NEO-NEON HOLDINGS LIMITED

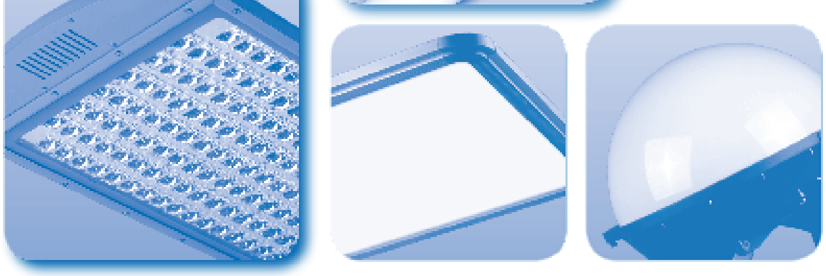
(incorporated in the Cayman Islands with limited liability)

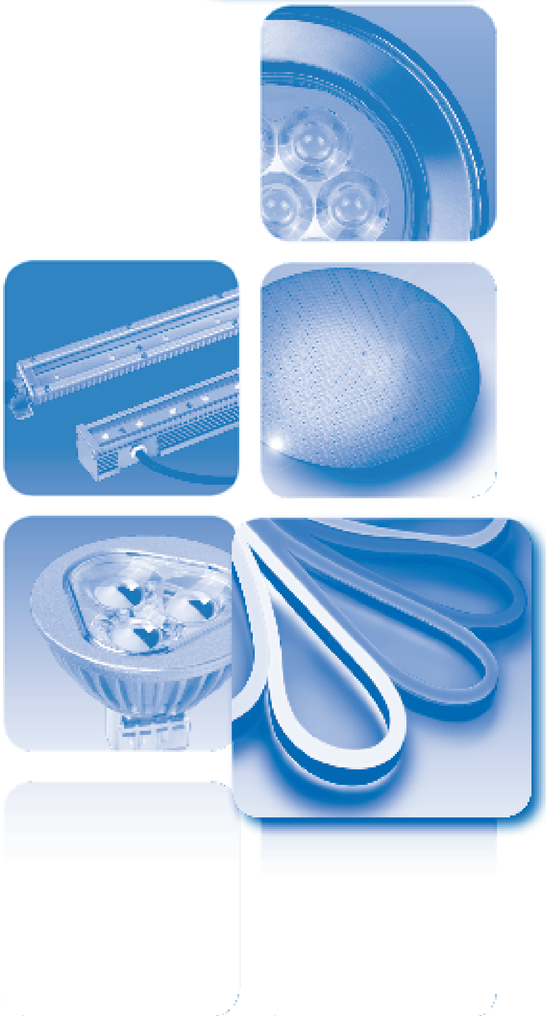
Stock Code: 1868

2009 Annual Report

Professional LED product research, development and production.

We Grow and Glow Around the World





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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ben FAN *(Chairman)*
Ms. Michelle WONG
Mr. FAN Pong Yang

Non-Executive Director

Mr. LEUNG Wai Chuen

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. CHAN Cheung

COMPANY SECRETARY

Mr. CHAN Cheung

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

Cricket Square
Hutchins Drive
P. O. Box 2681
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Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

13/F, Tower A
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Hong Kong

PRINCIPAL SHARE REGISTRAR

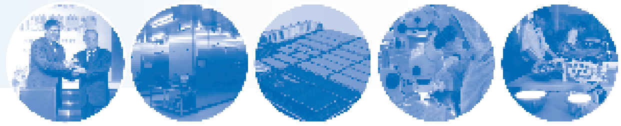
Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

COMPANY WEBSITE ADDRESS

www.neo-neon.com

STOCK CODE

1868



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 2009.

BUSINESS REVIEW

Neo-Neon Holdings Limited is the only company which has successfully completed vertically integration from the upper stream, middle stream to the lower stream of enterprise supply chain in the LED industry of the world. With the world's leading LED technology team, product marketing team, we are committed to producing LED chips R&D, LED packaging and LED application lighting to ten thousand kinds of quality products in more than 100 countries and regions.

The consolidated turnover of the Group was HK$1,111.5 million in 2009, showing a decrease of 31.3%. The Group's turnover from LED in decorative lighting recorded HK$604.5 million in 2009, showing a decrease of 20.3%. The turnover from LED in general lighting amounted to HK$96.3 million in 2009, showing a huge increase of 56.1%. The turnover from incandescent-based decorative lighting and entertainment lighting were respectively HK$269.1 million and HK$109.0 million in 2009, showing a decrease of 47.8% and of 51.1%. In 2009, the Group recorded an overall gross profit of HK$381.9 million and a gross profit margin of 34.4% respectively. The consolidated profit attributable to equity holders of the Company amounted to HK$158.0 million in 2009, showing an increase of 13.9%. As shown above, the core business still showed a growth in sales. Due to the percentage of highest gross profit's LED products increased in sales proportion and reduction of operating expenses, the net profit was increased from 8.6% in 2008 to 14.2% in 2009. Although the financial performance was deteriorated following the global financial tsunami, the Group still recommended a final dividend of HK$0.035 per share, including the paid interim dividend of HK$0.014 per share, the total dividend for 2009 represented 25% 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 chips and packaging capacity, following the expansion of LED packaging plant in 2009, and reached a production capacity of 800 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 extensively used indoors and outdoors.

In the first quarter of 2009, the new chip manufacturing plant of approximately 40,000 square metres started pilot run production subsequent to completion of installation of precise machines and equipments like the Metal Organic Chemical Vapra Deposition ("MOCVD") with mass production of wafers/chips at the end of second quarter of 2009. The self produced LED chips have sufficed the demand of our LED packaging production and shortened delivery time to end customers under such one integrated supply chain. In 2009, the Group established showrooms in Shanghai and India to capture the markets in Northern China and in the Middle Asian region respectively. The Group has completed the first phase of new plant in Vietnam in 2009 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 PRC Labour Law. Currently, the Vietnam plant commenced operations with over 330 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. Since energy and environmental concerns are driving demand for high efficiency, low energy consumption products, many countries have announced the abandonment of incandescent-based lightings (the "Abandonment") commencing in 2012 onwards. The global demand of LED-based general lighting will swiftly fill up the gap very soon, driven by emerging applications in lighting, displays, LED TVs, LCD backlighting and automotive markets and growing use of white LEDs as backlights for full-colour displays in variety of portable electronic devices.

Neo-Neon Group ("Neo-Neon"), having continuously improved technologies, completed vertical integration to decrease cost of production and introduced new end-market applications for LED lighting to replace the traditional light bulb Led lighting, will be the next outbreak of big business. Compared to conventional bulbs, Neo Neon LED bulbs series has the following unparalleled advantages:

1. Using energy-efficient low-power LED light source, energy saving, can save 90% of electricity consumption. 5W LED bulb can replace 25W incandescent bulbs; 6W LED bulb can replace 40W incandescent bulbs; 10W LED bulb can replace 60W incandescent bulbs.

2. Using screw-type base design, LED bulbs can replace traditional bulbs, without need to change the existing lamp and wiring.

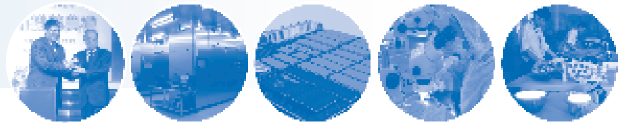
3. No mercury and no environmental pollution.

4. LED cold light source, heat less, and no electromagnetic radiation.

5. Average life span of 50,000-plus hours, one-year warranty, and the longest life span can be 25 years.

Neo-Neon has considerable experience on the after-sales service and has more accurate grasp of the future market development. Neo Neon is the world's only Company success in vertical integration on the upstream and downstream with a strong research & development capabilities and cost control. Compare with other competitors, the Company have very obvious advantages. In future the Company will continue to increase its upstream investment to maintain its leading position in the LED industry.

As the world's LED lighting application navigator, Neo Neon committed energy-saving environmental lighting product development and production, beginning to develop and promote green energy-efficient LED lighting applications since 1997. Neo-Neon is a pioneer in LED application products R&D company. The Company has a high reputation in research & development for energy saving, green environmental protection and environmentally friendly LED products in the industry. Neo-Neon won a number of national patents. Apart from LED lights being measured 50% electricity saving than Energy-saving light bulbs, LED lights do not contain mercury polluting the environment. It is a true green product and its luminous efficiency and optical design is good. LED lights are fully applicable in the main road, fast road.



Neo-Neon rely on the strength of its own core technology, has been able to develop from the raw materials and components to the finished products in mass production. For our competitors, it is hard to learn the Company's technical strength, master tricks because the Company is customer-centric, from raw materials, parts and components to very wide range of products application development, services range from design, product manufacturing and mass production to logistics and product repair service. With mass production of many varieties dominating the world, its production has the overwhelming advantage. For example, the world's largest DIY Company (Home Depot) has been the Group's largest customers. Other companies can not easily imitate the Company as to achieve "fast, cheap, high quality" sales strategy, and able to establish a huge database to shorten the design cycle from the receipt of orders to final goods orders and form a short delivery time. In addition, Neo-Neon's intellectual property and research & development department has more than 200 employees that have registered a large number of Research & Development patents each year. For the protection of own technology, the Company has really bright and strong ability to litigation. All kinds of parts and components production within the group are also a realization of "cheap" source and low-cost supply chain. This is because of the huge number of orders and large purchases to reduce cost. At the same time, through internal corporate digestion to reduce parts procurement costs. In order to reduce the risk of the Company's own stock, Neo-Neon has make use of internal procurement and production of parts with a strong self-screening capability. In the "high quality" side, using a large number of imported advanced production equipment in production, Neo-Neon has received ISO14001 and OHSAS18001 Certificate.

The use of reward and punishment distinct personnel system, Neo-Neon has inspired the work of staff motivation. Neo-Neon's major factories located in Jiangmen Heshan, PRC, has a huge manufacturing capacity, which significantly reduce the cost of production and able to win the steady flow of orders. Neo-Neon has been recognized as the world's top R&D producer with short production time and fast rolling out of new products.

The year of 2009 was an extremely tough year as a result of the unprecedented global financial tsunami. 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. We are optimistic about the market prospects for the future LED market especially street lamp, LED fluorescent tubes to replace T5/T8 fluorescent tube due to light efficiency and reduce the amount of mercury.

As the world's attention to environmental protection, energy conservation, LED applications, particularly the applications of higher power white LED lighting, the invention of new technology of the Company will further advance the process of white LED lighting applications, for China and the world to make positive contributions to energy-saving environmental protection.

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

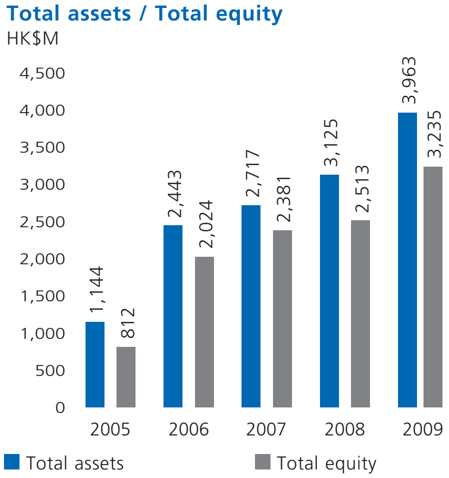
Hong Kong, 16th April 2010

Financial Highlights

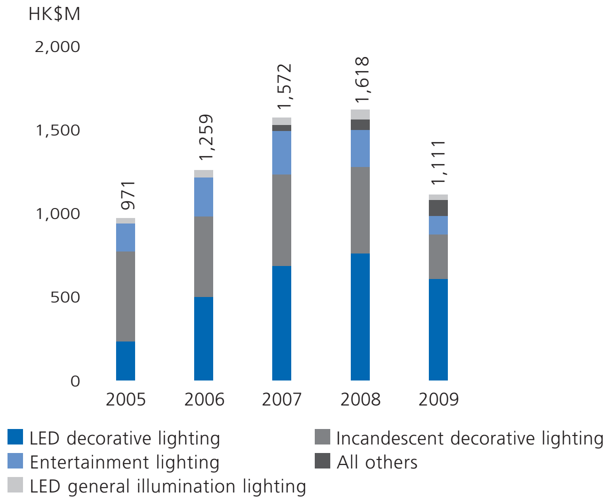
Expressed in HK$ million	Year 2005	2006	2007	2008	2009
Turnover	971	1,259	1,572	1,618	**1,111**
Gross profit	339	500	605	526	**382**
Profit attributable to equity holders of the Company	143	260	334	139	**158**
EBITA	217	345	438	271	**307**
Total assets	1,144	2,443	2,717	3,125	**3,963**
Total equity	812	2,024	2,381	2,513	**3,235**
Gross profit margin	34.9%	39.7%	38.5%	32.5%	**34.4%**
Net profit margin	14.7%	20.6%	21.2%	8.6%	**14.2%**
EPS-basic (HK cents)	24	43	44	18	**19**

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.

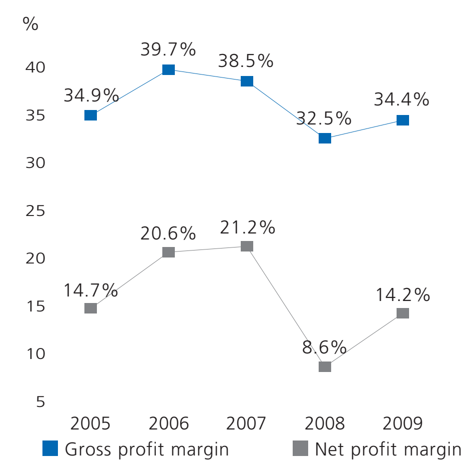
Total assets / Total equity



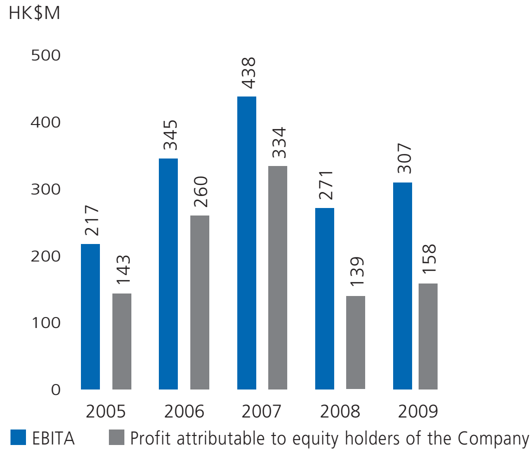
Turnover



Gross and net profit margin



EBITA and Profit attributable to equity holders of the Company



Directors, and Senior Management Profiles

EXECUTIVE DIRECTORS

Mr. Ben FAN (樊邦弘)

Mr. Fan, aged 56, 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.

Ms. Michelle WONG (翁翠端)

Ms. Wong, aged 46, 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 54, 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.

NON-EXECUTIVE DIRECTOR

Mr. LEUNG Wai Chuen (梁偉泉)

Mr. Leung, aged 44, currently, is a chief financial officer of a private group, has over 20 years of experience in auditing, accounting and financial management. He had previously worked for an international accounting firm and several companies listed in Hong Kong and Singapore. He graduated from the University of Hong Kong with a Bachelor of Social Sciences (Honour) in 1989 and holds a Master in 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 Chartered Secretaries, The Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Certified Public Accountants. Mr Leung was previously the group financial controller and company secretary, and was appointed as a non-executive Director in June 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WU Tak Lung (吳德龍)

Mr. Wu, aged 44, 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, RBI Holdings Ltd. and AKM Industrial Co. 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 holds 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 65, 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 55, 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. TSENG Jin Sui (曾金穗)

Mr. Tseng, aged 51, joined the Group as CEO in August 2009. Mr. Tseng has 17 years of management experience in information technology industry, corporate management, research and development, production and sales. He has previously worked in international information technology corporate and companies in Taiwan, Hong Kong and Mainland China. Mr. Tseng is a scholar in information technology and has in-depth understanding of domestic, overseas, Hong Kong and Taiwan markets. Mr. Tseng graduated from Chinese Culture University, Taiwan in 1982 and holds a master's degree of computer engineering.

Mr. JANG Jann Huan (張震寰)

Mr. Jang, aged 55, joined the Group in 2000 and is currently the marketing director 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 resigned as an executive Director and CEO in August 2009.

Mr. LIU Ying Chieh (劉英傑)

Mr. Liu, aged 47, joined the Group in September 2009 and is director and general manager of group LED packaging plants to co-ordinate the management of the entire LED packaging factories. Mr. Liu has more than 20 years of LED production management. He has previously worked as production head, quality director and general manager of international listed companies in Taiwan and has run LED-based operations independently. Mr. Liu graduated from the Lunghwa University of Science and Technology (Taiwan) in 1986 where he obtained a bachelor degree in Industrial Electronics.

Mr. FAN Chu Ping (范執平)

Mr. Fan, aged 49, joined the Group in 2009 as general manager of LED Optical production business. Mr. Fan graduated from National Taiwan University and holds a bachelor degree in Mechanical Engineering. He is actively performing research work in the engineering sciences and training. In 2008, when the twenty years anniversary of National Taiwan University, he was selected as one of the five distinguished alumni. Mr. Fan has more than 20 years industrial management experience in research and development, production, sales and marketing in Taiwan corporations.

Mr. YEH Kuo Kuang (葉國光)

Mr. Yeh, aged 39, 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. CHEN Ching Wei (陳慶維)

Mr. Chen, aged 36, joined the Group in March 2008 as a chip factory plant groups for epitaxy process. Mr. Chen graduated from Taiwan Tamkang University Degree and holds a bachelor degree in Applied Physics. Mr. Chen has eight years of experience in the blue-write production of GaN LED epitaxy-related in various Taiwan listed companies.

Mr. LIAO Chang Wen (廖彰文)

Mr. Liao, aged 50, joined the Group in May 2009 as director of LED packaging plant. Mr. Liao has more than 20 years of industrial management experience in LED automation, repair and maintenance, research and development and quality control. He is very familiar with LED packages (LAMP, SMD, HP and FLUX) and other LED related products. He has previously worked in international LED listed companies in Taiwan. Mr. Liao graduated from the Wanneng University of Science and Technology (Taiwan) in 1980 where he obtained a bachelor degree in Electronic Engineering.

Mr. CHAN Cheung (陳璋)

Mr. Chan, aged 54, 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. FAN Pang Ku (樊邦固)

Mr. Fan, aged 50, joined the Group in 2000, is currently general manager of decorative lighting business group and Vietnam production plant. Mr. Fan graduated from the Taiwan Air Force Academy, Polytechnic in 1983 and obtained a bachelor's degree, majoring in flight. He is younger brother of Mr. Ben Fan and Mr. Fan Pong Yang.

Mr. CHIEN Tang Hao (錢塘豪)

Mr. Chien, aged 45, joined the Group in 1992 and is currently the group marketing director. Mr. Chien graduated from the Taiwan Tamkang University in 1988 and obtained a bachelor's degree.

Mr. JANG Shuh Jou (張述周)

Mr. Jang, aged 45, joined the Group in 1994 and is currently the head of European Sales 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. James M. HARDAWAY

Mr. Hardaway, aged 40, joined the Group in 2004, is currently deputy director of marketing, Vice President of Sales and Marketing – American Sales Division and CMO Entertainment Lighting Division. Mr. Hardaway has 18 years of sales and marketing experience in lighting industries. Mr. Hardaway graduated from Rancho Santiago Community College, Santa Ana in 1992 and holds an associates degree in Psychology. He is associate member of International Laser Display Association and Strategic Planning Committee: Entertainment Technologies.

Mr. KAO Chi Chia (高啟嘉)

Mr. Kao, aged 52, joined the Group in 2009, is currently Vice President of Sales and Marketing – American Sales Division. Mr. Kao graduated from the Florida Institute of Technology (United State of America) in 1988 and holds a master degree in Information Engineering and Computer Science. He graduated from the National Cheng Kung University in Taiwan, majoring Earth Science and Geology. Mr. Kao has 19 years management experience in information technology such as communication network system and computer peripheral systems in Germany, Austria and Taiwan.

Mr. LIN Chia Kuang (林家光)

Mr. Lin, aged 48, joined the Group in 2009 as vice president of Sales and Marketing of American Sales Division. Mr. Lin graduated from Soochow University (Taiwan) in 1983. Mr. Lin has more than 17 years of sales and marketing experience in lighting industries.

Mr. HSIAO Ching Ying (蕭清營)

Mr. Hsiao, aged 38, joined the Group in 2007 as project manager responsible for project preparation planning, engineering and equipment. Mr. Hsiao has over 15 years of working management experience in related industries. He graduated from the Lunghwa University of Science and Technology (Taiwan).

Mr. CHENG Yun (程雲)

Mr. Cheng, aged 43, 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.

Mr. ZHAO Baohua (趙保華)

Mr. Zhao, aged 43, joined the Group in 2002 and is currently the head of PRC Sales Division. Mr. Zhao graduated from Taiyuan Mechanical Engineering College in 1989 and holds a bachelor degree in machinery, mechanical manufacturing processes and equipment.

Mr. ZHANG Guanqiu (張冠球)

Mr. Zhang, aged 33, joined the Group in 2000, currently Senior Manager of the Group's decorative lighting products development under European Sales Division. Mr. Zhang graduated from Zhejiang Industrial and Commercial University and obtained bachelor's degree in Economics, majoring in English and international trade. Mr. Zhang has been working as overseas sales & marketing assistant, regional sales managers, product manager and senior manager of the group.

Mr. LIANG Fubo (梁伏波)

Mr. Liang, aged 32, joined the Group in August 2008 as Senior Manager of silicon wafer plant. Mr. Liang graduated from the Physics Department of Lanzhou University in 2003 and obtained a bachelor degree of Science, specializing in semiconductor devices and microelectronics. He has 7 years of LED chip, semiconductor manufacturing technology research and development and production management experience.

Mr. CHEN Du (陳都)

Mr. Chen, aged 28, joined the Group in Nov. 2009 as Quality Control Manager of our chip manufacturing plant. Mr. Chen graduated from the Central South University, majoring in Engineering in 2004 and holds a master's degree in Engineering in Xiamen University in 2007. After graduation, Mr. Chen has been engaged in semiconductor optoelectronic materials and devices lighting studies, including YAG phosphor, InGaN LED, and LED device packaging. Among them, he has a wealth of theoretical and successful experience in high color-rendering index white LED phosphor and has in-depth knowledge in electrode structure of LED chips, LED thermal design and reliability.

Management's Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31st December 2009, the Group's turnover was HK$1,111.5 million (2008: HK$1,617.7 million), representing a decrease of 31.3%. Gross profit of the Group was HK$381.9 million for 2009 (2008: HK$526.1 million), showing a decrease of 27.4%. Profit attributable to owners of the Company increased from HK$138.7 million in 2008 to HK$158.0 million in 2009, representing an increase of 13.9%. Basic earnings per share was HK cents 19.5 for 2009 (2008: HK cents 18.2), representing an increase of 7.1%.

Turnover

(a) By product category

(i) LED decorative lighting products

The Group's turnover from LED in decorative lighting recorded HK$604.5 million in 2009 (2008: HK$758.6 million), showing a decrease of 20.3%. 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 general illumination lighting products

The turnover from LED in general illumination lighting amounted to HK$96.3 million in 2009 (2008: HK$61.7 million), showing a huge increase of 56.1%. The market in LED general illumination lighting is enormous with non-unifying standardization. Many large corporations already voiced out their core focus in the market in the coming decades.

(iii) Incandescent decorative lighting products

The incandescent decorative lighting reached a turnover of HK$269.1 million in 2009 (2008: HK$515.7 million), showing a decrease of 47.8%. Following the announcement of impending abandonment of incandescent-based lighting products by many developed countries, the incandescent lighting products will be gradually replaced in our sales mix by the green LED decorative lighting products.

(iv) Entertainment lighting products

The entertainment lighting made a turnover of HK$109.0 million in 2009 (2008: HK$222.7 million), showing a decrease of 51.1%. With gradual replacement of LED components in entertainment lighting products, the variability and multi-featuring were largely enhanced, thus increasing the attractiveness of such entertainment lighting products.

(b) By geographical region

The turnover from France recorded HK$42.0 million for 2009 (2008: HK$112.1 million), representing a decrease of HK$70.1 million or 62.5%. The turnover from Netherlands recorded HK$102.9 million for 2009 (2008: 147.8 million), representing a decrease of HK$44.9 million or 30.4%. The turnover from the PRC was HK$148.6 million in 2009 (2008: HK$118.7 million), showing an increase of HK$29.9 million or 25.2%. The turnover from Russia was HK$41.6 million in 2009 (2008: HK$100.2 million), showing a decrease of HK$58.6 million or 58.5%. The turnover from United States of America recorded HK$409.7 million for 2009 (2008: HK$522.6 million), representing a decrease of HK$112.9 million or 21.6%. The turnover from other countries reached HK$366.5 million in 2009 (2008: HK$616.4 million), showing a decrease of HK$249.9 million or 40.5%. The decrease in France, Netherlands, Russia, United States of America and other countries region were mainly due to economic recession greatly spread all around the world.

Cost of Goods Sold and Gross Profit Margin

The cost of goods sold was HK$729.6 million in 2009 (2008: HK$1,091.7 million), decreased by HK$362.1 million or 33.2%. The decrease was mainly attributable to: (i) a decrease in material costs by HK$338.7 million or 31.1%, (ii) a decrease in labour costs and subcontracting costs of HK$51.1 million or 32.6%, and (iii) an increase in depreciation of HK$12.4 million or 16.1% resulted from additions of moulds and machinery catering for the expansion of production capacity. The decrease in material costs was mainly due to drop down raw material prices for most of the time in 2009. As the cost of goods sold recorded a decrease of 33.2% exceeding the decrease in sales of 31.3%, the Group's gross profit margin increased from 32.5% in 2008 to 34.4% in 2009.

Other Income

Other incomes was HK$17.6 million in 2009 (2008: HK$9.6 million), representing an increase of HK$8.0 million or 83.3%, mainly due to an increase of dividend income from investment in securities.

Other Gains, Losses and Expenses

Other gains, losses and expenses showed a gain of HK$18.0 million in 2009 (2008: a loss of HK$57.2 million). The increase was mainly due to a decrease in fair value of listed investments held-for-trading of HK$13.1 million in 2008 to an increase in fair value of listed investments held-for-trading of HK$66.1 million in 2009, a net allowance for bad and doubtful debts of HK$53.7 million in 2008 to a net allowance for bad and doubtful debts of HK$10.7 million in 2009, a gain on disposal of an associate of nil in 2009 (2008: HK$7.3 million), partly offset by an increase in a net exchange gain from HK$41.5 million in 2008 to a net exchange loss HK$0.8 million in 2009, and government grants of HK$5.7 million (2008: nil).

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 and allowance for bad and doubtful debt. The distribution and selling expenses decreased from HK$90.3 million in 2008 to HK$75.7 million in 2009, representing a decrease of HK$14.6 million or 16.2%.

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 decreased from HK$239.7 million in 2008 to HK$200.7 million in 2009, representing a decrease of HK$39.0 million or 16.3%.

Change in Fair Value of Investment Properties

In 2009, the change in fair value of investment properties recorded an increase of HK$4.9 million (2008: a decrease in fair value of HK$6.0 million). Such change was explained by (i) an increase in fair value of an investment property in Guangzhou, the PRC, in 2009 of HK$1.5 million (2008: a decrease in fair value of HK$1.7 million), and (ii) an increase in fair value of HK$3.4 million (2008: a decrease in fair value of HK$3.6 million) for an investment property in Taiwan acquired in 2009, and gain/loss arising from disposing an investment property of nil in 2009 (2008: a loss arising from disposing an investment property in Macau of HK$0.7 million).

Finance Costs

The finance costs was HK$5.9 million in 2009 (2008: HK$5.5 million), representing an increase of HK$0.4 million or 7.3%. The increase was mainly due to an increase of new bank loans, amounted HK$271.2 million, in 2009 for financing the working capital and an investment property.

Interest in an Associate

The Group's investment in an associate at the end of the reporting period represents its 34.57% equity interest in Luminaire Holdings Inc. which was incorporated in the British Virgin Islands and acts as an investment holding company on operations for the manufacturing and distribution of LED chips. The total consideration paid is US$1,000,000 (equivalent to approximately HK$7,753,000).

Taxation

For 2009, the Group's tax credit of HK$2.4 million (2008: tax credit of HK$0.4 million) included profit tax charge of HK$1.3 million (2008: HK$6.6 million), deferred tax charge of HK$5.9 million (2008: HK$6.9 million), offset by overprovision of PRC income tax in prior years of HK$9.6 million (2008: HK$13.9 million).

Profit Attributable to Equity Holders of the Company and EBITA

For 2009, the profit attributable to owners of the Company amounted to HK$158.0 million (2008: HK$138.7 million). The increase was mainly attributable to an increase in gross profit margin, increase in other income, and increase in change of fair value of investment properties. Due to cost saving, the overall net profit margin increased from 8.6% in 2008 to 14.2% in 2009. Earnings before interest, tax, depreciation and amortisation (EBITA) drops from HK$270.5 million in 2008 to HK$306.9 million in 2009, showing a increase of 13.5%.

FINANCIAL RESOURCES AND LIQUIDITY

Cash Flows

Cash inflow from operating activities in 2009 was HK$27.8 million (2008: HK$166.9 million). Cash outflow from investing activities in 2009 was HK$351.1 million (2008: HK$541.7 million). Cash inflow from financing activities in 2009 was HK$763.2 million (2008: HK$231.0 million). Cash outflow from investing activities in 2009 was mainly due to additions of property, plant and machinery and deposits paid on acquisition of property, plant and equipment of about HK$260.8 million. Cash inflow from financing activities was mainly due to new bank loans of HK$271.2 million and issued shares HK$576.3 million raised in 2009. An overall net increase in cash and cash equivalents in 2009 was HK$439.8 million (2008: HK$143.9 million). The Group's major financial resources derived from cash generated from financing activities.

Assets and Liabilities

As at 31st December 2009, the Group's current assets and non-current assets were respectively HK$2,427.6 million (as at 31st December 2008: HK$1,713.7 million) and HK$1,535.1 million (as at 31st December 2008: HK$1,410.9 million). The increase in non-current assets was mainly due to an increase in property, plant and equipment of HK$63.6 million. As at 31st December 2009, the Group's current liabilities and long-term liabilities were respectively HK$699.0 million (as at 31st December 2008: HK$294.8 million) and HK$29.0 million (as at 31st December 2008: HK$316.6 million). The increase in current liabilities was mainly due to new bank loans of HK$271.2 million raised in 2009. As at 31st December 2009, the Group's bank balance and cash was HK$904.0 million (as at 31st December 2008: HK$458.9 million). The Group's gearing ratio increased from 13.1% as at 31st December 2008 to 17.0% as at 31st December 2009 (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 2009 for financing the working capital and investment property.

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 31st December 2009, the Group has pledged one of its investment properties with a fair value of HK$46,972,000 (as at 31st December 2008: HK$42,072,000), certain of its land and buildings with an aggregate carrying value of HK$194,842,000 (as at 31st December 2008: HK$63,802,000) and also bank deposits of aggregate carrying value of HK$2,269,000 (as at 31st December 2008: HK$2,269,000) to secure bank credit facilities granted to the Group.

CAPITAL COMMITMENTS

As at 31st December 2009, 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$201.3 million (as at 31st December 2008: HK$84.7 million), acquisition of land use rights in PRC of HK$22.5 million (as at 31st December 2008: HK$89.9 million) and Yangzhou investment projects of HK$150.0 million (as at 31st December 2008: nil).

CONTINGENT LIABILITIES

As at 31st December 2009, the Group did not have any material contingent liabilities.

CAPITAL STRUCTURE

As at 31st December 2009, the issued share capital of the Company was HK$91,332,850 (as at 31st December 2008: HK$76,119,750), divided into 913,328,500 (2008: 761,197,500) ordinary shares of HK$0.10 each.

MATERIAL ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT

During the year under review, there was no material acquisition, disposal and significant investment.

BUSINESS REVIEW

Neo-Neon Holdings Limited is the only company which has successfully completed vertically integration from the upper stream, middle stream to the lower stream of enterprise supply chain in the LED industry of the world. With the world's leading LED technology team, product marketing team, we are committed to producing LED chips R&D, LED packaging and LED application lighting to ten thousand kinds of quality products in more than 100 countries and regions.

Production Facilities and Capacity

With the expansion of LED packaging plant in 2009, the Group reached a production capacity of 800 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. 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 first quarter of 2009, the new chip manufacturing plant of approximately 40,000 square metres started pilot run production subsequent to completion of installation of precise machines and equipments like the Metal Organic Chemical Vapor Deposition ("MOCVD") with mass production of wafers/chips at the end of second quarter of 2009. The self produced LED chips have sufficed the demand of our LED packaging production and shortened delivery time to end customers under such one integrated supply chain.

The Group has completed the first phase of new plant in Vietnam in 2009 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 PRC Labour Law. Currently, the Vietnam plant commenced operations with over 330 employees thereof. The Group will further expand the plant in Vietnam in 2010.

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

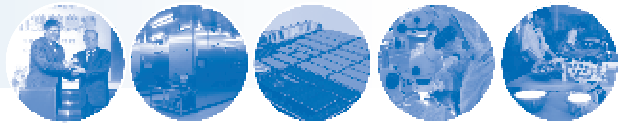
The Group maintained a saleforce over 400 staff. We believe that the demand for LED-based decorative lighting and LED-based general lighting products will increase at a fast speed, following the replacement of incandescent-based decorative lighting products in the coming periods. The Group will not only 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 chips & packaging, 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 chips & packaging technical innovation, new product development, product design and improving production efficiency of our products to reduce overall manufacturing costs. In 2009, apart from patent application of chips & packaging, eighteen new product lines launched, including bulb class & T5 and T8 lamp light series, LED panel light series, LED track light, LED spot light series (enhanced), LED Neon Flex and AC LED tape light (enhanced). We believe there is a huge market potential in the LED-based general lighting industry.

EMPLOYEES AND REMUNERATION POLICY

As at 31st December 2009, the Group's total number of employees was 6,505 approximately (as at 31st December 2008: 8,756). 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 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 general illumination lighting** – In 2009 we generate a turnover of 56% higher than that in 2008. 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 illumination lighting products in home use through Home Depot, one of the largest DIY stores whose orders placed was 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 2010 and thereafter.

2. **LED 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. **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 mass production of in-house chips/wafers manufacturing plant commencing on the second quarter of 2009, there was a saving of 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 2010 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 2009.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 40 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 36. The Directors recommend the payment of a final dividend of HK$0.035 per ordinary share of the Company for the year ended 31 December 2009, payable to holders of the ordinary shares on the register of members on 3 June 2010. The final dividend will be paid approximately in mid July 2010.

For the year under review, the Directors have declared an interim dividend of HK$0.014 per ordinary share, which was paid in November 2009.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 1 June 2010 (Tuesday) to 3 June 2010 (Thursday), 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 31 May 2010 (Monday).

PROPERTY, PLANT AND EQUIPMENT

Movements during the year in the Group's property, plant and equipment are set out in note 17 to the consolidated financial statements.

Movements during the year in the Group's investment properties are set out in note 16 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 30 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)*	(resigned on 26 August 2009)
Ms. Michelle WONG	
Mr. FAN Pong Yang	

Non-Executive Directors

Mr. LEUNG Wai Chuen	(appointed on 19 June 2009)

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)

In accordance with Article 87(1) of the Company's articles of association (the "Articles"), Ms. Michelle WONG, Mr. FAN Pong Yang and Mr. ZHAO Shan Xiang 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 and Mr. LEUNG Wai Chuen, appointed by the Board, 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 2009 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. LEUNG Wai Chuen has entered into a letter of appointment with the Company for an initial term of one year, subject to retirement by rotation and re-election in accordance with the Company's articles of association and the Listing Rules. Mr. LEUNG will hold office until the forthcoming annual general meeting of the Company and will then be eligible for re-election at such annual general meeting.

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. ZHAO will retire at the forthcoming annual general meeting and being eligible, will offer himself for re-election of one year contract of service with the Company.

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 2009, 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 2009.

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

As at 31 December 2009, 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 2009
Mr. Ben FAN[2]	Ordinary	600,000	42,817,000	336,400,000	–	–	379,817,000	41.586%
Mr. JANG Jann Huan[4]	Ordinary	613,500	–	32,715,000	–	1,000,000[5]	34,328,500	3.759%
Ms. Michelle WONG[2]	Ordinary	10,102,000	337,000,000	32,715,000	–	–	379,817,000	41.586%
Mr. FAN Pong Yang[3]	Ordinary	849,000	–	32,715,000	–	760,000[5]	34,324,000	3.758%
Mr. WENG Shih Yuan[6]	Ordinary	246,500	–	–	–	200,000[5]	446,500	0.049%
Mr. WU Tak Lung	Ordinary	–	–	–	–	250,000[5]	250,000	0.027%
Mr. LEUNG Wai Chuen[6]	Ordinary	–	–	–	–	200,000[5]	200,000	0.022%
Mr. ZHAO Shan Xiang	Ordinary	–	–	–	–	250,000[5]	250,000	0.027%

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 379,817,000 Shares of the Company held by Mr. Ben FAN (600,000 Shares), Ms. Michelle WONG (10,102,000 Shares), Rightmass Agents Limited ("Rightmass") (336,400,000 Shares) and Charm Light International Limited ("Charm Light") (32,715,000 Shares), respectively as follows:

(a) 336,400,000 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 336,400,000 Shares of the Company that Rightmass was interested;

(b) 32,715,000 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 32,715,000 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 336,400,000 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 10,102,000 Shares of the Company held by Ms. Michelle WONG and 32,715,000 shares of the Company held by Charm Light.

(3) 32,715,000 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 32,715,000 Shares of the Company that Charm Light was interested.

(4) 32,715,000 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 32,715,000 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) Mr. WENG Shiu Yuan appointed as Independent Non-Executive Director of the Company on 10 March 2009 and Mr. LEUNG Wai Chuen appointed as Non-Executive Director of the Company on 19 June 2009.

Save as mentioned above, as at 31 December 2009, 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 2009, 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 2009
Rightmass[(1)]	Beneficial owner	336,400,000	36.832%
China Environment Fund	Investment Manager	96,731,000	10.591%

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 2009, 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 2009, 14,040,000 options were granted to eligible employees of the Group respectively on 13 July 2009 as shown below. Options granted in July 2009 have an aggregate estimated fair value of HK$11,529,000.

Directors' Report (cont'd)

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 01.01.2009	Granted during the year	Lapsed during the year	Outstanding as at 31.12.2009
Directors							
Mr. WU Tak Lung	01.02.2008	5.03	01.02.2009 – 31.01.2016	50,000	–	–	50,000
Ms. FUNG Siu Wan Stella	01.02.2008	5.03	01.02.2009 – 31.01.2016	50,000	–	(50,000)	–
Mr. ZHAO Shan Xiang	01.02.2008	5.03	01.02.2009 – 31.01.2016	50,000	–	–	50,000
Employees							
Employees, in aggregate	15.02.2007	8.72	15.02.2009 – 14.02.2015	9,294,000	–	(1,340,000)	7,954,000
	01.02.2008	5.03	01.02.2009 – 31.01.2016	4,210,000	–	(1,357,500)	2,852,500
	29.02.2008	5.90	28.02.2009 – 28.02.2016	2,312,500	–	(25,000)	2,287,500
	13.07.2009	2.19	13.07.2009 – 12.07.2016	–	14,040,000	(72,500)	13,967,500
				15,966,500	14,040,000	(2,845,000)	27,161,500

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.

The weighted average exercise price of options granted during the year, forfeited during the year and outstanding at the balance sheet date is HK$2.19 (2008: HK$5.27), HK$6.71 (2008: HK$7.37) and HK$4.72 (2008: HK$7.30), respectively.

During the year, options were granted in July 2009 with an aggregate estimated fair value of HK$11,529,000.

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

	2009	2008	
Number of share options	**14,040,000**	6,185,000	2,357,500
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	**2.15**	5.03	5.89
Exercise price per share	**2.19**	5.03	5.9
Expected volatility	**58.59%**	47.32%	49.91%
Risk-free interest rate	**2.21%**	2.44%	2.67%
Expected forfeiture rate	**Nil**	Nil	Nil
Expected dividend yield	**3.95%**	3.57%	3.21%
Suboptimal exercise factor	**1.64**	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 58.59%, 47.32% and 49.91% were assumed.

During the year, the Group recognised the net expense of HK$10,616,000 (2008: HK$9,667,000) in relation to share options granted after taking into consideration the effect of revision of estimates due to forfeiture of unvested share options.

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) Ms. FUNG Siu Wan Stella resigned as Executive Director of the Company on 10 March 2009.

Save as disclosed above and in note 31 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 31st December 2009, 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 10.9% of the Group's purchases and the five largest suppliers accounted for27.0% of the Group's total purchases. The largest customer accounted for 4.7% of the Group's turnover and the five largest customers accounted for 16.8% 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 6,505 as at 31 December 2009. 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 27 to 33 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, 16 April 2010

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 2009 ("FY2009").

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 FY2009.

THE BOARD

Board Composition

As at the date of this report, the Board has three executive Directors ("ED"), one non-executive Director ("NED") 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. TSENG Jinsui 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.

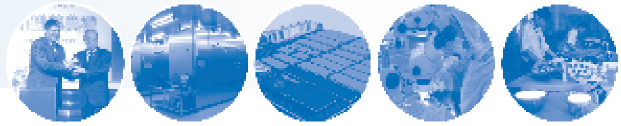
Appointment and Re-election

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 and Mr. LEUNG Wai Chuen, appointed in 19 June 2009 as NED, were subject to retirement at the forthcoming annual general meeting of the Company and being eligible, offers himself for re-election.

All Executive Directors and non-executive Director have service contracts with the Company for a term of three (3) years. The Executive Directors and non-executive Director 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 and NED letters of appointment. Each INED and NED 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 FY2009, nine (9) board meetings were held with attendance details shown in the followings:

Directors	Board Meetings attended/held in FY2009
Mr. Ben FAN	9/9
Ms. Michelle WONG	9/9
Mr. FAN Pong Yang	6/9
Mr. JANG Jann Huan (resigned on 26 August 2009)	3/9
Mr. LEUNG Wai Chuen (appointed on 19 June 2009)	6/9
Mr. ZHAO Shan Xiang	9/9
Ms. FUNG Siu Wan, Stella (resigned on 10 March 2009)	NA
Mr. WU Tak Lung	9/9
Mr. WENG Shih Yuan (appointed on 10 March 2009)	8/9

BOARD'S COMMITTEES

The Board has established three committees, namely audit committee, remuneration committee, nomination committee. Each of them has 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 2009 financial statements.

In FY2009, 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 FY2009, 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 FY2009, 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 FY2009. The AC was satisfied that the non-audit service provided by Deloitte did not affect its independence. The remuneration charged by Deloitte in FY2009 was shown below.

Audit & Non-audit services	HK$3,500,000

INTERNAL CONTROLS

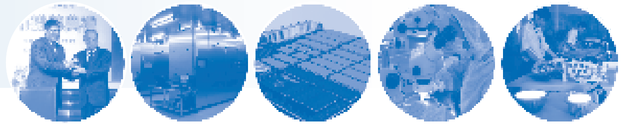
The Board has overall responsibility for maintaining an adequate system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Company's assets.

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 Directors have reviewed the need for an internal audit function and are of the view that it would be more cost effective to recruit professionals to perform internal audit functions for the Group. Currently an in-house internal audit function was set up within the Group to review its system of internal controls annually.

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 34 to 35 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 36 to 92, which comprise the consolidated statement of financial position as at 31st December, 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

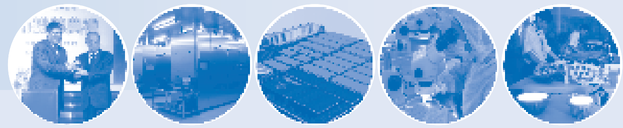
The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of 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, in accordance with our agreed terms of engagement 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 entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal 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 31st December, 2009 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.

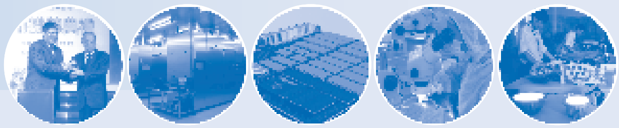
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

16th April 2010

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2009

	Notes	2009 HK$'000	2008 HK$'000
Turnover	7	**1,111,460**	1,617,732
Cost of goods sold		**(729,567)**	(1,091,677)
Gross profit		**381,893**	526,055
Other income		**17,646**	9,645
Other gains, losses and expenses	8	**18,032**	(57,212)
Distribution and selling expenses		**(75,739)**	(90,327)
Administrative expenses		**(200,710)**	(239,732)
Finance costs	9	**(5,852)**	(5,504)
Change in fair value of investment properties		**4,937**	(6,065)
Gain on deemed disposal of partial interest in an associate	10	**13,186**	–
Share of losses of an associate		**(6)**	–
Share of profits of a jointly controlled entity		**1,209**	407
Profit before taxation	11	**154,596**	137,267
Taxation	13	**2,351**	357
Profit for the year		**156,947**	137,624
Other comprehensive income			
– exchange differences arising on translation		**3,982**	74,361
– reclassification adjustment relating to disposal of subsidiaries		**3**	711
– reclassification adjustment relating to disposal of an associate		**–**	(2,379)
– share of other comprehensive income of a jointly controlled entity		**91**	591
		4,076	73,284
Total comprehensive income for the year		**161,023**	210,908
Profit for the year attributable to			
– owners of the Company		**157,989**	138,676
– minority interests		**(1,042)**	(1,052)
		156,947	137,624
Total comprehensive income for the year attributable to			
– owners of the Company		**162,065**	211,960
– minority interests		**(1,042)**	(1,052)
		161,023	210,908
		HK cents	HK cents
Earnings per share			
– Basic	15	**19.5**	18.2
– Diluted		**19.5**	18.2



Consolidated Statement of Financial Position

At 31st December, 2009

	Notes	**2009 HK$'000**	2008 HK$'000
Non-current assets			
Investment properties	16	**61,736**	55,344
Property, plant and equipment	17	**1,223,977**	1,160,353
Prepaid lease payments	18	**86,160**	35,850
Intangible assets	19	**6,968**	9,425
Interest in an associate	20	**20,933**	–
Interest in a jointly controlled entity	21	**24,236**	22,936
Deposits made on acquisition of property, plant and equipment		**111,043**	121,049
Deferred tax assets	22	**–**	5,961
		1,535,053	1,410,918
Current assets			
Inventories	23	**810,247**	908,208
Trade and other receivables	24	**257,360**	339,173
Investments held-for-trading	25	**391,312**	5,138
Pledged bank deposits	26	**2,269**	2,269
Bank balances and cash	26	**903,968**	458,878
		2,365,156	1,713,666
Assets held for sale	27	**62,428**	–
		2,427,584	1,713,666
Current liabilities			
Trade and other payables	28	**171,596**	258,532
Amount due to a director		**–**	4,294
Taxation		**6,000**	18,463
Current portion of long-term bank loans	29	**521,402**	13,470
		698,998	294,759
Net current assets		**1,728,586**	1,418,907
Total assets less current liabilities		**3,263,639**	2,829,825
Non-current liabilities			
Long-term bank loans	29	**29,022**	316,581
Net assets		**3,234,617**	2,513,244

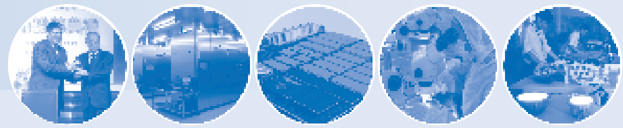
Consolidated Statement of Financial Position (cont'd)

At 31st December, 2009

	Notes	2009 HK$'000	2008 HK$'000
Capital and reserves			
Share capital	30	**91,333**	76,120
Reserves		**3,137,590**	2,430,388
Equity attributable to owners of the Company		**3,228,923**	2,506,508
Minority interests		**5,694**	6,736
Total equity		**3,234,617**	2,513,244

The consolidated financial statements on pages 36 to 92 were approved and authorised for issue by the Board of Directors on 16th April, 2010 and are signed on its behalf by:

BEN FAN	**FAN PONG YANG**
CHAIRMAN	*EXECUTIVE DIRECTOR*



Consolidated Statement of Changes in Equity

For the year ended 31st December, 2009

	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$'000	Attributable to owners of the Company HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2008	76,120	1,023,563	53,856	48,100	15,800	24,762	1,131,740	2,373,941	7,788	2,381,729
Profit for the year	–	–	–	–	–	–	138,676	138,676	(1,052)	137,624
Other comprehensive income for the year	–	–	–	–	–	73,284	–	73,284	–	73,284
Total comprehensive income 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 31st 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
Profit for the year	–	–	–	–	–	–	157,989	157,989	(1,042)	156,947
Other comprehensive income for the year	–	–	–	–	–	4,076	–	4,076	–	4,076
Total comprehensive income for the year	–	–	–	–	–	4,076	157,989	162,065	(1,042)	161,023
Issue of shares	15,213	561,107	–	–	–	–	–	576,320	–	576,320
Expenses incurred in connection with the issue of shares	–	(6,200)	–	–	–	–	–	(6,200)	–	(6,200)
Recognition of equity-settled share based payments	–	–	–	–	10,616	–	–	10,616	–	10,616
Share options lapsed during the year	–	–	–	–	(2,929)	–	2,929	–	–	–
Dividends paid	–	–	–	–	–	–	(20,386)	(20,386)	–	(20,386)
	15,213	554,907	–	–	7,687	–	(17,457)	560,350	–	560,350
At 31st December, 2009	91,333	1,578,470	53,856	48,100	29,910	102,122	1,325,132	3,228,923	5,694	3,234,617

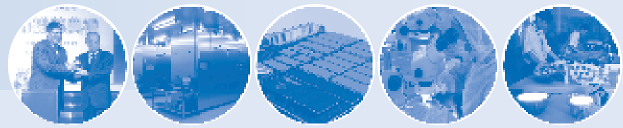
The special reserve represents the differences between the nominal amount of the shares issued by the Company and the Group's former holding company, Neo-Neon Holdings (BVI) Limited ("NNH"), and the aggregate amount of share capital and share premium of the subsidiaries acquired pursuant to a corporate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

Consolidated Statement of Cash Flows

For the year ended 31st December, 2009

	2009 HK$'000	2008 HK$'000
Operating activities		
Profit before taxation	**154,596**	137,267
Adjustments for:		
Interest income	**(6,875)**	(8,057)
Finance costs	**5,852**	5,504
Share of losses of an associate	**6**	–
Share of profits of a jointly controlled entity	**(1,209)**	(407)
Depreciation and amortisation	**145,937**	127,775
Operating lease rentals in respect of prepaid lease payments	**1,681**	629
Change in fair value of investment properties	**(4,937)**	6,065
Loss on disposal of property, plant and equipment	**3,409**	1,310
Impairment loss recognised in respect of intangible assets	**4,455**	–
Impairment loss recognised in respect of prepaid lease payments	**1,568**	–
Loss (gain) on liquidation of a subsidiary	**404**	(723)
Gain on disposal of an associate	**–**	(7,293)
Gain on deemed disposal of partial interest in an associate	**(13,186)**	–
(Reversal of) allowance for inventories	**(19,943)**	3,444
Net allowance for bad and doubtful debts	**10,747**	53,720
Equity-settled share based payments	**10,616**	9,667
Research and development costs	**29,490**	36,387
Effect of foreign exchange rate changes on inter-company balances	**(2,063)**	(22,449)
Operating cash flows before movements in working capital	**320,548**	342,839
Decrease (increase) in inventories	**119,117**	(135,831)
Decrease (increase) in trade and other receivables	**71,454**	(17,766)
(Increase) decrease in investments held-for-trading	**(386,174)**	42,198
Decrease in trade and other payables	**(88,700)**	(55,387)
Decrease in amount due to a director	**(4,294)**	(6,102)
Cash from operations	**31,951**	169,951
Taxation paid	**(4,148)**	(3,010)
Net cash from operating activities	**27,803**	166,941



	Notes	**2009** **HK$'000**	2008 HK$'000
Investing activities			
Interest received		**6,875**	8,057
Research and development costs paid		**(29,490)**	(36,387)
Purchase of investment properties		**–**	(45,679)
Proceeds from disposal of investment properties		**–**	34,463
Purchase of property, plant and equipment		**(59,272)**	(190,776)
Prepaid lease payments paid		**(53,862)**	(1,663)
Purchase of a subsidiary	32	**(6,014)**	(12,477)
Net cash outflow on liquidation of a subsidiary	33	**(38)**	–
Purchase of an associate		**(7,753)**	–
Proceeds from disposal of an associate		**–**	22,982
Deposits paid on acquisition of property, plant and equipment		**(201,577)**	(320,268)
Net cash used in investing activities		**(351,131)**	(541,748)
Financing activities			
Interest paid		**(5,492)**	(5,384)
Dividends paid		**(20,386)**	(89,060)
Proceeds from issue of shares		**576,320**	–
Expenses paid in connection with the issue of shares		**(6,200)**	–
Bank loans raised		**271,197**	331,892
Expenses paid in connection with bank loans raised		**–**	(1,800)
Repayment of bank loans		**(52,282)**	(4,698)
Net cash from financing activities		**763,157**	230,950
Net increase (decrease) in cash and cash equivalents		**439,829**	(143,857)
Cash and cash equivalents at 1st January		**458,878**	609,828
Effect of foreign exchange rate changes		**5,261**	(7,093)
Cash and cash equivalents at 31st December		**903,968**	458,878
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**903,968**	458,878

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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 40. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

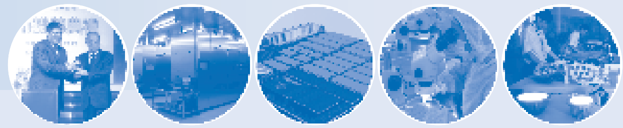
The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants.

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – INT 13	Customer loyalty programmes
HK(IFRIC) – INT 15	Agreements for the construction of real estate
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation
HK(IFRIC) – INT 18	Transfers of assets from customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1st July, 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.



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

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) presentation of financial statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

The restatement (see note 38) represents reclassification of research and development costs including staff cost, depreciation charge and others from administrative expenses to other gains and losses and expenses. The reclassification has no impact on the consolidated statement of financial position as at 31st December, 2008 and as at 1st January, 2008. Accordingly, a third consolidated statement of financial position as at 1st January, 2008 is not presented.

HKFRS 8 operating segments

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments (see note 7) and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

Improving disclosures about financial instruments

Amendments to HKFRS 7 financial instruments: disclosures

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

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related party disclosure[6]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 32 (Amendment)	Classification of right issues[4]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[3]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[5]
HKFRS 2 (Amendment)	Group cash-settled share-based payments transactions[3]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial instruments[7]
HK(IFRIC*) – INT 14 (Amendment)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners[1]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instrument[5]

* IFRIC represents the International Financial Reporting Interpretations Committee.

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

[1] Effective for annual periods beginning on or after 1st July, 2009.

[2] Amendments that are effective for annual periods beginning on or after 1st July, 2009 and 1st January, 2010, as appropriate.

[3] Effective for annual periods beginning on or after 1st January, 2010.

[4] Effective for annual periods beginning on or after 1st February, 2010.

[5] Effective for annual periods beginning on or after 1st July, 2010.

[6] Effective for annual periods beginning on or after 1st January, 2011.

[7] Effective for annual periods beginning on or after 1st January, 2013.

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

As part of Improvements to HKFRSs 2009 issued in May 2009, HKAS 7 has been amended regarding the classification of expenditure on unrecognised assets. Based on the amendments, only an expenditure that results in a recognised asset in the statement of financial position are eligible for classification as a cash flow from investing activities. These amendments are effective for annual periods beginning on or after 1st January, 2010.

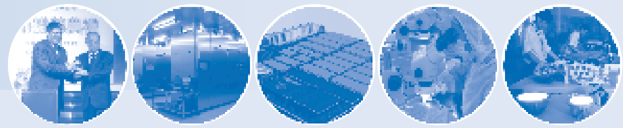
The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. CHANGES OF ACCOUNTING ESTIMATES

Change of depreciation rate in the year

In prior years, certain buildings in the PRC were depreciated over 10 years. With effect from 1st July, 2009, these buildings are to be depreciated over 20 years. This change in useful life is due to the identification of an extended remaining useful life after an assessment to revisit the useful life and current conditions of the buildings. Independent valuation was performed to assist the directors of the Company to conclude that the remaining useful life of these buildings have been extended. The carrying value of these buildings as at 30th June, 2009 was HK$97,467,000. This change in useful life has reduced the depreciation charge for the year by HK$5,576,000. The change of useful life of these buildings is within the terms of the land use rights in which these buildings are erected.

In prior years, certain plant and machineries were depreciated at 20% per annum. With effect from 1st July, 2009, these plant and machineries are to be depreciated at 10% per annum. This change in depreciation rate is due to the identification of an extended remaining useful life after an assessment to revisit the useful life and current conditions of these plant and machineries. Independent valuation was performed to assist the directors of the Company to conclude that the remaining useful life of these plant and machineries have been extended. The carrying value of these plant and machineries as at 30th June, 2009 was HK$116,529,000. This change in depreciation rate has reduced the depreciation charge for the year by HK$6,757,000.



4. 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 31st 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 profit or loss 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.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position as an intangible asset.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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

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

4. 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 statement of financial position 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 on initial recognition.

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 profit or loss in the year in which the item is derecognised.

4. 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 end of the reporting period.

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 profit or loss in the period 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.

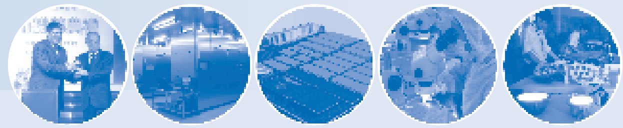
The cost of buildings in Mainland China (the "PRC") is depreciated over 20 years using the straight line method.

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%
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 and amortised over the lease term on a straight line model except for those that are classified and accounted for as investment properties under the fair value model.



4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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 profit or loss in the period 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 (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;

- the intention to complete the intangible asset and use or sell it;

- the ability to use or sell the intangible asset;

- how the intangible asset will generate probable future economic benefits;

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Intangible assets – continued

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Inventories

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

Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position 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.

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 to the net carrying amount on initial recognition.

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

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Loans and receivables

Loans and receivables (including trade and other receivables, pledged 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, less any identified impairment losses.

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 fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Impairment of financial assets

Financial assets, other than investments held-for-trading, are assessed for indicators of impairment at the end of the reporting period. 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Impairment of financial assets – continued

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.

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 in other comprehensive income is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Derecognition – continued

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 the end of the reporting period, 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 profit as reported in the profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2009

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Taxation – continued

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income/a deduction from the carrying amount of the relevant asset in the statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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, 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Foreign currencies – continued

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 the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that 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 at the end of the reporting period. 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 recognised in other comprehensive income and accumulated in equity (the translation reserve). Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Leases

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Retirement benefits costs

Payments to defined contribution retirement benefits plan are charged as an expense when employees have rendered services entitling them to the contributions.

5. 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 end of the reporting period, the capital structure of the Group consisted of debts and equity attributable to owners 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 2009

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2009	2008
	HK$'000	HK$'000
Financial assets		
FVTPL (Investments held-for-trading)	**391,312**	5,138
Loans and receivables (including cash and cash equivalents)	**1,102,477**	724,323
Financial liabilities		
Amortised cost	**677,644**	566,620

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, investments held-for-trading, pledged bank deposits, 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 48.7% (2008: 36.4%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 69.7% (2008: 51.6%) of costs are denominated in the respective group entities' functional currencies.

6. FINANCIAL INSTRUMENTS – CONTINUED

b. Financial risk management objectives and policies – continued

Market risk – continued

(i) Currency risk – continued

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

	Assets		Liabilities	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Australian dollar ("AU$")	**112,789**	7,581	**–**	–
HK$	**2,323,995**	2,046,677	**2,539,783**	3,860,865
Renminbi ("RMB")	**283,888**	677,122	**290,692**	222,296
United States dollar ("US$")	**1,250,581**	119,588	**373,636**	69,378
Euro	**4,732**	1,727	**–**	136
New Taiwan dollar ("NT$")	**6,137**	18,920	**410**	5,144
Others	**21,940**	7,624	**312**	–

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% 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 receivable, payables, external loans and inter-company balances where the denomination 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 relevant foreign currencies strengthen 5% (2008: 5%) against the functional currency of the relevant group entities. For a 5% (2008: 5%) weakening of relevant foreign currencies against the functional currency of the relevant group entities, there would be an equal and opposite impact on the result and the balances below would be negative.

6. 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	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
(Decrease) increase	**(10,789)**	(90,709) (i)	**(340)**	22,741 (ii)	**43,847**	2,511 (iii)

(i) This is mainly attributable to the exposure outstanding on HK$ receivables, payables and external loans 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 and payables 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 the end of the reporting period.

(ii) Interest rate risk

During the year, the Group was exposed to cash flows interest rate risk through the impact of the rate changes on floating interest rate bank loans and bank deposits.

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 Offered Rate and Taiwan bank interest rate arising from the Group's HK$ and New Taiwan dollars denominated borrowings. The Group's interest risk for bank deposits was mainly concentrated on the fluctuation of bank saving interest rate offered by banks mainly in Hong Kong, PRC and Vietnam.

6. 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 end of the reporting period. At 31st December, 2009 and 31st December, 2008, for variable-rate bank deposits and bank loans, the analysis is prepared assuming the amount of asset and liability outstanding at the end of the reporting period was in deposit accounts or outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

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

	2009	2008
	HK$'000	HK$'000
Increase in profit for the year	**1,768**	644

(iii) Other price risk

The Group is exposed to price risk through its investments in listed equity securities, listed debt securities (including updated deeply subordinated notes listed overseas and US dollars step-up callable perpetual preferred securities listed overseas) and gold contracts. 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 price risks at the reporting date. For sensitivity analysis purpose, the sensitivity rate is 10% (2008: 15%) which represents management's assessment of the reasonably possible change in price.

If the prices of the respective instruments had been 10% (2008: 15%) higher/lower, profit for the year ended 31st December, 2009 would be increased/decreased by HK$39,131,000 (2008: HK$771,000) 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.

6. 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 a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. 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. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	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 31st December, 2009					
Non-derivative financial liabilities					
Trade and other payables	**–**	**127,220**	**–**	**127,220**	**127,220**
Bank loans	**1.5**	**542,455**	**41,674**	**584,129**	**550,424**
		669,675	**41,674**	**711,349**	**677,644**
At 31st 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

6. FINANCIAL INSTRUMENTS – CONTINUED

b. Financial risk management objectives and policies – continued

Credit risk

The Group's principal financial assets are trade and other receivables, pledged bank deposits 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 statement of financial position 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 the end of the reporting period 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 and PRC state-owned banks with good reputation.

The Group has concentration of credit risk as 7.8% (2008: 13.7%) and 30.6% (2008: 37.5%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the trading of LED products business.

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.

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.

Fair value measurements recognised in the consolidated statement of financial position

This is an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

6. FINANCIAL INSTRUMENTS – CONTINUED

b. Financial risk management objectives and policies – continued

Fair value – continued

Fair value measurements recognised in the consolidated statement of financial position – continued

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At the end of the reporting period, all the investments held-for-trading totalling HK$391,312,000 are fair valued at Level 1.

7. TURNOVER AND SEGMENT INFORMATION

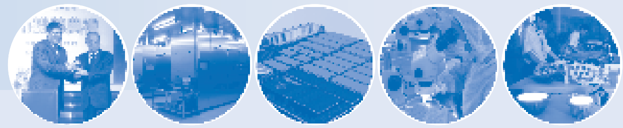
The Group has adopted HKFRS 8 "Operating segments" with effect from 1st January, 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. In contrast, the predecessor Standard (HKAS 14 "Segment reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was geographical segments by location of customers. The application of HKFRS 8 has resulted in a redesignation of the Group's operating segments as compared with the primary segments determined in accordance with HKAS 14.

In prior periods, primary segment information was analysed on the basis of the geographical locations of customers (i.e. France, Netherlands, PRC, Russia, United States of America and other countries). However, information reported to the chief operating decision maker for the purposes of resource allocation and performance assessment focuses more specifically on the type of products. The Group's operating segments under HKFRS 8 are therefore as follows:

Incandescent decorative lighting	–	manufacture and distribution of incandescent decorative lighting products
Light emitting diode ("LED") decorative lighting	–	manufacture and distribution of LED decorative lighting products
LED general illumination lighting	–	manufacture and distribution of LED general illumination lighting products
Entertainment lighting	–	manufacture and distribution of entertainment lighting products
All others	–	distribution of lighting product accessories

Information regarding the above segment is reported below. Amounts reported for the prior year have been restated to conform to the requirement of HKFRS 8.

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



7. TURNOVER AND SEGMENT INFORMATION – CONTINUED

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segment:

	2009 **HK$'000**	2008 HK$'000
Segment revenue		
Incandescent decorative lighting	**269,079**	515,701
LED decorative lighting	**604,511**	758,621
LED general illumination lighting	**96,343**	61,654
Entertainment lighting	**108,979**	222,657
All others	**32,548**	59,099
	1,111,460	1,617,732
Segment results		
Profit from operations		
Incandescent decorative lighting	**48,783**	91,859
LED decorative lighting	**101,977**	124,330
LED general illumination lighting	**19,852**	10,500
Entertainment lighting	**15,845**	31,156
All others	**8,599**	7,284
Segment results	**195,056**	265,129
Unallocated expenses	**(71,966)**	(59,488)
Unallocated other gains, losses and expenses	**18,032**	(57,212)
Finance costs	**(5,852)**	(5,504)
Change in fair value of investment properties	**4,937**	(6,065)
Gain on deemed disposal of partial interest in an associate	**13,186**	–
Share of losses of an associate	**(6)**	–
Share of profits of a jointly controlled entity	**1,209**	407
Profit before taxation	**154,596**	137,267
Taxation	**2,351**	357
Profit for the year	**156,947**	137,624

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit represents the profit earned by each segment without allocation of other gains or losses and expenses, finance costs, change in fair value of investment properties, gain on deemed disposal of partial interest in an associate, share of losses of an associate and share of profits of a jointly controlled entity. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

7. TURNOVER AND SEGMENT INFORMATION – CONTINUED

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment:

	2009 HK$'000	2008 HK$'000
Segment assets		
Incandescent decorative lighting	**748,917**	842,431
LED decorative lighting	**2,077,370**	1,674,793
LED general illumination lighting	**287,984**	173,286
Entertainment lighting	**304,990**	300,008
All others	**45,159**	44,687
Total segment assets	**3,464,420**	3,035,205
Unallocated assets	**498,217**	89,379
Consolidated assets	**3,962,637**	3,124,584
Segment liabilities		
Incandescent decorative lighting	**45,029**	89,669
LED decorative lighting	**92,762**	131,909
LED general illumination lighting	**16,122**	10,720
Entertainment lighting	**18,237**	38,715
All others	**5,446**	10,276
Total segment liabilities	**177,596**	281,289
Unallocated liabilities	**550,424**	330,051
Consolidated liabilities	**728,020**	611,340

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than investment properties, interest in an associate, interest in a jointly controlled entity, deferred tax assets and investments held-for-trading. Assets used jointly by operating segments are allocated on the basis of the revenues earned by individual operating segments; and

- all liabilities are allocated to operating segments other than bank borrowings. Liabilities for which operating segments are jointly liable are allocated in proportion to the revenues earned by individual operating segments.

7. TURNOVER AND SEGMENT INFORMATION – CONTINUED

Other segment information

	Incandescent decorative lighting HK$'000	LED decorative lighting HK$'000	LED general illumination lighting HK$'000	Entertainment lighting HK$'000	All others HK$'000	Segment total HK$'000	Unallocated amount HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss or segment assets:								
Year ended 31st December, 2009								
Capital additions	**53,404**	**189,663**	**33,885**	**21,629**	**5,335**	**303,916**	**32,248**	**336,164**
Depreciation and amortisation	**35,342**	**73,568**	**12,654**	**14,314**	**4,228**	**140,106**	**5,831**	**145,937**
Net allowance for bad and doubtful debts	**1,941**	**5,471**	**1,579**	**1,122**	**634**	**10,747**	**–**	**10,747**
Loss on disposal of property, plant and equipment	**825**	**1,509**	**295**	**334**	**100**	**3,063**	**346**	**3,409**
Reversal of allowance for inventories	**(4,786)**	**(10,847)**	**(1,729)**	**(1,955)**	**(626)**	**(19,943)**	**–**	**(19,943)**
Equity-settled share based payments expenses	**2,266**	**5,417**	**920**	**1,041**	**310**	**9,954**	**662**	**10,616**

	Incandescent decorative lighting HK$'000	LED decorative lighting HK$'000	LED general illumination lighting HK$'000	Entertainment lighting HK$'000	All others HK$'000	Segment total HK$'000	Unallocated amount HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss or segment assets:								
Year ended 31st December, 2008								
Capital additions	100,905	393,732	32,838	24,277	8,568	560,320	20,319	580,639
Depreciation and amortisation	40,732	56,214	4,870	17,586	4,668	124,070	3,705	127,775
Net allowance for bad and doubtful debts	17,125	25,191	2,047	7,394	1,963	53,720	–	53,720
Loss on disposal of property, plant and equipment	418	498	50	180	48	1,194	116	1,310
Allowance for inventories	1,098	1,615	131	474	126	3,444	–	3,444
Equity-settled share based payments	2,670	4,121	755	1,331	353	9,230	437	9,667

7. TURNOVER AND SEGMENT INFORMATION – CONTINUED

Geographical information

The analysis of the Group's revenue from external customers analysed by the geographical area in which the customers are located is as follows:

	2009	2008
	HK$'000	HK$'000
France	**42,018**	112,058
Netherlands	**102,925**	147,806
PRC	**148,613**	118,660
Russia	**41,647**	100,204
United States of America	**409,740**	522,633
Other countries	**366,517**	616,371
	1,111,460	1,617,732

Information about major customers

There are no customers who individually contribute over 10% of the total sales of the Group for the years ended 31st December, 2009 and 31st December, 2008.

8. OTHER GAINS, LOSSES AND EXPENSES

	2009	2008
	HK$'000	HK$'000
Loss on disposal of property, plant and equipment	**(3,409)**	(1,310)
Impairment loss recognised in respect of prepaid lease payments	**(1,568)**	–
Impairment loss recognised in respect of intangible assets (note 32)	**(4,455)**	–
Net allowance for bad and doubtful debts	**(10,747)**	(53,720)
Research and development costs	**(32,301)**	(38,641)
(Loss) gain on liquidation of a subsidiary	**(404)**	723
Gain on disposal of an associate	**–**	7,293
Increase (decrease) in fair value of investments held-for-trading	**66,087**	(13,080)
Government grants*	**5,673**	–
Net exchange (loss) gain	**(844)**	41,523
	18,032	(57,212)

* Government grants of RMB5,000,000 (equivalent to HK$5,673,000) were granted to the Group to recognise the achievements of the Group in LED technology development in Guangdong province. The government grants have no conditions or contingencies attached to them and they are non-recurring in nature.

9 FINANCE COSTS

	2009 **HK$'000**	2008 HK$'000
Interest on bank borrowings		
– wholly repayable within five years	**(5,315)**	(5,028)
– not wholly repayable within five years	**(177)**	(356)
	(5,492)	(5,384)
Amortised transaction costs in relation to long-term bank loans	**(360)**	(120)
	(5,852)	(5,504)

10. GAIN ON DEEMED DISPOSAL OF PARTIAL INTEREST IN AN ASSOCIATE

On 16th October, 2009, the Group subscribed 41.7% of equity interest in Luminaire Holdings Inc. which then became an associate of the Group. Subsequently on 17th November, 2009, the associate issued new shares to other investors resulting in the Group's shareholdings in the associate diluted from 41.7% to 34.57%. This dilution resulted in an increase in the Group's share of net assets value of the associate from HK$7,753,000 to HK$20,939,000.

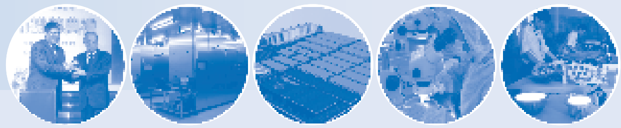
Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2009

11. PROFIT BEFORE TAXATION

	2009 HK$'000	2008 HK$'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration (note 12)		
– current year	**7,704**	14,373
– waived during the year	**(5,496)**	–
	2,208	14,373
– waiver of prior year's remuneration	**(4,294)**	–
	(2,086)	14,373
Other staff's retirement benefits scheme contributions	**6,750**	7,175
Other staff's equity-settled share based payments	**10,616**	9,424
Other staff costs	**186,161**	255,402
	201,441	286,374
Less: Staff costs included in research and development costs	**(7,264)**	(9,158)
	194,177	277,216
Depreciation of property, plant and equipment	**143,480**	125,322
Less: Depreciation included in research and development costs	**(2,811)**	(2,254)
	140,669	123,068
Amortisation of intangible assets included in administrative expenses	**2,457**	2,453
Auditor's remuneration	**3,500**	3,800
Cost of inventories recognised as an expense (including reversal of allowance for inventories HK$19,943,000* (2008: allowance for inventories HK$3,444,000))	**729,567**	1,091,677
Loss on disposal of property, plant and equipment	**3,409**	1,310
Operating lease rentals in respect of		
– prepaid lease payments	**1,681**	629
– rented premises	**1,930**	4,921
and after crediting:		
Dividend income from listed investments held-for-trading	**2,878**	609
Interest income	**6,875**	8,057
Property rental income before deduction of negligible outgoings	**2,846**	979

* The reversal of allowance for inventories is due to recovery of the net realisable value during the year.



12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2009					2008					
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Waived during the year HK$'000	Total HK$'000	Fees HK$'000	Salaries and other benefits HK$'000	Performance related incentive benefits HK$'000	Equity-settled share based bonus HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors											
– Mr. Ben Fan	–	4,320	–	(4,320)	–	–	4,800	4,294	–	–	9,094
– Ms. Michelle Wong	–	1,296	12	(1,176)	132	–	1,440	–	–	12	1,452
– Mr. Fan Pong Yang	–	864	–	–	864	–	960	–	–	–	960
– Mr. Tong Yee Ming (resigned on 16th July, 2008)	–	–	–	–	–	–	703	–	–	7	710
– Mr. Jang Jann Huan (resigned on 26th August, 2009)	–	703	–	–	703	–	1,200	–	–	–	1,200
Non-executive director											
– Mr. Leung Wai Chuen (appointed on 19th June,2009)	–	77	–	–	77	–	–	–	–	–	–
Independent non-executive directors											
– Mr. Wu Tak Lung	–	144	–	–	144	–	200	–	81	–	281
– Mr. Weng Shih Yuan (appointed on 10th March, 2009)	–	116	–	–	116	–	–	–	–	–	–
– Mr. Zhao Shan Xiang	–	144	–	–	144	–	200	–	81	–	281
– Ms. Fung Siu Wan Stella (resigned on 10th March, 2009)	–	28	–	–	28	–	200	–	81	–	281
– Mr. Lam Yin Ming (resigned on 26th May, 2008)	–	–	–	–	–	–	114	–	–	–	114
	–	7,692	12	(5,496)	2,208	–	9,817	4,294	243	19	14,373

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – CONTINUED

The five highest paid individuals included two (2008: four) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining three (2008: one) highest paid employee(s) are as follows:

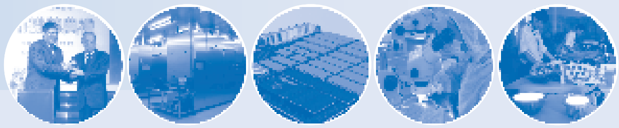
	2009 **HK$'000**	2008 HK$'000
Employee(s)		
– basic salaries and allowances	**2,964**	969
– equity-settled share based payment	**223**	–
	3,187	969

Their emoluments were within the following bands:

	2009 **HK$'000**	2008 HK$'000
Up to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**2**	–
	3	1

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.

The Chairman and another executive director both waived their emoluments for 2009 totalling HK$5,496,000 for the full year in concern. In addition, the Chairman waived emoluments of HK$4,294,000 in relation to his services for the year ended 31st December, 2008. No other directors have waived their emoluments during the year.



13. TAXATION

	2009 HK$'000	2008 HK$'000
The (charge) credit comprises:		
PRC Enterprise Income Tax ("EIT")	**(1,254)**	(6,209)
Overprovision of PRC EIT in prior years*	**9,588**	13,922
Taxation in other overseas jurisdictions	**–**	(284)
	8,334	7,429
Underprovision of Hong Kong Profits Tax in prior years	**–**	(214)
Deferred taxation		
– current year	**(5,983)**	(2,439)
– attributable to a change in tax rate	**–**	(4,419)
	(5,983)	(6,858)
	2,351	357

* 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 2007 to 2008 (2008: 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 2007 to 2008, in aggregate amounted to HK$12,238,000 (2008: HK$13,922,000 for the years 2002 to 2006) is now considered unnecessary and released to profit or loss. In addition, during the year there is an underprovision of PRC EIT in prior year, amounted to HK$2,650,000 (2008:Nil), for a PRC subsidiary and it is charged to profit or loss. No EIT provision is made for this foreign enterprise in current year.

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

All PRC subsidiaries were subject to EIT at 25% for the year except that one of them was officially endorsed as a High-New Technology Enterprise in December 2008 for the next three years. Pursuant to the EIT Law, a High-New Technology Enterprise shall be entitled to a preferential tax rate of 15% for the current year.

Notes to the Consolidated Financial Statements (cont'd)

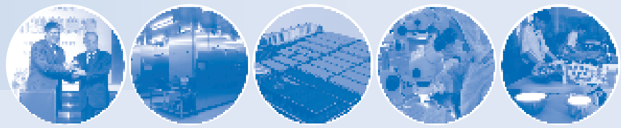
For the year ended 31 December 2009

13. TAXATION – CONTINUED

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. At 31st December, 2009, there were no remaining retained profits earned by these PRC subsidiaries since 1st January, 2008. While, at 31st December 2008, deferred liability has not been provided for in the financial statements in respect of temporary differences attributable to retained profits of these PRC subsidiaries of HK$26,351,000 as the Group was able to control the timing of the reversal of the temporary differences and it was probable that the temporary differences will not reverse in the foreseeable future.

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

	2009		2008	
	HK$'000	**%**	HK$'000	%
Profit before taxation	**154,596**		137,267	
Tax at the applicable income tax rate	**(38,649)**	**(25.0)**	(34,317)	(25.0)
Tax effect of share of results of a jointly controlled entity	**302**	**0.2**	102	0.1
Tax effect of share of results of an associate	**(2)**	**(0.1)**	–	–
Tax effect of expenses not deductible for tax purposes	**(4,256)**	**(2.8)**	(6,167)	(4.5)
Tax effect of income not taxable for tax purposes	**7,153**	**4.6**	4,171	3.0
Tax effect temporary differences not recognised	**(2,687)**	**(1.7)**	(13,430)	(9.8)
Effect of tax exemptions granted to subsidiaries	**32,159**	**20.9**	48,594	35.4
Income tax on concessionary rate	**5,234**	**3.4**	–	–
Tax effect of reversal of deferred tax assets recognised in prior year	**(5,983)**	**(3.9)**	(2,439)	(1.8)
Effect of different tax rates on subsidiaries operating in other jurisdictions	**(2,439)**	**(1.6)**	(1,928)	(1.4)
Decrease in opening deferred tax assets resulting from a decrease in applicable tax rate	**–**	**–**	(4,419)	(3.2)
Overprovision in prior years	**9,588**	**6.2**	13,708	10.0
Others	**1,931**	**1.3**	(3,518)	(2.5)
Tax effect and effective tax rate for the year	**2,351**	**1.5**	357	0.3



14. DIVIDENDS

	2009 HK$'000	2008 HK$'000
Dividends		
– interim dividends of 1.4 Hong Kong cents (2008: 3.4 Hong Kong cents) per share paid	**12,013**	25,881
– final dividends of 1.1 Hong Kong cents (2007: 8.3 Hong Kong cents) per share paid	**8,373**	63,179
	20,386	89,060
– proposed final dividends of 3.5 Hong Kong cents (2008: 1.1 Hong Kong cents) per share	**31,966**	8,373

The final dividend proposed by the directors for the year is subjected to approval by the shareholders in the forthcoming annual general meeting and is calculated on the basis of 913,328,500 (2008: 761,197,500) shares in issue as at the date of this report.

15. EARNINGS PER SHARE

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

	2009 HK$'000	2008 HK$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**157,989**	138,676

	Number of shares 2009	 2008
Weighted average number of ordinary shares for the purposes of basic earnings per share	**810,287,580**	761,197,500
Effect of dilutive potential ordinary shares – share options	**13,849**	601
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**810,301,429**	761,198,101

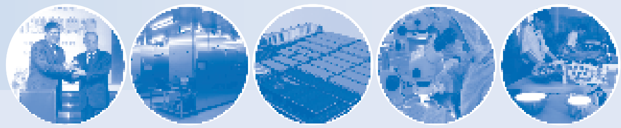
16. INVESTMENT PROPERTIES

	HK$'000
At 1st January, 2008	50,193
Additions	45,679
Decrease in fair value recognised in profit or loss	(6,065)
Disposals	(34,463)
At 31st December, 2008	55,344
Currency realignment	1,455
Increase in fair value recognised in profit or loss	4,937
At 31st December, 2009	61,736

	2009 **HK$'000**	2008 HK$'000
The carrying value of investment properties comprises:		
Properties held under medium-term leases in the PRC	**14,764**	13,272
Freehold properties in Taiwan	**46,972**	42,072
	61,736	55,344

The fair value of the Group's investment properties at the end of the reporting period 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 was determined by reference to recent market prices for similar properties.

The Group has pledged its investment properties in Taiwan to secure the credit facilities granted to the Group.



17. 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 1st January, 2008	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 31st December, 2008	290,646	59,099	240,539	24,504	92,824	667,786	2,603	344,818	1,722,819
Currency realignment	168	21	186	(45)	47	326	–	(324)	379
Acquired on acquisition of a subsidiary	–	123	–	203	–	158	–	–	484
Additions	166,568	1,121	8,099	261	10,373	37,000	–	49,055	272,477
Disposals	–	(960)	(1,299)	(1,315)	(976)	(11,432)	–	(410)	(16,392)
Transfers	81,115	–	16,079	–	–	–	–	(97,194)	–
Transferred to assets held for sale	(69,115)	–	(682)	–	–	–	–	–	(69,797)
At 31st December, 2009	469,382	59,404	262,922	23,608	102,268	693,838	2,603	295,945	1,909,970
DEPRECIATION									
At 1st January, 2008	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 31st December, 2008	132,854	32,822	101,315	15,471	48,516	229,491	1,997	–	562,466
Currency realignment	106	6	106	(2)	25	158	–	–	399
Provided for the year	16,119	8,091	41,986	3,872	15,066	58,346	–	–	143,480
Eliminated on disposals	–	(192)	(446)	(1,101)	(858)	(10,386)	–	–	(12,983)
Transferred to assets held for sales	(6,811)	–	(558)	–	–	–	–	–	(7,369)
At 31st December, 2009	142,268	40,727	142,403	18,240	62,749	277,609	1,997	–	685,993
CARRYING VALUES									
At 31st December, 2009	327,114	18,677	120,519	5,368	39,519	416,229	606	295,945	1,223,977
At 31st December, 2008	157,792	26,277	139,224	9,033	44,308	438,295	606	344,818	1,160,353

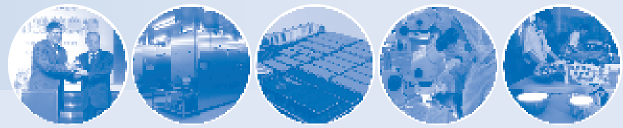
17. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

	2009 HK$'000	2008 HK$'000
The carrying value of property interests which are held under medium-term leases comprises:		
Land and buildings in Hong Kong	**131,042**	63,802
Buildings in the PRC	**192,607**	90,442
Land and building in Dubai	**3,465**	3,548
	327,114	157,792
Properties included in construction in progress held under medium-term prepaid lease payments in the PRC	**295,945**	344,818
	623,059	502,610

The Group has pledged certain of its land and buildings with an aggregate carrying value of HK$194,842,000 (2008: HK$63,802,000) to secure the credit facilities granted to the Group.

18. PREPAID LEASE PAYMENTS

	2009 HK$'000	2008 HK$'000
CARRYING VALUE		
At 1st January	**35,850**	27,244
Currency realignment	**(303)**	1,153
Acquired on acquisition of a subsidiary	**–**	6,419
Additions	**53,862**	1,663
Released to profit of loss for the year	**(1,681)**	(629)
Impairment loss	**(1,568)**	–
At 31st December	**86,160**	35,850
The carrying value of medium-term prepaid lease payments are situated in		
– the PRC	**74,339**	29,394
– Vietnam	**11,821**	6,456
	86,160	35,850



19. INTANGIBLE ASSETS

	Licenses and trademarks HK$'000
COST	
At 1st January, 2008	16,259
Currency realignment	122
At 31st December, 2008	16,381
Currency realignment	1
At 31st December, 2009	16,382
AMORTISATION	
At 1st January, 2008	4,478
Currency realignment	25
Amortised for the year	2,453
At 31st December, 2008	6,956
Currency realignment	1
Amortised for the year	2,457
At 31st December, 2009	9,414
CARRYING VALUE	
At 31st December, 2009	6,968
At 31st December, 2008	9,425

The licences and trademarks are amortised over their contractual life of 7 years respectively using the straight line method.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2009

20. INTEREST IN AN ASSOCIATE

	2009 HK$'000	2008 HK$'000
Unlisted shares, at cost	7,753	–
Gain on changes in interest in associate	13,186	–
Share of post-acquisition losses	(6)	–
	20,933	–

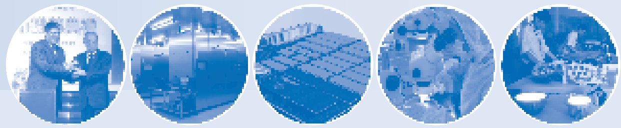
The Group's investment in an associate at the end of the reporting period represents its 34.57% equity interest in Luminaire Holdings Inc. which was incorporated in the British Virgin Islands and acts as an investment holding company on operations for the manufacturing and distribution of LED chips. The total consideration paid is US$1,000,000 (equivalent to approximately HK$7,753,000).

	2009 HK$'000
Total assets and net assets	60,553
Group's share of net assets of associates	20,933
Losses for the year	(18)
Group's share of losses of an associate for the year	(6)

21. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2009 HK$'000	2008 HK$'000
Unlisted shares, at cost	15,600	15,600
Currency realignment	719	628
Share of post-acquisition profits, net of dividends received	7,917	6,708
	24,236	22,936

The Group's investment in jointly controlled entity at the end of the reporting period 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.



22. 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 1st January, 2008	11,974
Currency realignment	845
Charged to profit or loss for the year	(2,439)
Attributable to a change in tax rate	(4,419)
At 31st December, 2008	5,961
Currency realignment	22
Charged to profit or loss for the year	(5,983)
At 31st December, 2009	–

The deferred tax asset amounting to HK$5,983,000 is released to profit or loss during the year due to the unpredictability of future profit streams

23. INVENTORIES

	2009 HK$'000	2008 HK$'000
Raw materials	**159,580**	221,445
Work in progress	**491,613**	491,047
Finished goods	**159,054**	195,716
	810,247	908,208

24. TRADE AND OTHER RECEIVABLES

	2009 HK$'000	2008 HK$'000
Trade receivables		
– jointly controlled entity	**116**	1,066
– others	**171,330**	217,878
Bills receivables	**37,355**	75,492
Less: Allowance for bad and doubtful debts	**(38,483)**	(59,147)
	170,318	235,289
Deposits paid to suppliers	**26,916**	21,375
Value added tax recoverable	**34,204**	70,802
Other receivables	**25,922**	11,707
	257,360	339,173

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 presented based on the invoice date at the end of the reporting period:

	2009 HK$'000	2008 HK$'000
Age		
0 to 60 days	**71,806**	115,148
61 to 90 days	**18,751**	29,597
91 to 180 days	**30,999**	45,229
181 to 360 days	**40,717**	23,222
Over 1 year	**8,045**	22,093
	170,318	235,289

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$48,762,000 (2008: HK$45,315,000) 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. As of the date of this report, 72.0% (2008: 100%) of these past due debts were subsequently collected.

At the end of the reporting period, the Group made allowances for all receivables over 2 years because historical experience is such that receivables that are past due beyond 2 years are generally not recoverable.

24. TRADE AND OTHER RECEIVABLES – CONTINUED

Movement in the allowance for bad and doubtful debts

	2009 HK$'000	2008 HK$'000
At 1st January	**59,147**	6,143
Allowance recognised on receivables	**10,747**	55,457
Amounts written off as uncollectible	**(31,411)**	(2,453)
At 31st December	**38,483**	59,147

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$38,483,000 (2008: HK$59,147,000) which have been in severe financial difficulties. The Group does not hold any collateral over these balances.

25. INVESTMENTS HELD-FOR-TRADING

	2009 HK$'000	2008 HK$'000
Equity securities listed in Hong Kong	**282,869**	5,138
Gold contracts held-for-trading*	**75,593**	–
Undated deeply subordinated notes listed overseas	**25,195**	–
US dollar step-up callable perpetual preferred securities listed overseas	**7,655**	–
	391,312	5,138

* The gold contracts held-for-trading are acquired principally for the purpose of selling in near future on a net settlement basis.

26. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

At the end of the reporting period, 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 the end of the reporting period, the bank deposits carry interest at the prevailing market interest rate of approximately 0.76% (2008: 3.54%) per annum.

27. ASSETS HELD FOR SALE

On 31st December 2009, the Group has entered a preliminary sale and purchase agreement to dispose of its land and building in Hong Kong with a carrying value of HK$62,428,000. In January 2010, the Group has received HK$2,000,000 as a deposit for disposal of the property. Subsequently, the Group has received HK$3,340,000 and HK$5,360,000 on 29th January, 2010 and 8th March, 2010 respectively. The final settlement of HK$96,100,000 (the "Final Settlement") will be received on 30th September, 2010 and the ownership will then be transferred accordingly. Prior to receiving the Final Settlement, the Group will continue the existing usage of the property. The gain on disposal of the property is estimated to be HK$44,372,000 which will be recognised to profit or loss on the date of Final Settlement.

28. TRADE AND OTHER PAYABLES

	2009 HK$'000	2008 HK$'000
Trade payables		
– associates	**641**	641
– others	**96,158**	182,281
Bills payables	**56**	3,225
	96,855	186,147
Customers' deposits	**25,831**	22,877
Payroll and welfare payables	**16,589**	16,858
Payables for acquisition of property, plant and equipment	**3,787**	2,262
Other tax payables	**4,747**	3,380
Other payables	**23,787**	27,008
	171,596	258,532

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	2009 HK$'000	2008 HK$'000
Age		
0 to 30 days	**42,772**	70,694
31 to 60 days	**22,046**	34,523
61 to 90 days	**7,382**	10,076
91 to 120 days	**5,454**	27,227
121 days to 360 days	**19,201**	43,627
	96,855	186,147

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

29. BANK LOANS

	2009 HK$'000	2008 HK$'000
Bank loan:		
– secured	**402,486**	328,522
– unsecured	**147,938**	1,529
	550,424	330,051
Bank loans are repayable as follows:		
Within one year	**521,762**	13,830
Between one to two years	**5,572**	132,537
Between two to five years	**8,251**	167,877
After five years	**16,159**	17,487
Less: Unamortised transaction costs	**(1,320)**	(1,680)
	550,424	330,051
Less: Amounts due within one year shown under current liabilities	**(521,402)**	(13,470)
Amounts due after one year	**29,022**	316,581

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

The effective interest rates on the Group's bank loans ranged from 1% to 5.44% per annum.

30. 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 1st January, 2008 and 31st December, 2008	5,000,000	500,000	761,197,500	76,120
– subscription of new shares	–	–	96,731,000	9,673
– issue of new shares under Taiwan Depository Receipts ("TDR")	–	–	55,400,000	5,540
– at 31st December, 2009	5,000,000	500,000	913,328,500	91,333

30. SHARE CAPITAL – CONTINUED

On 14th July, 2009, the Company entered into a subscription agreement with China Environment Fund, to allot and issue 96,731,000 shares of the Company at a price of HK$2.40 per share. The subscription shares represent approximately 12.7% of the then existing issued share capital of the Company as at the date of the subscription agreement; and approximately 11.3% of the issued share capital of the Company immediately after completion. The gross proceeds from the subscription were approximately US$30 million (equivalent to approximately HK$232 million). The Company intended to use the net proceeds from the subscription to finance continuing capital expenditure requirements and as general working capital for the Group's operating activities. The subscription was completed on 3rd August, 2009.

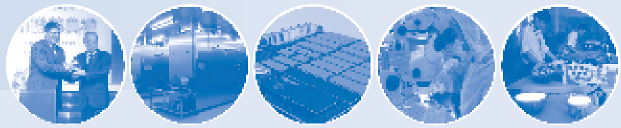
On 15th December, 2009, the Company has by way of TDR in the Taiwan Stock Exchange alloted and issued 70,000,000 shares of the Company at a price of HK$6.20 per share, of which 55,400,000 new shares represent approximately 6.46% of the then existing issued share capital of the Company as at the date of the TDR; and approximately 6.07% of the issued share capital of the Company immediately after completion. The gross proceeds from the subscription were approximately HK$344 million. The Company intended to use the net proceeds from the TDR for the expansion of production capacity of LED-based lighting business in the PRC to cater for the rising demand of the LED-based lighting market. The TDR was completed on 22nd December, 2009.

31. 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 20th November, 2006 for the primary purpose of providing incentives to and recognising significant contributions from directors and eligible employees. The Scheme became effective on 15th 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 the end of the reporting period, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 27,161,500 (2008: 15,966,500), representing 3% (2008: 2%) 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.



31. 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 1.1.2008	Granted during the year	Forfeited during the year	Outstanding at 31.12.2008	Granted during the year	Forfeited during the year	Outstanding at 31.12.2009
Director	15.2.2007	15.2.2007 – 14.2.2008	15.2.2008 – 14.2.2015	8.72	103,000	–	(103,000)	–	–	–	–
	15.2.2007	15.2.2008 – 14.2.2009	15.2.2009 – 14.2.2015	8.72	103,000	–	(103,000)	–	–	–	–
	15.2.2007	15.2.2009 – 14.2.2010	15.2.2010 – 14.2.2015	8.72	103,000	–	(103,000)	–	–	–	–
	15.2.2007	15.2.2010 – 14.2.2011	15.2.2011 – 14.2.2015	8.72	103,000	–	(103,000)	–	–	–	–
Independent Non-executive directors	01.2.2008	Nil	01.2.2008 – 31.01.2016	5.03	–	40,000	(10,000)	30,000	–	(10,000)	20,000
	01.2.2008	01.2.2008 – 31.01.2009	01.02.2009 – 31.01.2016	5.03	–	40,000	(10,000)	30,000	–	(10,000)	20,000
	01.2.2008	01.2.2009 – 31.01.2010	01.02.2010 – 31.01.2016	5.03	–	40,000	(10,000)	30,000	–	(10,000)	20,000
	01.2.2008	01.2.2010 – 31.01.2011	01.02.2011 – 31.01.2016	5.03	–	40,000	(10,000)	30,000	–	(10,000)	20,000
	01.2.2008	01.2.2011 – 31.01.2012	01.02.2012 – 31.01.2016	5.03	–	40,000	(10,000)	30,000	–	(10,000)	20,000
Employees	15.2.2007	Nil	15.2.2007 – 14.2.2015	8.72	1,692,500	–	(346,500)	1,346,000	–	–	1,346,000
	15.2.2007	15.2.2007 – 14.2.2008	15.2.2008 – 14.2.2015	8.72	2,605,000	–	(618,000)	1,987,000	–	–	1,987,000
	15.2.2007	15.2.2008 – 14.2.2009	15.2.2009 – 14.2.2015	8.72	2,605,000	–	(618,000)	1,987,000	–	(446,667)	1,540,333
	15.2.2007	15.2.2009 – 14.2.2010	15.2.2010 – 14.2.2015	8.72	2,605,000	–	(618,000)	1,987,000	–	(446,667)	1,540,333

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2009

31. 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: Outstanding at 1.1.2008	Granted during the year	Forfeited during the year	Outstanding at 31.12.2008	Granted during the year	Forfeited during the year	Outstanding at 31.12.2009
Employees	15.2.2007	15.2.2010 – 14.2.2011	15.2.2011 – 14.2.2015	8.72	2,605,000	–	(618,000)	1,987,000	–	(446,666)	1,540,334
	01.02.2008	Nil	01.02.2008 – 31.01.2016	5.03	–	1,197,000	(355,000)	842,000	–	–	842,000
	01.02.2008	01.02.2008 – 31.01.2009	01.02.2009 – 31.01.2016	5.03	–	1,197,000	(355,000)	842,000	–	(339,375)	502,625
	01.02.2008	01.02.2009 – 31.01.2010	01.02.2010 – 31.01.2016	5.03	–	1,197,000	(355,000)	842,000	–	(339,375)	502,625
	01.02.2008	01.02.2010 – 31.01.2011	01.02.2011 – 31.01.2016	5.03	–	1,197,000	(355,000)	842,000	–	(339,375)	502,625
	01.02.2008	01.02.2011 – 31.01.2012	01.02.2012 – 31.01.2016	5.03	–	1,197,000	(355,000)	842,000	–	(339,375)	502,625
	29.02.2008	Nil	15.02.2008 – 14.02.2016	5.9	–	471,500	(9,000)	462,500	–	–	462,500
	29.02.2008	15.02.2008 – 14.02.2009	15.02.2009 – 14.02.2016	5.9	–	471,500	(9,000)	462,500	–	(6,250)	456,250
	29.02.2008	15.02.2009 – 14.02.2010	15.02.2010 – 14.02.2016	5.9	–	471,500	(9,000)	462,500	–	(6,250)	456,250
	29.02.2008	15.02.2010 – 14.02.2011	15.02.2011 – 14.02.2016	5.9	–	471,500	(9,000)	462,500	–	(6,250)	456,250
	29.02.2008	15.02.2011 – 14.02.2012	15.02.2012 – 14.02.2016	5.9	–	471,500	(9,000)	462,500	–	(6,250)	456,250
	13.07.2009	Nil	13.07.2009 – 31.01.2016	2.19	–	–	–	–	2,808,000	(14,500)	2,793,500
	13.07.2009	13.07.2009 – 12.07.2010	13.07.2010 – 31.01.2016	2.19	–	–	–	–	2,808,000	(14,500)	2,793,500
	13.07.2009	13.07.2010 – 12.07.2011	13.07.2011 – 31.01.2016	2.19	–	–	–	–	2,808,000	((14,500)	2,793,500
	13.07.2009	13.07.2011 – 12.07.2012	13.07.2012 – 31.01.2016	2.19	–	–	–	–	2,808,000	(14,500)	2,793,500
	13.07.2009	13.07.2012 – 12.07.2013	13.07.2013 – 31.01.2016	2.19	–	–	–	–	2,808,000	(14,500))	2,793,500
					12,524,500	8,542,500	(5,100,500)	15,966,500	14,040,000	(2,845,000)	27,161,500

During the year, there are totalling 2,018,208 (2008:3,659,000) unvested share options forfeited. The impact of the revision of the estimates during the vesting period is recognised in profit or loss.

31. SHARE OPTION SCHEME – CONTINUED

Equity-settled share option scheme – continued

The weighted average exercise price of options granted during the year, forfeited during the year and outstanding at the end of the reporting period is HK$2.19 (2008: HK$5.27), HK$6.71 (2008: HK$7.37) and HK$4.72 (2008: HK$7.30), respectively.

During the year, options were granted in July 2009 with an aggregate estimated fair value of HK$11,529,000.

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

	2009	2008	
Number of share options	**14,040,000**	6,185,000	2,357,500
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	**2.15**	5.03	5.89
Exercise price per share	**2.19**	5.03	5.9
Expected volatility	**58.59%**	47.32%	49.91%
Risk-free interest rate	**2.21%**	2.44%	2.67%
Expected forfeiture rate	**Nil**	Nil	Nil
Expected dividend yield	**3.95%**	3.57%	3.21%
Suboptimal exercise factor	**1.64**	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 58.59%, 47.32% and 49.91% were assumed.

During the year, the Group recognised the net expense of HK$10,616,000 (2008: HK$9,667,000) in relation to share options granted after taking into consideration the effect of revision of estimates due to forfeiture of unvested share options.

32. PURCHASE OF A SUBSIDIARY

In October 2009, the Group acquired 100% ownership interests of 揚州祥赫光電有限公司 (Yangzhou Xianhe Optolight Co., Ltd.) ("YXO") for a consideration of HK$6,462,000. This acquisition has been accounted for as acquisition of assets and the related liabilities.

The assets and related liabilities recorded in the books of YXO as at the date of acquisition are as follows:

	HK$'000
Property, plant and equipment	484
Intangible assets*	4,455
Inventories	491
Other receivables	734
Bank balances and cash	448
Other payables	(150)
	6,462
Satisfied by:	
Cash consideration paid	6,462
Net cash outflow arising on acquisition:	
Cash consideration paid	6,462
Less: Bank balances and cash acquired	(448)
	6,014

* The management of the Group recognised an impairment loss of HK$4,455,000 in relation to the intangible assets of YXO. The intangible assets mainly related to pre-operating expenses incurred by Yangzhou Xianhe Optolight Co., Ltd. prior to the acquisition.

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.

32. PURCHASE OF A SUBSIDIARY – CONTINUED

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

33. LIQUIDATION OF A SUBSIDIARY

In April 2009, the Group liquidated a wholly-owned subsidiary, Ever Green Lighting, Inc.

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.

The total net assets (liabilities) at the date of liquidation were as follows:

	2009 HK$'000	2008 HK$'000
Net assets (liabilities) liquidated		
Trade and other receivables	**363**	–
Bank balances and cash	**38**	–
Other payables	**–**	(12)
Translation reserve released upon liquidation	**3**	(711)
Loss (gain) on liquidation	**(404)**	723
	–	–
Net cash outflow arising on liquidation	**(38)**	–

The liquidated subsidiary incurred a loss of HK$4,239,000 (2008: loss of HK$467,000) for the period from 1st January, 2009 (2008: 1st January, 2008) to the date of disposal.

The liquidated subsidiary used HK$2,248,000 (2008: HK$167,000) of the Group's net operating cash flow for the period from 1st January, 2009 (2008: 1st January, 2008) to the date of disposal.

34. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the end of the reporting period, 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:

	2009 HK$'000	2008 HK$'000
Within one year	**663**	1,716
In the second to fifth year inclusive	**552**	2,257
	1,215	3,973

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

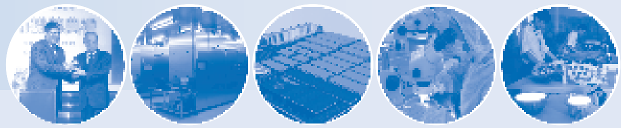
The Group as lessor

At the end of the reporting period, the Group has contracted with tenants in respect of investment properties for the following future minimum lease payments:

	2009 HK$'000	2008 HK$'000
Within one year	**2,108**	2,395
In the second to fifth year inclusive	**1,706**	84
	3,814	2,479

35. CAPITAL COMMITMENTS

	2009 HK$'000	2008 HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the		
– acquisition of property, plant and equipment	**201,252**	84,679
– acquisition of land use rights in PRC	**22,480**	89,922
	223,732	174,601



35. CAPITAL COMMITMENTS – CONTINUED

In addition, on 13th October, 2009, Billion Choice Trading Limited ("Billion Choice"), a wholly-owned subsidiary of the Company, entered into an agreement with 楊州經濟技術開發區管委會 (the Management Committee of Yangzhou Economic and Technological Development Zone), a PRC organisation which is an independent third party, and pursuant to which, Billion Choice agreed to establish a manufacturing plant to produce LED wafers, LED packaging and illumination modules with an aggregate investment of US$150 million (equivalent to approximately HK$1,170 million). In respect of this investment, as at 31st December 2009, the Company has HK$149,953,000 capital expenditure contracted for but not provided in the financial statements.It refers to the cost of 10 machinery systems to be purchased for the manufacture of LED products. According to the terms of the contract, the machinery systems cost was HK$161,240,000. At 31st December 2009, the Company has paid deposits totalling HK$11,287,000 for these machinery systems.

36. 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.

37. RELATED PARTY TRANSACTIONS

During the year, the Group sold goods totalling HK$1,974,000 (2008: HK$6,925,000) to a jointly controlled entity.

In 2008, the Group also sold goods to its associates totalling HK$6,856,000.

The Company's directors represented the Group's key management and their emoluments for the year are set out in note 12.

38. COMPARATIVE FIGURES

Certain comparative figures for the consolidated statement of comprehensive income 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 gains, losses and expenses	(45,799)	(11,413)	(57,212)
Administrative expenses	(251,145)	11,413	(239,732)

39. EVENT AFTER THE REPORTING PERIOD

In January 2010, the Company granted 15,000,000 share options to its employees at an exercise price of HK$6.75 with various vesting periods between January 2010 to January 2018. The aggregate estimated fair value of the options granted is approximately HK$37,503,000. On 22th January, 2010, the offer of options granted was accepted by the relevant employees.

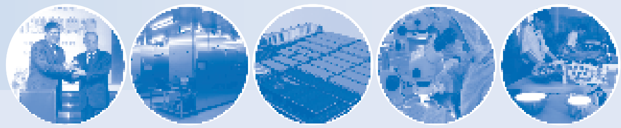
40. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are indirectly wholly-owned by the Company, at the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/registered capital	Principal activity
Billion Choice	British Virgin Islands	Share – US$1	Investment holding
Cashware Technology Limited	British Virgin Islands/ PRC	Share – US$1	Provision of research and development services
Mitcham Profits Limited	British Virgin Islands/ PRC	Share – US$1	Provision of marketing services
Neo-Neon Enterprises Limited	Hong Kong	Ordinary shares – HK$10,000	Trading of lighting products
Neo-Neon LED Lighting International Limited	Samoa/PRC	Shares – US$10,000	Trading of lighting products
Star Bright International (Macao Commercial Offshore) Limited	Macau	Registered capital – MOP100,000	Trading of lighting products
鶴山麗得電子實業有限公司 (Heshan Lide Electronic Enterprise Limited)	PRC as a wholly foreign owned enterprise for a term of 11 years commencing 9th May, 2003	Registered capital – US$264,414,980	Manufacture and sales 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 2nd September, 2005	Registered capital – RMB20,000,000	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 31st December,				
	2005	2006	2007	2008	**2009**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Turnover	971,330	1,258,825	1,572,126	1,617,732	**1,111,460**
Profit before taxation	152,344	265,735	346,525	137,267	**154,596**
Taxation	(8,875)	(5,026)	(14,844)	357	**2,351**
Profit for the year	143,469	260,709	331,681	137,624	**156,947**
Attributable to					
– owners of the Company	142,871	259,965	334,029	138,676	**157,989**
– minority interests	598	744	(2,348)	(1,052)	**(1,042)**
	143,469	260,709	331,681	137,624	**156,947**

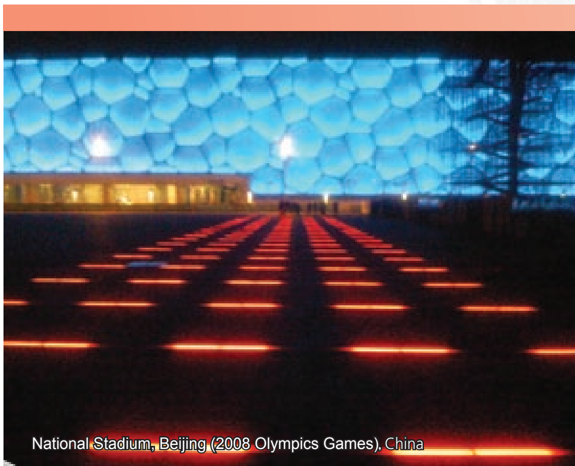
	As at 31st December,				
	2005	2006	2007	2008	**2009**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	1,143,600	2,443,360	2,716,788	3,124,584	**3,962,637**
Total liabilities	(331,779)	(419,379)	(335,059)	(611,340)	**(728,020)**
Net assets	811,821	2,023,981	2,381,729	2,513,244	**3,234,617**

The results and summary of assets and liabilities for the year ended 31st December, 2005 which were extracted from the Company's prospectus dated 4th 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 that year.

LED Curve Screen
LED 可变曲显示屏

Metroport Avm, Turkey

Club in Las Vegas, Taiwan



National Stadium, Beijing (2008 Olympics Games), China

Expo 2010 Shanghai China

Interlite AB Sweden

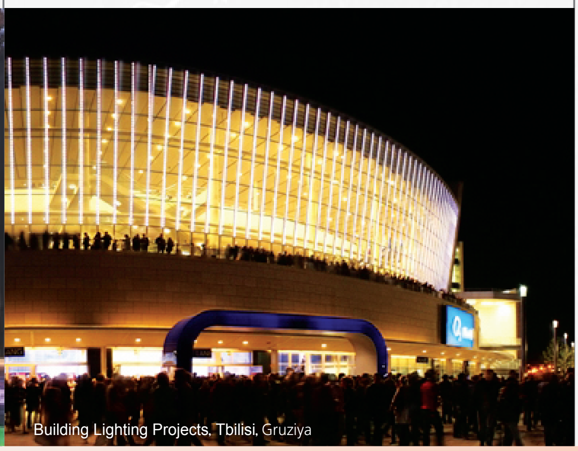
LED Color Changing Pavers
LED 条形视频灯

LED Vivid Linear Wash.SL
LED 条形投光灯

Neo-Neon™

Disco Product Series
舞台灯系列

LED Cable Tape Light
LED 贴片电线灯



Building Lighting Projects, Tbilisi, Gruziya

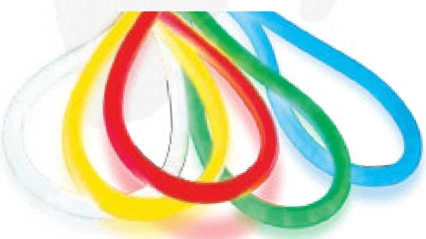
2009 ANNUAL REPORT

Neo-Neon Product Introduction

真明麗集團產品介紹

www.neo-neon.com

LED Neon-Flex
LED 柔性霓虹灯



Neo-Neon™

2009年度報告

LED Recessed Round Downlight
LED 筒灯

LED Tube
LED 日光灯

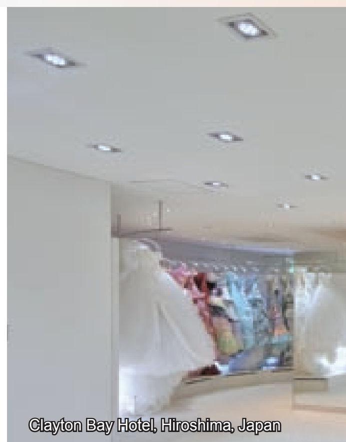

Clayton Hotel, Japan


Jiang Men Administration and Service Center. Guang Dong Jiang Men

真明麗集團產品介紹

Neo-Neon Product Introduction

www.neo-neon.com


Clayton Bay Hotel, Hiroshima, Japan

LED Recessed Ceiling Light Series
LED 嵌灯

LED Cerenity Bulb Series
LED 陶瓷灯泡

Expose office. Holland

Wuhan-Guangzhou Railway, China

Tianning Street, Jiang Men City, Guangdong, China

LED Tunnel Light Series
LED 隧道灯

LED Roadway Illumination Series
LED 路灯