cents (2007: 8.3 Hong Kong cents) per share	12	**8,373**	63,179
		HK cents	HK cents
Earnings per share			
– Basic	13	**18.21814**	43.91588
– Diluted		**18.21812**	43.72430

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Investment properties	14	**55,344**	50,193
Property, plant and equipment	15	**1,160,353**	714,694
Prepaid lease payments	16	**35,850**	27,244
Intangible assets	17	**9,425**	11,781
Interest in a jointly controlled entity	18	**22,936**	21,938
Deposits made on acquisition of property, plant and equipment		**121,049**	118,529
Deferred tax assets	19	**5,961**	11,974
		1,410,918	956,353
Current assets			
Inventories	20	**908,208**	720,457
Trade and other receivables	21	**339,173**	362,641
Investments held-for-trading	22	**5,138**	47,336
Pledged bank deposits	23	**2,269**	2,105
Bank balances and cash	23	**458,878**	609,828
		1,713,666	1,742,367
Asset held for sale		**–**	18,068
		1,713,666	1,760,435
Current liabilities			
Trade and other payables	24	**258,532**	296,046
Amount due to a director		**4,294**	10,396
Taxation		**18,463**	28,617
Current portion of long-term bank loans	25	**13,470**	–
		294,759	335,059
Net current assets		**1,418,907**	1,425,376
Total assets less current liabilities		**2,829,825**	2,381,729
Non-current liabilities			
Long-term bank loans	25	**316,581**	–
Net assets		**2,513,244**	2,381,729

Consolidated Balance Sheet (cont'd)

At 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Capital and reserves			
Share capital	26	**76,120**	76,120
Reserves		**2,430,388**	2,297,821
Equity attributable to equity holders of the Company		**2,506,508**	2,373,941
Minority interests		**6,736**	7,788
Total equity		**2,513,244**	2,381,729

The consolidated financial statements on pages 34 to 82 were approved and authorised for issue by the Board of Directors on 17 April 2009 and are signed on its behalf by:

BEN FAN
CHAIRMAN

FAN PONG YANG
EXECUTIVE DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Share compensation reserve HK$'000	Share options reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Attributable to equity holders of the Company HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2007	76,000	1,013,987	53,856	48,100	–	3,641	818,261	2,013,845	10,136	2,023,981
Exchange differences arising on translation	–	–	–	–	–	18,742	–	18,742	–	18,742
Share of reserve of associates	–	–	–	–	–	2,379	–	2,379	–	2,379
Net gain recognised directly in equity	–	–	–	–	–	21,121	–	21,121	–	21,121
Profit (loss) for the year	–	–	–	–	–	–	334,029	334,029	(2,348)	331,681
Total recognised income (expenses) for the year	–	–	–	–	–	21,121	334,029	355,150	(2,348)	352,802
Expenses incurred in connection with the issue of shares	–	(3,632)	–	–	–	–	–	(3,632)	–	(3,632)
Recognition of equity-settled share based payments	–	–	–	–	18,686	–	–	18,686	–	18,686
Exercise of share options	120	13,208	–	–	(2,886)	–	–	10,442	–	10,442
Dividends paid	–	–	–	–	–	–	(20,550)	(20,550)	–	(20,550)
	120	9,576	–	–	15,800	–	(20,550)	4,946	–	4,946
At 31 December 2007	76,120	1,023,563	53,856	48,100	15,800	24,762	1,131,740	2,373,941	7,788	2,381,729
Exchange differences arising on translation	–	–	–	–	–	74,361	–	74,361	–	74,361
Share of reserve of a jointly controlled entity	–	–	–	–	–	591	–	591	–	591
Net gain recognised directly in equity	–	–	–	–	–	74,952	–	74,952	–	74,952
Profit (loss) for the year	–	–	–	–	–	–	138,676	138,676	(1,052)	137,624
Reserve released upon disposal of subsidiaries	–	–	–	–	–	711	–	711	–	711
Reserve released upon disposal of an associate	–	–	–	–	–	(2,379)	–	(2,379)	–	(2,379)
Total recognised income (expenses) for the year	–	–	–	–	–	73,284	138,676	211,960	(1,052)	210,908
Recognition of equity-settled share based payments	–	–	–	–	9,667	–	–	9,667	–	9,667
Share options lapsed during the year	–	–	–	–	(3,244)	–	3,244	–	–	–
Dividends paid	–	–	–	–	–	–	(89,060)	(89,060)	–	(89,060)
	–	–	–	–	6,423	–	(85,816)	(79,393)	–	(79,393)
At 31 December 2008	76,120	1,023,563	53,856	48,100	22,223	98,046	1,184,600	2,506,508	6,736	2,513,244

Consolidated Statement of Changes in Equity (cont'd)

For the year ended 31 December 2008

The special reserve represents the differences between the nominal amount of the shares issued by the Company and the Group's former holding company, Neo-Neon Holdings (BVI) Limited ("NNH"), and the aggregate amount of share capital and share premium of the subsidiaries acquired pursuant to a corporate reorganisation in 1996 and a group reorganisation in preparation for the listing of the Company's shares in 2006.

Share compensation reserve represents the difference of fair value of certain NNH's shares (the "Shares") transferred to the Group's certain senior management by the Company's shareholders and the consideration paid by the senior management in obtaining the Shares in 2004.

As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China (the "PRC"), the Company's PRC subsidiaries are required to maintain a statutory surplus reserve fund. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial statements of the PRC subsidiaries while the amounts and allocation basis are decided by their board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue. Since the date of establishment, there was no appropriation to the statutory surplus reserve fund as no dividends have been distributed by any of the PRC subsidiaries.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008	2007
	HK$'000	HK$'000
Operating activities		
Profit before taxation	**137,267**	346,525
Adjustments for:		
Interest income	**(8,057)**	(30,272)
Finance costs	**5,504**	1,473
Dividend income from investments held-for-trading	**(609)**	(272)
Share of profits of associates	**–**	(285)
Share of results of a jointly controlled entity	**(407)**	882
Equity-settled share based payments	**9,667**	18,686
Depreciation and amortisation	**127,775**	89,812
Change in fair value of investment properties	**6,065**	(21,083)
Gain on liquidation of subsidiaries	**(723)**	–
Loss on disposal of property, plant and equipment	**1,310**	1,277
Impairment loss recognised for interest in an associate	**–**	462
Gain on disposal of an associate	**(7,293)**	–
Operating lease rentals in respect of prepaid lease payments	**629**	308
Write-down of inventories	**3,444**	3,942
Net allowance for (write-back of) bad and doubtful debts	**53,720**	(15,031)
Research and development costs	**27,228**	28,346
Effect of foreign exchange rate changes on inter-company balances	**(22,449)**	(25,769)
Operating cash flows before movements in working capital	**333,071**	399,001
Increase in inventories	**(135,831)**	(206,351)
Increase in trade and other receivables	**(17,766)**	(131,346)
Decrease (increase) in investments held-for-trading	**42,198**	(47,336)
(Decrease) increase in trade and other payables	**(55,387)**	67,439
(Decrease) increase in amount due to a director	**(6,102)**	10,396
Cash from operations	**160,183**	91,803
Tax paid	**(3,010)**	(1,947)
Net cash from operating activities	**157,173**	89,856

Consolidated Cash Flow Statement (cont'd)

For the year ended 31 December 2008

	Note	**2008 HK$'000**	2007 HK$'000
Investing activities			
Interest received		**8,057**	30,272
Dividend received from an associate		**–**	937
Dividend received from investments held-for-trading		**609**	272
Research and development costs paid		**(27,228)**	(28,346)
Purchase of investment properties		**(45,679)**	–
Proceeds from disposal of investment properties		**34,463**	–
Purchase of property, plant and equipment		**(190,776)**	(208,607)
Purchase of prepaid lease payments		**(1,663)**	(6,826)
Purchase of a subsidiary	28	**(12,477)**	–
Proceeds from disposal of an associate		**22,982**	–
Deposits paid on acquisition of property, plant and equipment		**(320,268)**	(234,679)
Net cash used in investing activities		**(531,980)**	(446,977)
Financing activities			
Interest paid		**(5,384)**	(1,473)
Dividends paid		**(89,060)**	(20,550)
Proceeds from issue of shares		**–**	10,442
Expenses incurred in connection with the issue of shares		**–**	(3,632)
Repayment to a director		**–**	(2,126)
Repayment of mortgage loans		**–**	(51,746)
Bank loans raised		**331,892**	–
Expenses paid in connection with bank loans raised		**(1,800)**	–
Repayment of bank loans		**(4,698)**	(126,135)
Net cash from (used in) financing activities		**230,950**	(195,220)
Net decrease in cash and cash equivalents		**(143,857)**	(552,341)
Cash and cash equivalents at 1 January		**609,828**	1,158,158
Effect of foreign exchange rate changes		**(7,093)**	4,011
Cash and cash equivalents at 31 December		**458,878**	609,828
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**458,878**	609,828

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability 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 35. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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.

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

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

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC)* – INT 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC) – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

* IFRIC represents the International Financial Reporting Interpretations Committee.

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

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

The Group has not early applied the following new or revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of financial statements[2]
HKAS 23 (Revised)	Borrowing costs[2]
HKAS 27 (Revised)	Consolidated and separate financial statements[3]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate[2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[2]
HKFRS 3 (Revised)	Business combinations[3]
HKFRS 7 (Amendment)	Improving disclosures about financial instruments[2]
HKFRS 8	Operating segments[2]
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives[4]
HK(IFRIC) – INT 13	Customer loyalty programmes[5]
HK(IFRIC) – INT 15	Agreements for the construction of real estate[2]
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation[6]
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners[3]
HK(IFRIC) – INT 18	Transfer of assets from customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

2 Effective for annual periods beginning on or after 1 January 2009.

3 Effective for annual periods beginning on or after 1 July 2009.

4 Effective for annual periods ending on or after 30 June 2009.

5 Effective for annual periods beginning on or after 1 July 2008.

6 Effective for annual periods beginning on or after 1 October 2008.

7 Effective for transfers received on or after 1 July 2009.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of these Standards, Amendment or Interpretations will have no material impact on the results and financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historic cost basis except for investment properties and investments held-for-trading which are carried at fair values, as explained in the accounting policies set out below. In addition, 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.

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.

All 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 combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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 net assets 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, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

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.

Rental income, including rentals invoices in advance, from investment properties let under operating leases is recognised on a straight line basis over the period of the respective dates.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. 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 asset) is included in the income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods, or for administrative purposes, 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 continued 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 includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is stated at cost which includes all development expenditure and other direct costs, attributable to such projects, less any recognised impairment loss. 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, 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	10% – 20%
Yacht	15%

Leasehold land and building

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the 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. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables (including trade and other receivables, bank deposits and bank balances) 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.

Financial assets at FVTPL

Financial assets at FVTPL represent financial assets held-for-trading. A financial asset is classified as held-for-trading if:

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

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 in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Impairment of financial assets

Financial assets, other than investments held-for-trading, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Impairment of financial assets – continued

All financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For loans and receivables, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

The carrying amount of the loans and receivables is reduced by the impairment loss directly with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial liabilities

Financial liabilities, including trade and other payables, amount due to a director and bank loans, are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

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

Impairment 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 the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

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 net profit as reported in the 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.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Taxation – continued

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.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset 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.

Share-based payment transactions

Share options granted to employees, directors and non-executive directors

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).

For options with non-market performance vesting conditions, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, 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 options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 purpose of presenting consolidated financial statements, the assets and liabilities of the Group's 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. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders. The Group's overall strategy remains unchanged from prior year.

At the balance sheet date, the capital structure of the Group consisted of debts and equity attributable to equity holders of the Company, comprising share capital, reserves and retained profits.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new shares issued and the raising of loans.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2008

5. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2008 HK$'000	2007 HK$'000
Financial assets		
Investments held-for-trading	**5,138**	47,336
Loans and receivables (including cash and cash equivalents)	**724,323**	920,597
Financial liabilities		
Amortised cost	**566,620**	257,767

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, investments held-for-trading, bank balances and cash, trade and other payables, amount due to a director and bank loans. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), liquidity risk and credit risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 36.4% (2007: 37.5%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 51.6% (2007: 49.7%) of costs are denominated in the respective group entities' functional currencies.

5. FINANCIAL INSTRUMENTS – CONTINUED

b. Financial risk management objectives and policies – continued

Market risk – continued

(i) Currency risk – continued

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities, which include inter-company loans and receivables, at the reporting date are as follows:

	Assets		Liabilities	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Australian dollar ("AU$")	**7,581**	38,986	**–**	–
HK$	**2,046,677**	1,246,910	**3,860,865**	3,246,053
Renminbi ("RMB")	**677,122**	1,643,008	**222,296**	972,829
United States dollar ("US$")	**119,588**	72,769	**69,378**	7,134
Euro	**1,727**	24,899	**136**	–
New Taiwan dollar ("NT$")	**18,920**	62	**5,144**	2,419
Others	**7,624**	89	**–**	–

The Group currently does not have a foreign currency hedging policy to eliminate the currency exposures. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposures should the need arise.

Sensitivity analysis

The Group is mainly exposed to currency of HK$, RMB and US$.

The following table details the Group's sensitivity to a 5% increase and decrease in HK$, RMB and US$ against the relevant functional currencies of the group entities. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the functional currency of the relevant group entity. A positive number below indicates an increase in profit for the year where RMB and US$ strengthen 5% against the functional currency of the respective group entities. For a 5% weakening of RMB and US$ against the functional currency of the respective group entities, there would be an equal and opposite impact on the profit for the year, and the balances below would be negative. For HK$ impact, a positive number indicates a profit for the year where HK$ weaken 5% against the functional currency of the respective group entities. For a 5% weakening of HK$ against the functional currency of the respective group entities, there would be an equal and opposite impact on the profit for the year and the balances below would be negative.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2008

5. FINANCIAL INSTRUMENTS – CONTINUED

b. Financial risk management objectives and policies – continued

Market risk – continued

(i) Currency risk – continued

Sensitivity analysis – continued

	HK$ Impact			RMB Impact			US$ Impact		
	2008	2007		**2008**	2007		**2008**	2007	
	HK$'000	HK$'000		**HK$'000**	HK$'000		**HK$'000**	HK$'000	
Increase	**90,709**	78,961	(i)	**22,741**	10,838	(ii)	**2,511**	3,365	(iii)

(i) This is mainly attributable to the exposure outstanding on HK$ receivables and payables at year end in the Group relative to RMB.

(ii) This is mainly attributable to the exposure outstanding on RMB receivables and payables at year end in the Group relative to HK$ and US$.

(iii) This is mainly attributable to the exposure to outstanding US$ receivables at the year end in the Group relative to RMB.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year. The financial impact on exchange difference from AU$, Euro and NT$ is immaterial and therefore no sensitivity analysis has been prepared. US$ denominated sales are seasonal with higher sales volumes in the last quarter of the financial year, which results in a rise in US$ receivables at year end.

(ii) Interest rate risk

In 2008, the Group was exposed to cash flows interest rate risk through the impact of the rate changes on floating interest rate bank loans.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk was mainly concentrated on the fluctuation of Hong Kong Inter-bank Offer Rate and Taiwan bank interest rate arising from the Group's HK$ and Taiwan New dollars denominated borrowings.

5. FINANCIAL INSTRUMENTS – CONTINUED

b. Financial risk management objectives and policies – continued

Market risk – continued

(ii) Interest rate risk – continued

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. At 31 December 2008, for variable-rate bank deposits and bank loans, the analysis is prepared assuming the amount of asset and liability outstanding at the balance sheet date was in deposit accounts or outstanding for the whole year. At 31 December 2007, for variable-rate bank deposits, the analysis is prepared assuming the amount of asset at the balance sheet date was in deposit accounts for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher and all other variables were held constant, the potential effect on profit for the year is as follows:

	2008 **HK$'000**	2007 HK$'000
Increase in profit for the year	**644**	3,049

(iii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities and commodities. The management manages this exposure by maintaining a portfolio of investments with different risks.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. For sensitivity analysis purpose, the sensitivity rate is increased to 15% in the current year as a result of the volatile financial market.

If the prices of the respective equity instruments had been 15% (2007: 5%) higher/lower, profit for the year ended 31 December 2008 would be increased/decreased by HK$771,000 (2007: HK$2,367,000) as a result of the changes in fair value of investments held-for-trading.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent price risk as the year end exposure does not reflect the exposure during the year.

5. FINANCIAL INSTRUMENTS – CONTINUED

b. Financial risk management objectives and policies – continued

Liquidity risk management

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. In the past, the Group relied on the funding generated from its operation.

The following table details the Group's remaining contractual maturity for its financial liabilities at the balance sheet date. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Effective interest rate %	Less than 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2008					
Non-derivative financial liabilities					
Trade and other payables	**–**	**232,275**	**–**	**232,275**	**232,275**
Amount due to a director	**–**	**4,294**	**–**	**4,294**	**4,294**
Bank loans	**1.5**	**14,308**	**327,842**	**342,150**	**330,051**
		250,877	**327,842**	**578,719**	**566,620**
At 31 December 2007					
Non-derivative financial liabilities					
Trade and other payables	–	247,371	–	247,371	247,371
Amount due to a director	–	10,396	–	10,396	10,396
		257,767	–	257,767	257,767

5. FINANCIAL INSTRUMENTS – CONTINUED

b. Financial risk management objectives and policies – continued

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 concentration of credit risk as 13.7% (2007: 13.0%) and 37.5% (2007: 34.1%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the property construction business segment.

Fair value

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

- The fair value of financial assets with standard terms and conditions and traded on active liquid markets 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.

6. TURNOVER AND SEGMENT INFORMATION

Turnover represents the fair value of the consideration received and receivable for goods sold by the Group to outside customers during the year.

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

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.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2008

6. TURNOVER AND SEGMENT INFORMATION – CONTINUED

Geographical segments

The following table provides an analysis of the Group's geographical market segment information.

	Turnover		Results	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
America	**522,633**	468,832	**90,374**	100,800
Europe	**562,050**	516,258	**92,865**	105,903
PRC	**118,660**	182,308	**(36,363)**	41,928
Russia	**100,204**	102,421	**19,919**	29,640
Asia Pacific and Middle East (excluding PRC)	**306,666**	292,647	**60,058**	88,794
Others	**7,519**	9,660	**1,497**	1,752
	1,617,732	1,572,126	**228,350**	368,817
Unallocated other income			**59,184**	78,271
Unallocated expenses			**(139,105)**	(119,576)
Finance costs			**(5,504)**	(1,473)
Change in fair value of investment properties			**(6,065)**	21,083
Share of profits of associates			**–**	285
Share of results of a jointly controlled entity			**407**	(882)
Profit before taxation			**137,267**	346,525
Taxation			**357**	(14,844)
Profit for the year			**137,624**	331,681
Net allowance for (write-back of) bad and doubtful debts				
– America			**(1,708)**	(1,153)
– Europe			**8**	(835)
– PRC			**53,659**	(9,799)
– Russia			**141**	(259)
– Asia Pacific and Middle East (excluding PRC)			**1,620**	(2,985)
			53,720	(15,031)

6. TURNOVER AND SEGMENT INFORMATION – CONTINUED

	Total assets	
	2008	2007
	HK$'000	HK$'000
Trade and bills receivables		
– America	**58,335**	26,058
– Europe	**74,435**	85,746
– PRC	**13,866**	95,477
– Russia	**7,075**	4,895
– Asia Pacific and Middle East (excluding PRC)	**81,578**	56,443
Trade and bills receivables	**235,289**	268,619
Inventories*	**908,208**	720,457
Property, plant and equipment*	**1,095,597**	648,086
Total segment assets	**2,239,094**	1,637,162
Unallocated corporate assets	**885,490**	1,079,626
Total assets	**3,124,584**	2,716,788

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

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.

	Segment assets		Segment liabilities	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**1,952,534**	1,413,121	**157,333**	185,851
Hong Kong	**28,252**	41,337	**45,011**	75,349
Macau	**257**	311	**52,132**	27,508
Other locations	**258,051**	182,393	**35,145**	6,181
	2,239,094	1,637,162	**289,621**	294,889

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2008

6. TURNOVER AND SEGMENT INFORMATION – CONTINUED

	Capital additions		Depreciation and amortisation	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Macau	**18**	30	**72**	32
Hong Kong	**902**	15,267	**13,774**	14,489
PRC	**520,684**	326,195	**113,427**	74,812
Other locations	**59,035**	11,467	**502**	479
	580,639	352,959	**127,775**	89,812

7. OTHER GAINS, LOSSES AND EXPENSES

	2008	2007
	HK$'000	HK$'000
(Decrease) increase in fair value of listed investments held-for-trading	**(13,080)**	7,204
Impairment loss recognised for investment in an associate	**–**	(462)
Loss on disposal of property, plant and equipment	**(1,310)**	(1,277)
Net (allowance) write-back for bad and doubtful debts	**(53,720)**	15,031
Research and development costs	**(27,228)**	(28,346)
Gain on disposal of an associate	**7,293**	–
Gain on liquidation of subsidiaries	**723**	–
Net exchange gain	**41,523**	20,777
	(45,799)	12,927

8. FINANCE COSTS

	2008	2007
	HK$'000	HK$'000
Interest on bank borrowings		
– wholly repayable within five years	**(5,028)**	(1,277)
– not wholly repayable within five years	**(356)**	(196)
	(5,384)	(1,473)
Amortised transaction costs in relation to long-term bank loans	**(120)**	–
	(5,504)	(1,473)

9. PROFIT BEFORE TAXATION

	2008 **HK$'000**	2007 HK$'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration (note 10)	**14,373**	19,981
Other staff's retirement benefits scheme contributions	**7,175**	6,397
Other staff's share-based payments	**9,424**	18,686
Other staff costs	**255,402**	243,624
	286,374	288,688
Less: Staff costs included in research and development costs	**(9,158)**	(11,165)
Staff costs incurred in connection with the issue of shares	**–**	(3,632)
	277,216	273,891
Depreciation of property, plant and equipment	**125,322**	87,440
Less: Depreciation included in research and development costs	**(2,254)**	(1,233)
	123,068	86,207
Amortisation of intangible assets included in administrative expenses	**2,453**	2,372
Auditor's remuneration	**3,800**	2,800
Cost of inventories recognised as an expense	**1,088,233**	967,699
Decrease in fair value of listed investments held-for-trading	**13,080**	–
Impairment loss recognised for investment in an associate	**–**	462
Loss on disposal of property, plant and equipment	**1,310**	1,277
Net allowance for bad and doubtful debts	**53,720**	–
Operating lease rentals in respect of		
– prepaid lease payments	**629**	308
– rented premises	**4,921**	2,514
Research and development costs	**27,228**	28,346
Write-down of inventories included in cost of goods sold	**3,444**	3,942
and after crediting:		
Dividend income from listed investments held-for-trading	**609**	272
Gain on disposal of an associate	**7,293**	–
Gain on liquidation of subsidiaries	**723**	–
Increase in fair value of listed investments held-for-trading	**–**	7,204
Interest income	**8,057**	30,272
Net exchange gain	**41,523**	20,777
Net write-back of allowance for bad and doubtful debts	**–**	15,031
Property rental income before deduction of negligible outgoings	**1,138**	484

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2008						2007				
	Fees HK$'000	Salaries and other benefits HK$'000	Performance related incentive bonus HK$'000	Equity-settled share based payments HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000	Fees HK$'000	Salaries and other benefits HK$'000	Performance related incentive bonus HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors											
Mr. Ben Fan	–	4,800	4,294	–	–	9,094	–	4,800	10,396	–	15,196
Madam Michelle Wong	–	1,440	–	–	12	1,452	–	1,440	–	12	1,452
Mr. Fan Pong Yang	–	960	–	–	–	960	–	960	–	–	960
Mr. Tong Yee Ming (resigned on 16 July 2008)	–	703	–	–	7	710	–	357	–	3	360
Mr. Jang Jann Huang (appointed on 25 January 2007)	–	1,200	–	–	–	1,200	–	1,200	–	–	1,200
Non-executive director											
Dr. Leong Ka Cheong Christopher (resigned on 14 September 2007)	–	–	–	–	–	–	–	140	–	–	140
Independent non-executive directors											
Mr. Wu Tak Lung	–	200	–	81	–	281	–	200	–	–	200
Madam Fung Siu Wan Stella (resigned on 10 March 2009)	–	200	–	81	–	281	–	200	–	–	200
Mr. Lam Yin Ming (resigned on 26 May 2008)	–	114	–	–	–	114	–	200	–	–	200
Mr. Zhao Shan Xiang	–	200	–	81	–	281	–	73	–	–	73
	–	9,817	4,294	243	19	14,373	–	9,570	10,396	15	19,981

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

	2008 HK$'000	2007 HK$'000
Employee		
– basic salaries and allowances	969	590
– performance related incentive bonus	–	2,368
– equity-settled share based payments	–	771
– retirement benefits scheme contributions	–	9
	969	3,738

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.

11. TAXATION

	2008 HK$'000	2007 HK$'000
The credit (charge) comprises:		
PRC Enterprise Income Tax ("EIT")	**(6,209)**	(9,171)
Overprovision of PRC EIT in prior years*	**13,922**	–
Taxation in other overseas jurisdictions	**(284)**	(421)
	7,429	(9,592)
Hong Kong Profits Tax	**–**	(1,538)
(Under)overprovision of Hong Kong Profits Tax in prior years	**(214)**	484
	(214)	(1,054)
Deferred taxation		
– current year	**(2,439)**	(3,000)
– attributable to a change in tax rate	**(4,419)**	(1,198)
	(6,858)	(4,198)
	357	(14,844)

* During the year, the local PRC authorities in charge of taxation of a foreign enterprise of the Group, after an in-depth review of its business activities in the PRC for the years 2002 to 2006, agreed that the presence of this foreign enterprise in the PRC during each of these years did not constitute a permanent establishment in the PRC. The PRC authority thus endorsed with an official circular that the relevant entity shall not be liable to EIT correspondingly. In prior years, before this foreign enterprise could secure any official endorsement to rule out the exposure of permanent establishment, the management accrued EIT for those years. The relevant EIT provision for the years 2002 to 2006, in aggregate amounted to HK$13,922,000 is now considered unnecessary and released to income statement.

The PRC EIT and overseas taxation are calculated at the rates prevailing in the respective jurisdictions.

The PRC subsidiaries were subject to EIT at 25% for the year ended 31 December 2008. One of the PRC subsidiaries was officially endorsed as a High-New Technology Enterprise in December 2008. Pursuant to the Enterprise Income Tax Law, a High-New Technology Enterprise shall be entitled to a preferential tax rate of 15%.

11. TAXATION – CONTINUED

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

	2008		2007	
	HK$'000	**%**	HK$'000	%
Profit before taxation	**137,267**		346,525	
Tax at the applicable income tax rate	**(34,317)**	**(25.0)**	(114,353)	(33.0)
Tax effect of share of profits of associates	**–**	**–**	94	0.1
Tax effect of share of results of a jointly-controlled entity	**102**	**(0.1)**	(291)	(0.1)
Tax effect of expenses not deductible for tax purposes	**(115,310)**	**(84.1)**	(34,824)	(10.0)
Tax effect of income not taxable for tax purposes	**83,709**	**61.2**	50,510	14.6
Tax effect of deemed deductions in the PRC	**46,255**	**33.7**	63,887	18.4
Effect of tax exemptions granted to subsidiaries	**16,258**	**11.8**	21,296	6.1
Effect of different tax rates on subsidiaries operating in other jurisdictions	**(1,928)**	**(1.4)**	(698)	(0.2)
Income tax on concessionary rate	**–**	**–**	908	0.2
Decrease in opening deferred tax assets resulting from a decrease in applicable tax rate	**(4,419)**	**(3.2)**	(1,198)	(0.3)
Overprovision in prior years	**13,708**	**10.0**	484	0.1
Others	**(3,701)**	**(2.6)**	(659)	(0.2)
Tax charge and effective tax rate for the year	**357**	**0.3**	(14,844)	(4.3)

12. DIVIDENDS

The final dividend proposed by the directors for the year is subject to approval by the shareholders in the forthcoming annual general meeting and is calculated on the basis of 761,197,500 shares in issue as at the date of this report.

13. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	2008	2007
	HK$'000	HK$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**138,676**	334,029

	Number of shares	
	2008	2007
Weighted average number of ordinary shares for the purposes of basic earnings per share	**761,197,500**	760,610,874
Effect of dilutive potential ordinary shares – share options	**601**	3,332,809
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**761,198,101**	763,943,683

14. INVESTMENT PROPERTIES

	HK$'000
At 1 January 2007	17,381
Additions	11,729
Increase in fair value recognised in the income statement	21,083
At 31 December 2007	50,193
Additions	45,679
Decrease in fair value recognised in the income statement	(6,065)
Disposals	(34,463)
At 31 December 2008	55,344

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2008

14. INVESTMENT PROPERTIES – CONTINUED

	2008 HK$'000	2007 HK$'000
The carrying value of investment properties comprises:		
Properties held under medium-term leases in		
– Macau	–	35,200
– the PRC	13,272	14,993
Freehold properties in Taiwan	42,072	–
	55,344	50,193

All of the Group's investment properties are held to earn rentals and/or held for capital appreciation purposes. Those properties situated in the PRC are in the process of applying for property ownership certificates in which the directors of the Company are of the opinion that it will be received in due course.

The fair value of the Group's investment properties at 31 December 2008 has been arrived at by the directors on the basis of a valuation carried out on that date by Jones Lang LaSalle Sallmanns Limited, independent qualified professional valuers not connected with the Group. The valuation, which conforms with Standards on Properties issued by the Hong Kong Institute of Surveyors Valuation, was determined by reference to recent market prices for similar properties.

The Group has pledged one of its investment properties with a fair value of HK$42,072,000 (2007: Nil) to secure the credit facilities granted to the Group.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Plant and machinery HK$'000	Yacht HK$'000	Construction in progress HK$'000	Total HK$'000
COST									
At 1 January 2007	239,482	38,112	87,795	20,560	49,848	256,774	2,603	75,011	770,185
Currency realignment	10,292	58	5,156	92	978	15,564	–	4,175	36,315
Additions	4,109	11,917	61,047	2,182	20,862	138,858	–	93,899	332,874
Disposals	(385)	(764)	–	(334)	(359)	(3,311)	–	–	(5,153)
Transferred to prepaid lease payments	–	–	–	–	–	–	–	(7,082)	(7,082)
Transfers	–	315	8,291	–	1,956	(1,955)	–	(8,607)	–
At 31 December 2007	253,498	49,638	162,289	22,500	73,285	405,930	2,603	157,396	1,127,139
Currency realignment	13,533	977	12,161	154	3,101	31,389	–	11,826	73,141
Acquired on acquisition of a subsidiary	–	–	–	–	–	–	–	10,595	10,595
Additions	1,343	9,331	57,985	3,159	16,438	231,008	–	197,019	516,283
Disposals	(353)	(763)	(1,255)	(1,164)	–	(804)	–	–	(4,339)
Transfers	22,625	(84)	9,359	(145)	–	263	–	(32,018)	–
At 31 December 2008	290,646	59,099	240,539	24,504	92,824	667,786	2,603	344,818	1,722,819
DEPRECIATION									
At 1 January 2007	82,762	18,467	45,348	9,525	25,176	128,718	955	–	310,951
Currency realignment	5,364	46	3,179	83	372	8,886	–	–	17,930
Provided for the year	18,525	6,749	16,631	3,515	9,685	31,814	521	–	87,440
Eliminated on disposals	(193)	(602)	–	(210)	(333)	(2,538)	–	–	(3,876)
At 31 December 2007	106,458	24,660	65,158	12,913	34,900	166,880	1,476	–	412,445
Currency realignment	7,700	147	5,323	35	963	13,560	–	–	27,728
Provided for the year	19,049	8,592	31,571	3,675	12,653	49,261	521	–	125,322
Eliminated on disposals	(353)	(577)	(737)	(1,152)	–	(210)	–	–	(3,029)
At 31 December 2008	132,854	32,822	101,315	15,471	48,516	229,491	1,997	–	562,466
NET BOOK VALUES									
At 31 December 2008	157,792	26,277	139,224	9,033	44,308	438,295	606	344,818	1,160,353
At 31 December 2007	147,040	24,978	97,131	9,587	38,385	239,050	1,127	157,396	714,694

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2008

15. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

	2008 **HK$'000**	2007 HK$'000
The carrying value of property interests which are held under medium-term leases comprises:		
Land and buildings in Hong Kong	**63,802**	65,184
Buildings in the PRC	**90,442**	78,226
Land and building in Dubai	**3,548**	3,630
	157,792	147,040
Properties included in construction in progress held under medium-term prepaid lease payments in the PRC	**344,818**	157,396
	502,610	304,436

The Group has pledged certain of its land and buildings with an aggregate carrying value of HK$63,802,000 (2007: Nil) to secure the credit facilities granted to the Group.

16. PREPAID LEASE PAYMENTS

	2008 **HK$'000**	2007 HK$'000
CARRYING VALUE		
At 1 January	**27,244**	12,871
Currency realignment	**1,153**	773
Acquired on acquisition of a subsidiary	**6,419**	–
Additions	**1,663**	6,826
Transferred from construction in progress	**–**	7,082
Charged to income statement for the year	**(629)**	(308)
At 31 December	**35,850**	27,244
The carrying value of medium-term prepaid lease payments are situated in		
– the PRC	**29,394**	20,418
– Vietnam	**6,456**	6,826
	35,850	27,244

17. INTANGIBLE ASSETS

	Licenses and trademarks HK$'000
COST	
At 1 January 2007	14,680
Currency realignment	49
Additions	1,530
At 31 December 2007	16,259
Currency realignment	122
At 31 December 2008	16,381
AMORTISATION	
At 1 January 2007	2,097
Currency realignment	9
Amortised for the year	2,372
At 31 December 2007	4,478
Currency realignment	25
Amortised for the year	2,453
At 31 December 2008	6,956
CARRYING VALUE	
At 31 December 2008	9,425
At 31 December 2007	11,781

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

18. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**15,600**	15,600
Currency realignment	**628**	37
Share of post-acquisition profits, net of dividends received	**6,708**	6,301
	22,936	21,938

The Group's investment in jointly controlled entity at the balance sheet date 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.

19. DEFERRED TAX ASSETS

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 2007	15,247
Currency realignment	925
Charge to income statement for the year	(3,000)
Attributable to a change in tax rate	(1,198)
At 31 December 2007	11,974
Currency realignment	845
Charge to income statement for the year	(2,439)
Attributable to a change in tax rate	(4,419)
At 31 December 2008	5,961

20. INVENTORIES

	2008 HK$'000	2007 HK$'000
Raw materials	**221,445**	198,486
Work in progress	**491,047**	430,099
Finished goods	**195,716**	91,872
	908,208	720,457

21. TRADE AND OTHER RECEIVABLES

	2008 HK$'000	2007 HK$'000
Trade receivables		
– associates	**–**	24,511
– jointly controlled entity	**1,066**	1,680
– others	**217,878**	201,130
Bills receivables	**75,492**	47,441
Less: Allowance for bad and doubtful debts	**(59,147)**	(6,143)
	235,289	268,619
Deposits paid to suppliers	**21,375**	53,977
Other receivables	**82,509**	40,045
	339,173	362,641

21. TRADE AND OTHER RECEIVABLES – CONTINUED

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:

	2008 **HK$'000**	2007 HK$'000
Age		
0 to 60 days	**115,148**	179,275
61 to 90 days	**29,597**	31,619
91 to 180 days	**45,229**	48,162
181 to 360 days	**23,222**	9,424
Over 1 year	**22,093**	139
	235,289	268,619

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$45,315,000 (2007: HK$9,563,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on payment pattern of the customers of the Group, trade receivables past due but not impaired are generally collectible. The Group does not hold any collateral over these balances. The average age of these receivables ranges from 181 days to 720 days.

At the balance sheet dates, the Group provided fully for all receivables over 2 years because historical experience is such that receivables that are past due beyond 2 years are generally not recoverable.

Movement in the allowance for bad and doubtful debts

	2008 **HK$'000**	2007 HK$'000
At 1 January	**6,143**	30,979
Allowance recognised on receivables	**55,457**	3,347
Amounts written-off as uncollectible	**(2,453)**	(7,463)
Amounts recovered during the year	**–**	(20,720)
At 31 December	**59,147**	6,143

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$55,457,000 (2007: Nil) which have been in severe financial difficulties. The Group does not hold any collateral over these balances.

22. INVESTMENTS HELD-FOR-TRADING

	2008	2007
	HK$'000	HK$'000
Equity securities listed in Hong Kong	**5,138**	10,903
Gold contracts	**–**	36,433
	5,138	47,336

23. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

At the balance sheet date, the pledged bank deposits are carrying at the prevailing market interest rate.

Pledged bank deposits represent deposits pledged to banks to secure credit facilities granted to the Group.

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 2008, the bank deposits carry at the prevailing market interest rate of approximately 3.54% (2007: 2.28%) per annum.

24. TRADE AND OTHER PAYABLES

	2008	2007
	HK$'000	HK$'000
Trade payables		
– associates	**641**	1,157
– others	**182,281**	189,230
Bills payables	**3,225**	2,314
	186,147	192,701
Customers' deposits	**22,877**	39,459
Payroll and welfare payables	**16,858**	21,291
Payables for acquisition of property, plant and equipment	**2,262**	3,713
Other tax payables	**3,380**	9,216
Other payables	**27,008**	29,666
	258,532	296,046

24. TRADE AND OTHER PAYABLES – CONTINUED

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

	At 31 December	
	2008	2007
	HK$'000	HK$'000
Age		
0 to 30 days	**70,694**	35,817
31 to 60 days	**34,523**	60,976
61 to 90 days	**10,076**	22,164
91 to 120 days	**27,227**	47,464
121 days to 360 days	**43,627**	26,280
	186,147	192,701

The average credit period on purchases of goods ranges from 30 days to 90 days. The Group has financial risk management policies in place to ensure that all payables within the credit timeframe.

25. BANK LOANS

	2008	2007
	HK$'000	HK$'000
Secured bank loans are repayable as follows:		
Within one year	**13,830**	–
Between one to two years	**132,537**	–
Between two to five years	**167,877**	–
After five years	**17,487**	–
Less: Unamortised transaction costs	**(1,680)**	–
	330,051	–
Less: Amounts due within one year shown under current liabilities	**13,470**	–
Amounts due after one year	**316,581**	–

The bank loans carry interest rates at Hong Kong Inter-Bank Offered Rate plus 1.25% per annum and fixing rate of 90-day short term bills plus annual interest rate.

The contracted interest rates on the Group's borrowings ranged from 2.58% to 5.44% per annum.

26. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares '000	**Amount HK$'000**	**Number of shares '000**	**Amount HK$'000**
Ordinary shares of HK$0.10 each				
– at 1 January 2007	5,000,000	500,000	760,000,000	76,000
– exercise of share options	–	–	1,197,500	120
– at 31 December 2007 and 31 December 2008	5,000,000	500,000	761,197,500	76,120

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. The Scheme became effective on 15 December 2006 and the options issued pursuant to the Scheme will expire no later than ten years from the date of grant of the option. 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.

At 31 December 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 15,966,500 (2007: 12,524,500), representing 2.1% (2007: 1.6%) of the shares of the Company in issue at that date. 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 at the relevant time of grant, 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.

27. SHARE OPTION SCHEME – CONTINUED

Equity-settled share option scheme – continued

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 in accordance with the terms stipulated in the Scheme. 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.

Details of specific categories of options are as follows:

					Number of share options							
Type of participants	Date of grant	Vesting period	Exercisable period	Exercise price per share HK$	Outstanding at 1.1.2007	Granted during the year	Reclassified during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2007	Lapsed during the year	Outstanding at 31.12.2008
Director	15.2.2007	15.2.2007 – 14.2.2008	15.2.2008 – 15.2.2015	8.72	–	–	103,000	–	–	103,000	(103,000)	–
	15.2.2007	15.2.2008 – 14.2.2009	15.2.2009 – 15.2.2015	8.72	–	–	103,000	–	–	103,000	(103,000)	–
	15.2.2007	15.2.2009 – 14.2.2010	15.2.2010 – 15.2.2015	8.72	–	–	103,000	–	–	103,000	(103,000)	–
	15.2.2007	15.2.2010 – 14.2.2011	15.2.2011 – 15.2.2015	8.72	–	–	103,000	–	–	103,000	(103,000)	–
Employees	15.2.2007	Nil	15.2.2007 – 15.2.2015	8.72	–	3,022,000	–	(1,197,500)	(132,000)	1,692,500	(346,500)	1,346,000
	15.2.2007	15.2.2007 – 14.2.2008	15.2.2008 – 15.2.2015	8.72	–	3,022,000	(103,000)	–	(314,000)	2,605,000	(618,000)	1,987,000
	15.2.2007	15.2.2008 – 14.2.2009	15.2.2009 – 15.2.2015	8.72	–	3,022,000	(103,000)	–	(314,000)	2,605,000	(618,000)	1,987,000
	15.2.2007	15.2.2009 – 14.2.2010	15.2.2010 – 15.2.2015	8.72	–	3,022,000	(103,000)	–	(314,000)	2,605,000	(618,000)	1,987,000
	15.2.2007	15.2.2010 – 14.2.2011	15.2.2011 – 15.2.2015	8.72	–	3,022,000	(103,000)	–	(314,000)	2,605,000	(618,000)	1,987,000
					–	15,110,000	–	(1,197,500)	(1,388,000)	12,524,500	(3,230,500)	9,294,000

27. SHARE OPTION SCHEME – CONTINUED

Equity-settled share option scheme – continued

Type of participants	Date of grant	Vesting period	Exercisable period	Exercise price per share HK$	Number of share options: Granted during the year	Lapsed during the year	Outstanding at 31.12.2008
Independent non-executive directors	1.2.2008	Nil	1.2.2008 – 31.1.2016	5.03	40,000	(10,000)	30,000
	1.2.2008	1.2.2008 – 31.1.2009	1.2.2009 – 31.1.2016	5.03	40,000	(10,000)	30,000
	1.2.2008	1.2.2009 – 31.1.2010	1.2.2010 – 31.1.2016	5.03	40,000	(10,000)	30,000
	1.2.2008	1.2.2010 – 31.1.2011	1.2.2011 – 31.1.2016	5.03	40,000	(10,000)	30,000
	1.2.2008	1.2.2011 – 31.1.2012	1.2.2012 – 31.1.2016	5.03	40,000	(10,000)	30,000
Employees	1.2.2008	Nil	1.2.2008 – 31.1.2016	5.03	1,197,000	(355,000)	842,000
	1.2.2008	1.2.2008 – 31.1.2009	1.2.2009 – 31.1.2016	5.03	1,197,000	(355,000)	842,000
	1.2.2008	1.2.2009 – 31.1.2010	1.2.2010 – 31.1.2016	5.03	1,197,000	(355,000)	842,000
	1.2.2008	1.2.2010 – 31.1.2011	1.2.2011 – 31.1.2016	5.03	1,197,000	(355,000)	842,000
	1.2.2008	1.2.2011 – 31.1.2012	1.2.2012 – 31.1.2016	5.03	1,197,000	(355,000)	842,000
					6,185,000	(1,825,000)	4,360,000

Type of participants	Date of grant	Vesting period	Exercisable period	Exercise price per share HK$	Number of share options: Granted during the year	Lapsed during the year	Outstanding at 31.12.2008
Employees	29.2.2008	Nil	15.2.2008 – 14.2.2016	5.9	471,500	(9,000)	462,500
	29.2.2008	15.2.2008 – 14.2.2009	15.2.2009 – 14.2.2016	5.9	471,500	(9,000)	462,500
	29.2.2008	15.2.2009 – 14.2.2010	15.2.2010 – 14.2.2016	5.9	471,500	(9,000)	462,500
	29.2.2008	15.2.2010 – 14.2.2011	15.2.2011 – 14.2.2016	5.9	471,500	(9,000)	462,500
	29.2.2008	15.2.2011 – 14.2.2012	15.2.2012 – 14.2.2016	5.9	471,500	(9,000)	462,500
					2,357,500	(45,000)	2,312,500

27. SHARE OPTION SCHEME – CONTINUED

Equity-settled share option scheme – continued

In respect of the share options exercised during 2007, the weighted average share price at dates of exercise was HK$14.77.

The weighted average exercise price of options granted during the year, exercised during the year, lapsed during the year and outstanding at the balance sheet date is HK$5.27 (2007: HK$8.72), nil (2007: HK$8.72), HK$7.37 (2007: HK$8.72) and HK$7.30 (2007: HK$8.72), respectively.

During the year, options were granted in February 2008 with an aggregate estimated fair value of HK$14,850,000.

These fair values were calculated using the binomial option pricing model. The inputs into the model were as follows:

	2008		2007
Number of share options	**6,185,000**	**2,357,500**	15,110,000
Vesting period	**Based on the terms stipulated in the Scheme**	**Based on the terms stipulated in the Scheme**	Based on the terms stipulated in the Scheme
Grant date share price per share	**5.03**	**5.89**	8.90
Exercise price per share	**5.03**	**5.90**	8.72
Expected volatility	**47.32%**	**49.91%**	43%
Risk-free interest rate	**2.44%**	**2.67%**	4.3%
Expected forfeiture rate	**Nil**	**Nil**	Nil
Expected dividend yield	**3.57%**	**3.21%**	4%
Suboptimal exercise factor	**1.5**	**1.5**	1.5

As the Company was newly listed since December 2006, there are no sufficient trading records to take reference of its share price volatility. Based on the historical volatility of the comparable companies in similar industries over the past 5 years, a volatility of 43%, 47.32% and 49.91% were assumed.

During the year, the Group recognised the total expense of HK$9,667,000 (2007: HK$18,686,000) in relation to share options granted by the Company.

28. PURCHASE OF A SUBSIDIARY

In January 2008, the Group acquired all the assets and certain liabilities of 江門天騰電池有限公司 (Jiang Men Tian Teng Batteries Company Limited) ("JMTT") for a consideration of HK$12,477,000.

The principal assets of JMTT comprises land use right situated in the PRC and certain construction in progress with fair value HK$6,419,000 and HK$10,595,000, respectively. This acquisition has been accounted for as acquisition of assets and liabilities.

The net assets acquired in this transaction are as follows:

	HK$'000
Construction in progress	10,595
Prepaid lease payments	6,419
Bank loans	(4,537)
	12,477
Satisfied by:	
Cash consideration paid and net cash paid on acquisition	12,477

29. LIQUIDATION OF SUBSIDIARIES

In May and October 2008, the Group liquidated five wholly-owned subsidiaries, including 鶴山真明激光科技有限公司 (Heshan Neo-Neon Laser Technology Co., Ltd.) ("JGK"), Luminous Technologies Inc., Luminous Technologies (HK) Limited, Gain Best Overseas Limited and Matrix Lighting Technology Limited (collectively referred to as the "Liquidated Subsidiaries"). The total net liabilities at the date of liquidation were as follows:

	HK$'000
Net liabilities disposed of	
Other payables	(12)
Translation reserve released upon liquidation of subsidiaries	(711)
Gain on liquidation	723
	–
Net cash impact arising on liquidation	–

The Liquidated Subsidiaries incurred a loss of HK$467,000 for the period from 1 January 2008 to the date of disposal.

The Liquidated Subsidiaries used HK$167,000 (2007: HK$11,000) of the Group's net operating cash flow.

30. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the balance sheet date, the Group was committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	2008 **HK$'000**	2007 HK$'000
Within one year	**1,716**	1,105
In the second to fifth year inclusive	**2,257**	10
	3,973	1,115

Leases are negotiated for a period ranging from one to four years and all rentals are fixed.

The Group as lessor

At the balance sheet date, the Group has contracted with tenants in respect of investment properties for the following future minimum lease payments:

	2008 **HK$'000**	2007 HK$'000
Within one year	**2,395**	125
In the second to fifth year inclusive	**84**	59
	2,479	184

31. CAPITAL COMMITMENTS

	2008 **HK$'000**	2007 HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the		
– acquisition of property, plant and equipment	**84,679**	158,746
– acquisition of prepaid lease payments	**–**	4,378
– investment projects in the PRC	**89,922**	217,749
	174,601	380,873

32. 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.

33. RELATED PARTY TRANSACTIONS

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

Relationship	**Nature of transactions**	**2008** **HK$'000**	2007 HK$'000
Associates	Sales of goods	**6,856**	57,204
	Purchases of goods	**–**	1,427
Jointly controlled entity	Sales of goods	**6,925**	7,540

The Company's directors represented the Group's key management and their emoluments for the year are set out in note 10.

34. COMPARATIVE FIGURES

Certain comparative figures for the consolidated income statement have been reclassified to conform with the current year's presentation. Details are set out as follows:

	As previously reported HK$'000	**Reclassification** HK$'000	**As restated** HK$'000
Other income	78,271	(27,981)	50,290
Other gains and losses	–	12,927	12,927
Distribution and selling expenses	(76,342)	(15,031)	(91,373)
Administrative expenses	(279,629)	30,085	(249,544)

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2008

35. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are indirectly wholly-owned by the Company, at the balance sheet date are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/registered capital	Principal activity
Cashware Technology Limited	British Virgin Islands/PRC	US$1	Provision of research and development services
Mitcham Profits Limited	British Virgin Islands/PRC	US$1	Provision for marketing services
Neo-Neon Enterprises Limited	Hong Kong	HK$10,000	Trading of lighting products
Neo-Neon International Limited	Western Samoa/ PRC	US$10,000	Trading of lighting products
Star Bright International (Macao Commercial Offshore) Limited	Macau	MOP100,000	Trading of lighting products
鶴山麗得電子實業有限公司 (Heshan Lide Electronic Enterprise Limited) (Note)	PRC as a wholly foreign owned enterprise for a term of 11 years commencing 9 May 2003	US$254,112,210	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$40,132,000	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	RMB20,000,000	Manufacture and sales of lighting products
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	Manufacture and sales of lighting products

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.

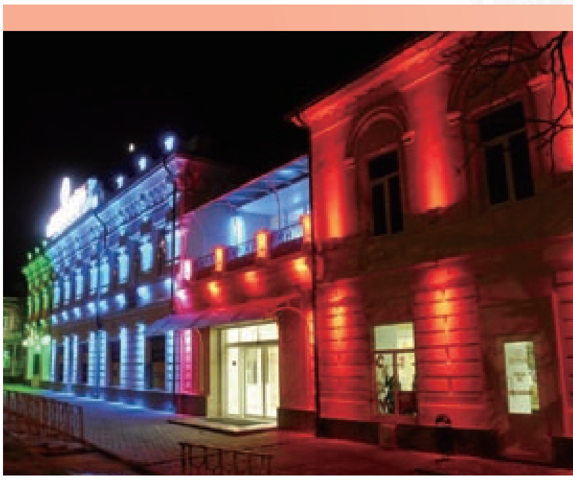
Financial Summary

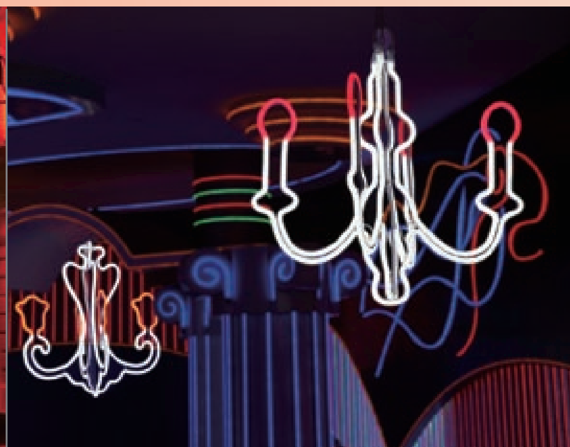
	Year ended 31 December				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
RESULTS					
Turnover	834,031	971,330	1,258,825	1,572,126	**1,617,732**
Profit before taxation	44,593	152,344	265,735	346,525	**137,267**
Taxation	(1,675)	(8,875)	(5,026)	(14,844)	**357**
Profit for the year	42,918	143,469	260,709	331,681	**137,624**
Attributable to					
– equity holders of the Company	42,918	142,871	259,965	334,029	**138,676**
– minority interests	–	598	744	(2,348)	**(1,052)**
	42,918	143,469	260,709	331,681	**137,624**

	As at 31 December				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	1,051,006	1,143,600	2,443,360	2,716,788	**3,124,584**
Total liabilities	(318,325)	(331,779)	(419,379)	(335,059)	**(611,340)**
Net assets	732,681	811,821	2,023,981	2,381,729	**2,513,244**

The results and summary of assets and liabilities for each of the two years ended 31 December 2005 which were extracted from the Company's prospectus dated 4 December 2006 have been prepared on a combined basis to indicate the results of the Group as if the group structure, at the time when the Company's shares were listed on The Stock Exchange of Hong Kong Limited, had been in existence throughout those years.

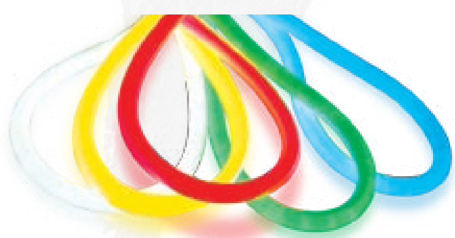
LED High Power Vision Screen
LED 大功率顯示屏





340 LED Wall Washer
LED 投光燈

LED Neon Flex (Any View)
LED 360度發光柔性霓虹燈



Disco Product Series
舞臺燈系列

Fiber Optics Chandelier
光纖燈系列

2008 ANNUAL REPORT

Neo-Neon Product Introduction

真明麗集團產品介紹

www.neo-neon.com

LED Screen Series
LED 可彎曲顯示屏

Neo-Neon™

2008年度報告

LED Recessed Round Downlight
LED 筒燈

LED Fluorescent Tube
LED 日光燈

真明麗集團產品介紹

Neo-Neon Product Introduction

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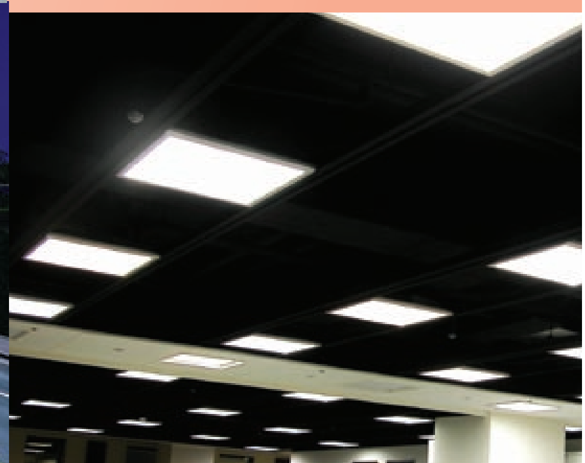
LED Fusion 14S and 14R
Illuminators LED 投光燈

LED HB2 High Bay Fixture
LED 工礦燈



180/240 LED Street Light
LED 高速公路路燈

LED I-Panel Light Series
LED 面板燈系列