NEO-NEON HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)
Stock Code: HK.1868; TDR.911868

2011 ANNUAL REPORT

Professional LED product research, development and production.

LED There Be Light · **LEDs** Light It

Contents

Major Events in 2011

1

Labor Shortage Concerns Eliminated

The company had invested over US$20 million during the last three years in our Vietnam plant and steadily building up its production capabilities. The Vietnam Plant was able to contribute in modest scale in 2010, and already ready for high volume mass production by years end.

The company plans to expand the Vietnam plant into the largest decorative light manufacturing center in Asia.

2

Shanghai World Expo and Asian Games of Guangzhou

In the domestic market, the Group's LED-based products were widely applied in the Open Ceremony and seven theme galleries in the 2010 Shanghai World Expo, including Expo Cultural Center, and became the biggest winner of LED-based products in the World Expo. In 2010 Asian Games of Guangzhou, Neo-Neon LED-based products were used in urban landscape lighting of Sea Sand Island, Guangzhou Tower and the central axis of Guangzhou. Besides, Neo-Neon's green energy-saving LED lighting Products were shining in Asian Games Town, University Town and many different venues and facilities.

3

Market Expansion

As of 31st of March, 2011, the Group had sales team of 210 staff with offices in sixteen countries and regions including PRC, Korea, Taiwan, Hong Kong, Macau, Vietnam, Malaysia, Dubai, UK, Thailand, Netherland , Germany, Russia , USA, Brazil, etc.

4

International Merged

In Year 2010,Neo-Neon successfully merged with both Ilio International Limited, American Lighting LLC and Holiday Creations LLC in North America, three leading lighting enterprises in the industry.

5

Held 2011 National Distributor Assembly Conference

In February 2011, 120 dealers participated the 2011 National Distributor Assembly Conference of "working with you to create brilliant". Group Chairman Mr. Ben Fan, Mr. Cheng Yun, CEO of PRC Division, Mr. Li Zhi Jia, General Manager of Sales & Marketing, and Mr. Xiao Xue Zhi, General Manager of Marketing and other leaders of the Group attended and chaired the meeting. The conference marked the Company's good business development in 2011.

6

Expansion of Chip Manufacturing Plant

As the market demand for chips continues to remain robust, the company has expanded its metal organic chemical vapour depositor (MOCVD) to nineteen (19) sets by the end of 2010 for production of LED wafers and chips.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORIZED REPRESENTATIVES

Ms. Michelle WONG
Mr. 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

China Construction Bank (Asia) Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited
Taishin International Bank
CITIC Bank International Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

G/F & Basement Level 1 of New East Ocean Centre
9 Science Museum Road
Tsim Sha Tsui East
Kowloon
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 31st March 2011.

BUSINESS REVIEW

2011 was a challenging year with many ups and downs. A variety of factors, especially the cost of raw material increased, the acute shortage of labour force and additions machinery leading to increased depreciation, in the PRC triggered the rise of cost. Even so, the Company recorded a growth 53.9% in turnover and gross profit in 2011. To optimize its financial position, the Group relocated the labor-intensive production to Vietnam and expand investment in overseas offices and sales channels and increase high-tech management and R&D personnel in 2011, resulting in the decrease of net profit before taxation to HK$114,900,000.

The amount of fixed asset investment during the period was HK$687.7 million, of which HK$422.2 million were invested in plants and machinery. 14 additional MOCVD and related packing production lines were delivered at the end of December 2010, enabling the Group's production capacity for chips and packaging to increase from 15,000 pieces/month (450 million chips) to 45,000 pieces/month (1.35 billion chips) and laying a solid foundation for the growth of net profit in 2011.

The Company had invested more than US$20 million in its plants in Vietnam during the last three years. The plants were able to operate at full production capacity at the end of the same year. The Group will develop the plants into the largest decorative light production base in Asia. Besides expanding the Group's production capacity, the plants provide relatively sufficient labour supply at a low labour cost, basically solving the Group's problem of incurring additional cost due to labour shortage in the mainland in 2011.

To exercise prudence in accounting, the Company did not include the subsidies provided by China's local governments to the Group's chip plants in the profit for the current period. This will help to reduce the Group's future production cost. In 2011, the Group's earning per share dropped from 19.5 HK cents to 12.7 HK cents. This did not indicate a weakening of the Group's fundamentals but will enable the Group to significantly improve its profitability, so that the profit in 2012 will probably surpass that of 2009.

In 2011, Neo-Neon Group successfully acquired and merged with three leading LED lighting enterprises in the industry in North America, namely Ilio International USA, Inc. (Ilio International), American Lighting Inc. (American Lighting) and HCI. Ilio International is principally engaged in the sales of lighting products for Christmas trees in the North American market. After the merging in 2011, Neo-Neon, upon several runs of selection, successfully appointed Ms. Jennifer A. Sethre (Jennifer henceforward) as the CEO of the said Company. Jennifer has had over 20 years experience in both sales and enterprise management in Christmas tree lighting industry. Under her leadership, Ilio International continues to sell Christmas tree lighting as their major product, and build a strategic allies relationship with The Home Depot and Costco.

American Lighting is a lighting fixture sales enterprise focused in commercial illumination for 16 years of history in North America, with excellent sales channel and outstanding sales team. Based on sales of traditional incandescent lighting fixture, American Lighting has a clientele all over North America. American Lighting has been gradually expanding the LED lighting business. Through a healthy cooperation relationship with both retailer and project enterprises, American Lighting has made a successful landing in commercial lighting fixture market. Their sales performance in Year 2012 is forecast to double the figure of 15 million USD achieved in 2011. With the backup of Neo-Neon as a stronghold, American Lighting is expected to become bigger and stronger in LED based lighting market.

Holiday Creations, Inc ("HCI") pioneering LED lighting technology, is a Christmas light sales enterprise for 22 years of history in North America and has its own brands of "Diagen" and "HCI". HCI is widely recognised as one of the top five manufacturers of SSL products. HCI owns a lot of non-exclusive distribution contracts. HCI is a leading distribution of LED commercial lighting and DIY lighting application. On the other hand, HCI will further expand its market share in respect of general lighting fixture.

PROSPECT

The Group will continue to develop and integrate its existing channels. Meanwhile, the Group will speed up the expansion of its market through acquisitions and mergers. In 2011, in response to the booming market, the Group will reform its channels, run its operation centres and multi-level distribution model on a trial basis, solicit major sales agents' participation in the franchise operation of our branded products, proceed to franchise operations, and develop distribution network in order to capture favourable market resources in competition with traditional lighting enterprises. As at 31st March 2011, the Group had a sales team of over 210 staff members with offices in 16 countries and regions including the PRC, Korea, Taiwan, Hong Kong, Macau, Vietnam, Malaysia, Dubai, UK, Thailand, Netherlands, Germany, Russia, USA and Brazil. While developing the LED lighting business, the Group also puts much effort in distribution and marketing, improves and expands the sales channel of general LED lighting products and explores high-end market demand and business opportunities for this highly profitable business.

To cater for increased sales opportunities in the Chinese market, the Group has established 30 branches so as to allocate more resources to expand its presence in the mainland. The Chinese government's current concern for energy conservation provides excellent opportunities for the Group's expansion of its domestic sales business. In the 2010 Shanghai World Expo, the Group won the orders of lighting application for its LED products in the open ceremony and seven theme galleries, including Expo Cultural Centre. In 2010 Guangzhou Asian Games, Neo-Neon's Yingyu green LED energy-saving lighting products were used in the key construction projects (such as Sea Sand Island, Guangzhou Tower and the urban landscape lighting in the central axis of Guangzhou) as well as tens of venues and facilities including Asian Games Town and University Town. In respect of general lighting, Neo-Neon's white interior lighting products are widely used in energy-saving lighting renovation projects of post offices and banks, classrooms, telecommunication offices.

The Group is planning to establish flagship showrooms in Shanghai (established already), Tianjin and Chongqing so as to consolidate its foothold in one of the fastest growing markets in the world and provide clients with more distinguished services in conjunction with its branches. During the period under review, despite the weakening of the European market and the Euro, the Company did not face any negative financial impact or exchange risk relating to its sales amount and accounts receivable from the European market. This was because the Group's sales amount and accounts receivable are denominated in USD and the Company's major customers in the European market have relatively solid balance sheets and excellent financing abilities. On the other hand, the Company's quality products and favourable selling prices enabled the Company to stay highly competitive. Furthermore, most of the Company's sales came from the US, China and the Asian Pacific region (excluding China).

We are confident that through our continuous integration of market resources, acquisitions and mergers in the industry and full utilization of industrial resources, Neo-Neon can maintain its leading position in the industry in the future amidst the LED market competition and will continue to enlarge its LED market share!

Benefiting from such edges and our previous extensive experience, we are able to develop rapidly in the LED industry. To set itself apart from its peers in the global lighting market, an enterprise needs to have powerful products that attract the market. Thus, we derive from our experience the rule of technological innovation on the one hand and cost reduction on the other hand. Commencing product research and development, applying for patents and engaging in product innovation become Neo-Neon's strategies for actively capturing the market. In addition, cost advantages, rapid delivery and abundant and diversified product chains are major reasons that enable "Neo-Neon" to win the favour of its global clients.

Due to the world's focus on environmental protection and energy conservation, the application and usage of white LED lighting will become higher and higher. The Group's new technology will further push the increasing application of white LED lighting so as to make contribution to energy-saving and environmental protection in China and the world.

APPRECIATION

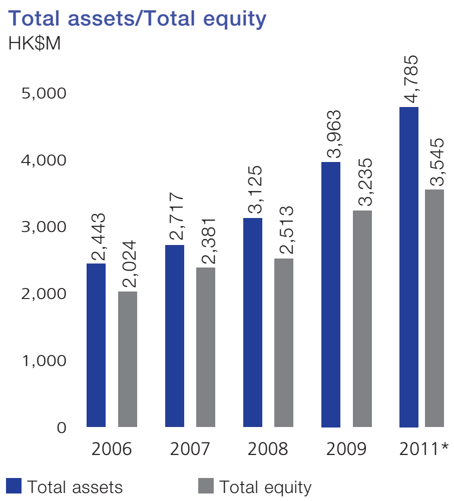
On behalf of the Board of the Directors (the "Board"), I would like to thank all our staff for their continuous hard work and dedication. We also express my heartfelt gratitude to our customers, suppliers and government bodies for their precious support and comments. With the constant vigilance of our expertise management and responsive strategic thinking, I am confident that the Group can have a swift pick-up. We will continue to pursue new business opportunities in the lighting industry to maintain our leading position in the industry and maximize returns for our shareholders.

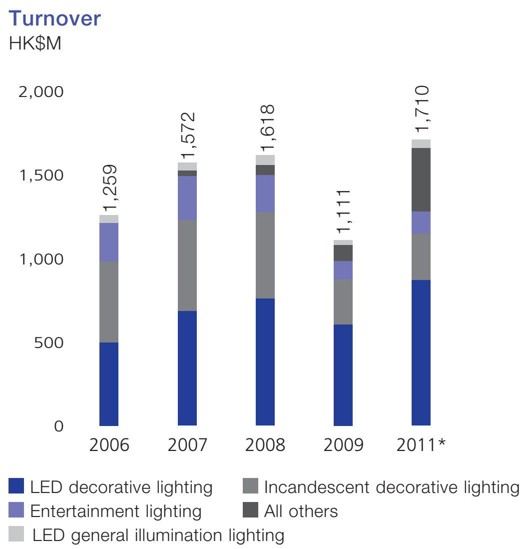
Ben Fan
Chairman

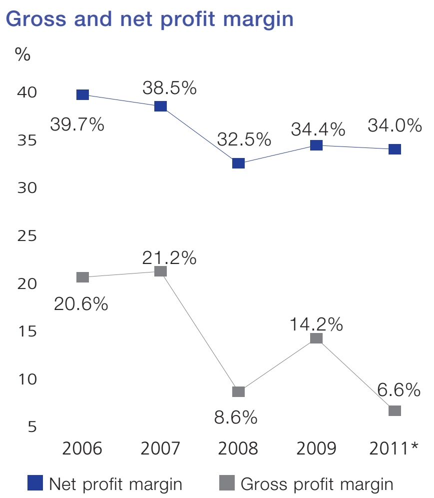
Hong Kong, 29th June 2011

FINANCIAL HIGHLIGHTS

	Year				
Expressed in HK$ million	2006	2007	2008	2009	**2011***
Turnover	1,259	1,572	1,618	1,111	**1,710**
Gross profit	500	605	526	382	**582**
Profit attributable to equity holders of the Company	260	334	139	158	**117**
EBITA	345	438	271	307	**331**
Total assets	2,443	2,717	3,125	3,963	**4,785**
Total equity	2,024	2,381	2,513	3,235	**3,545**
Gross profit margin	39.7%	38.5%	32.5%	34.4%	**34.0%**
Net profit margin	20.6%	21.2%	8.6%	14.2%	**6.6%**
EPS-basic (HK cents)	43	44	18	19	**12**







* *For the period from 1st January, 2010 to 31st March, 2011.*

EXECUTIVE DIRECTORS

Mr. Ben FAN (樊邦弘)

Mr. Fan, aged 57, 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 28 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 47, is the wife of Mr. Ben Fan. 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 22 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 55, is the younger brother of Mr. Ben Fan. He is responsible for liaison with relevant government authorities involving land use rights application, incorporation of wholly foreign-owned enterprises and factory building constructions. He has been managing our legal department for eight years and has been in charge of all legal matters in relation to the Group, including patent applications, litigations, environmental protection with the support and legal advice of a team of internal legal counsel. Mr. Fan Pong Yang has been representing our Company for liaising with government authorities in respect of various legal matters and will, whenever necessary, represent the Company to engage external legal advisors for more complex legal matters. Mr. Fan Pong Yang was appointed as an executive Director in October 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WU Tak Lung (吳德龍)

Mr. Wu, aged 45, 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, 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 and he was resigned as an independent non-executive Director of Finet Group Ltd. in September 2010.

Mr. ZHAO Shan Xiang (趙善祥)

Mr. Zhao, aged 66, 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 56, 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. CHAN Cheung (陳璋)

Mr. Chan, aged 55, 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. CHIEN Tang Hao (錢塘豪)

Mr. Chien, aged 46, joined the Group in 1992 and is currently CEO of decorative lighting division and the group marketing director. Mr. Chien graduated from the Taiwan Tamkang University in 1988 and obtained a bachelor's degree.

Mr. CHENG Yun (程雲)

Mr. Cheng, aged 44, joined the Group in 1997. He is currently CEO of China Division, R & D director and group head of production plants. Mr. Cheng graduated from the South China Agricultural University in 1990.

Mr. YEH Kuo Kuang (葉國光)

Mr. Yeh, aged 40, joined the Group in 2008. He is currently CEO of LED chip division, chief technology officer and director of chips factory in Jiangmen. 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. LIU Ying Chieh (劉英傑)

Mr. Liu, aged 48, joined the Group in September 2009 and is currently CEO of LED packaging division. 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. LIAO Chang Wen (廖彰文)

Mr. Liao, aged 51, joined the Group in May 2009 and is 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. CHEN Li Ren (陳立人)

Mr. Chen, aged 38, joined the Group in March 2011 and is director of LED chips factory in Yangzhou. Mr. Chen has more than 7 years of experiences in LED epitaxy, chips crafts, production and quality control. Mr. Chen has ever been working in numbers of LED chips factories in Taiwan and China. He graduated from National Tsing Hua University (Taiwan) in 1996 and obtained a Master of Science majoring in materials engineering.

Mr. LIANG Fubo (梁伏波)

Mr. Liang, aged 33, joined the Group in August 2008 and is Senior Manager of chips factory in Jiangmen. 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 8 years of LED chip, semiconductor manufacturing technology research and development and production management experience.

Mr. FAN Pang Ku (樊邦固)

Mr. Fan, aged 51, joined the Group in 2000, is currently general manager of production plants in Vietnam. 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. JANG Shuh Jou (張述周)

Mr. Jang, aged 46, joined the Group in 1994 and is currently the head of sales and marketing. 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. ZHANG Guanqiu (張冠球)

Mr. Zhang, aged 34, joined the Group in 2000, currently General Manager of the Group's decorative lighting division, product development and R & D director. 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. James M. HARDAWAY

Mr. Hardaway, aged 41, 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 19 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. LIN Chia Kuang (林家光)

Mr. Lin, aged 49, joined the Group in 2009. He is currently deputy director of decorative lighting division. Mr. Lin graduated from Soochow University (Taiwan) in 1983. Mr. Lin has more than 18 years of sales and marketing experience in lighting industries.

Mr. LIN Xiang Hui (林向輝)

Mr. Lin, aged 29, jointed the Group in 2005 and is deputy director of decorative lighting products development. Mr. Lin graduated from Curtin University of Technology (Australia) in 2006.

Mr. LI Zhi Jia (李治佳)

Mr. Li, aged 29, joined the Group in 2004 and is deputy general manager in charge of operations in the PRC.

Mr. XIAO Xue Zhi (肖學智)

Mr. Xiao, aged 39, joined the Group in 2001 and is deputy general manager focusing on the PRC market. Mr. Xiao graduated from Hunan Radio & TV University in 1992.

FINANCIAL REVIEW

For the period from 1st January, 2010 to 31st March, 2011 the Group's turnover was HK$1,710.5 million (2009: HK$1,111.5 million), representing an increase of 53.9%. Gross profit of the Group was HK$582.3 million for 2011 (2009: HK$381.9 million), showing a increase of 52.5%. Profit attributable to owners of the Company decreased from HK$158.0 million in 2009 to HK$116.6 million in 2011. Basic earnings per share was HK cents 12.7 for 2011 (2009: HK cents 19.5).

Turnover

(a) By product category

(i) LED decorative lighting products

The Group's turnover from LED in decorative lighting recorded HK$868.5 million in 2011 (2009: HK$604.5 million), showing an increase of 43.7%. 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$377.9 million in 2011 (2009: HK$96.3 million), showing a huge increase of 292.4%, China has increased 175.8% from this product. 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$279.2 million in 2011 (2009: HK$269.1 million), showing an increase of 3.8%. 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$132.6 million in 2011 (2009: HK$109.0 million), showing an increase of 21.6%. 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$74.3 million for 2011 (2009: HK$42.0 million), representing an increase of HK$32.3 million or 76.9%. The turnover from the PRC was HK$409.8 million in 2011 (2009: HK$148.6 million), showing an increase of HK$261.2 million or 175.8%, major growth of LED general illumination lighting products. The turnover from United States of America recorded HK$586.6 million for 2011 (2009: HK$409.7 million), representing an increase of HK$176.9 million or 43.2%. The turnover from other countries reached HK$507.5 million in 2011 (2009: HK$366.5 million), showing an increase of HK$141.0 million or 38.5%.

Cost of Goods Sold and Gross Profit Margin

The cost of goods sold was HK$1,128.1 million in 2011 (2009: HK$729.6 million), increased by HK$398.5 million or 54.6%. The increase was mainly attributable to: (i) an increase in material costs by HK$253.1 million or 55.4%, (ii) an increase in labour costs and subcontracting costs of HK$76.8 million or 61.3%, and (iii) an increase in depreciation of HK$27.1 million or 30.2% resulted from additions of moulds and machinery catering for the expansion of production capacity. The increase in material costs was mainly due to rising raw material prices for most of the time in 2011. As the cost of goods sold recorded an increase of 54.6% exceeding the increase in sales of 53.9%, the Group's gross profit margin was still having 34.0% in 2011 (2009: 34.4%).

Other Income

Other incomes was HK$22.2 million in 2011 (2009: HK$17.6 million), representing an increase of HK$4.6 million or 26.1%, mainly due to an increase of dividend income from investment in securities.

Other Gains, Losses and Expenses

Other gains, losses and expenses showed a loss of HK$17.4 million in 2011 (2009: a gain of HK$18.0 million). The decrease was mainly due to an increase in fair value of listed investments held-for-trading of HK$66.1 million in 2009 compared to an increase in fair value of listed investments held-for-trading of HK$9.3 million in 2011, partly offset by a net exchange loss from HK$0.8 million in 2009 to a net exchange loss HK$8.9 million in 2011 and Gain on disposal of an asset held for sale of HK$43.2 million (2009: 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. To expand the base, overseas office was increased to 16 countries and regions. In response to the sales opportunity of Chinese market, the Group increased Chinese sales networks and flagship. The distribution and selling expenses increased from HK$75.7 million in 2009 to HK$134.8 million in 2011 representing an increase of HK$59.1 million or 78.1%.

The administrative expenses mainly compose of staff costs and directors remuneration, depreciation charge, professional and legal fee, research and development costs, business tax. Due to MOCVD increased 14 sets, the management of high technology and research was increased accordingly and removed factory to Vietnam caused the increasing of management staff. The administrative expenses increased from HK$200.7 million in 2009 to HK$322.2 million in 2011 representing an increase of HK$121.5 million or 60.5%.

Change in Fair Value of Investment Properties

In 2011 the change in fair value of investment properties recorded an increase of HK$2.5 million (2009: an increase in fair value of HK$4.9 million). Such change was explained by (i) an increase in fair value of an investment property in Guangzhou, the PRC, in 2011 of HK$1.5 million (2009: an increase in fair value of HK$1.5 million), and (ii) an increase in fair value of HK$1.0 million (2009: an increase in fair value of HK$3.4 million) for an investment property in Taiwan acquired in 2011.

Finance Costs

The finance costs was HK$11.4 million in 2011 (2009: HK$5.9 million), representing an increase of HK$5.5 million or 93.2%. The increase was mainly due to an increase of new bank loans, amounted HK$534.8 million, in 2011 for financing the working capital, an investment property and plan and machinery.

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 2011 the Group's tax charge of HK$2.7 million (2009: tax credit of HK$2.4 million) included profit tax charge of HK$2.3 million (2009: HK$1.3 million), deferred taxation of HK$1.0 million (2009: HK$5.9 million), offset by underprovision of PRC income tax in prior years of HK$0.9 million (2009: overprovision of HK$9.6 million). As of 31st March, 2011, the tax effective rate for 15 months was 2.9%, compared to taxation credit 1.5% in 2009. The Group's PRC production plants entitled to preferential Enterprise Income Tax of 15% in the capacity of High – New Technology Enterprise. Thus, Enterprise Income Tax is payable at a rate which is 10 percentage points lower than those applicable to compare with general decorative lighting manufacturers. The Group takes a further competitive advantage in terms of its tax charges.

Profit Attributable to Owners of the Company and EBITDA

For 2011 the profit attributable to owners of the Company amounted to HK$116.6 million (2009: HK$158.0 million). The decrease was mainly attributable to an increase in gross profit, increase in other income, distribution and selling expenses and administrative expenses and finance costs, decrease in fair value of listed investments held-for-trading and share of losses of an associate. The overall net profit margin decreased from 14.1% in 2009 to 6.6% in 2011. EBITA was HK$306.9 million in 2009 increased to HK$331.5 million in 2011, increased by 8.0%.

FINANCIAL RESOURCES AND LIQUIDITY

Cash Flows

Cash inflow from operating activities in 2011 was credit HK$82.0 million (2009: HK$2.6 million). Cash outflow from investing activities in 2011 was HK$648.9 million (2009: HK$321.6 million). Cash inflow from financing activities in 2011 was HK$192.4 million (2009: HK$758.9 million). Cash outflow from investing activities in 2011 was mainly due to additions of property, plant and machinery and deposits paid on acquisition of property, plant and equipment of about HK$714.3 million. Cash inflow from financing activities was mainly due to new bank loans of HK$534.8 million and issued shares HK$8.4 million raised in 2011. An overall net increase in cash and cash equivalents in 2011 was credit HK$538.5 million (2009: HK$439.8 million). The Group's major financial resources derived from cash generated from financing activities. The existing cash resources are sufficient for the Group to meet its business requirements.

Assets and Liabilities

As at 31st March 2011 the Group's current assets and non-current assets were respectively HK$2,510.2 million (as at 31st December 2009: HK$2,427.6 million) and HK$2,274.3 million (as at 31st December 2009: HK$1,535.1 million). The increase in non-current assets was mainly due to an increase in property, plant and equipment of HK$479.0 million. As at 31st March 2011 the Group's current liabilities and long-term liabilities were respectively HK$1,170.6 million (as at 31st December 2009: HK$699.0 million) and HK$69.0 million (as at 31st December 2009: HK$29.0 million). The increase in current liabilities was mainly due to new bank loans of HK$534.8 million raised in 2011. As at 31st March 2011 the Group's bank balance and cash was HK$371.4 million (as at 31st December 2009: HK$904.0 million). The Group's gearing ratio increased from 17.0% as at 31st December 2009 to 22.8% as at 31st March 2011 (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 2011 for financing the working capital, an investment property and plan and machinery.

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 March 2011 the Group has pledged one of its investment properties with a fair value of HK$52,240,000 (as at 31st December 2009: HK$46,972,000), certain of its land and buildings with an aggregate carrying value of HK$127,766,000 (as at 31st December 2009: HK$194,842,000) and also bank deposits of aggregate carrying value of HK$52,371,000 (as at 31st December 2009: HK$2,269,000) to secure bank credit facilities granted to the Group.

CAPITAL COMMITMENTS

As at 31st March 2011 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$169.3 million (as at 31st December 2009: HK$201.3 million), acquisition of land use rights in PRC of nil million (as at 31st December 2009: HK$22.5 million) and Yangzhou investment projects of nil million (as at 31st December 2009: HK$1.5 million).

CONTINGENT LIABILITIES

As at 31st March 2011 the Group did not have any material contingent liabilities.

CAPITAL STRUCTURE

As at 31st March 2011 the issued share capital of the Company was HK$94,244,069 (as at 31st December 2009: HK$91,332,850), divided into 942,440,694 (2009: 913,328,500) ordinary shares of HK$0.10 each.

MATERIAL ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT

During the period under review, the Company apart from acquired American Lighting, HCI and Neo-Neon Europe. There was no material disposal and significant investment.

BUSINESS REVIEW

The era of light emitting diode (“LED”) indoor home lighting has dawned. LED has distinct advantages over traditional lighting products in respect of energy saving and environmental protection. LED can achieve 40%-60% of energy savings as compared to fluorescent tubes save 90% as compared to the tungsten lamps. If all the illumination alters to the LED lighting, the world can save EURO120 billion electricity expenses and reduce 630 million tons of carbon dioxide emissions annually. That is to say, we can save 1.8 billion barrels of crude oil per year. In addition, the advantages of LED products include longer usage life, better luminous efficiency, larger illumination area, adjustable light color, etc. Therefore, governments of many countries have introduced polices to restrict or ban the production and sale of incandescent lamps, and strongly advocated the application of LED lamps.

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, incorporating "Chips R&D – Extending Slice Production – Chips Production – Chips Package – Product Application". With modern management technique and method, optimized production process, enhanced production efficiency and a well-established vertically integrated supply chain, the Group's core competitiveness was strengthened while achieving higher cost effectiveness and obtaining an approval granted by provincial government. Consequently, a new profit growth source was established. We are committed to the R&D and production of over ten thousand kinds of quality products, including LED chips, LED packaging and LED application lighting products, and thus developing ourselves into the global leading LED technology team and marketing our products to more than 100 countries and regions in the world.

Production Facilities and Capacity

The LED products gradually replaced incandescent-based lighting in our sales mix. We proactively reinforced the Group's continued effort at research and development (R&D), and strove towards green lighting technology in future. Following the expansion of LED packaging plant in 2010, the Group reached a production capacity of 800 million LEDs per month. Our high-power LED emitter can achieve 120 lumens per watt, attaining the highest mass-production level in the LED industry. We Continued our R&D effort in replacing existing HID and halogen light bulbs by high-power LED emitter so as to increase the variety and flexibility in entertainment lighting applications. In respect of general LED-based lighting, we firstly produced the whole series of LED white-light illumination products, including LED streetlights, LED T8 tubes, LED downlights and LED bulbs.

By the end of 2010, the Company newly added 14 metal organic chemical vapour depositors ("MOCVD") and the related packing production line. Thus, as at the end of December 2010, there were nineteen (19) sets in total for the production of LED wafers and chips. After completion of installation and testing, the production capacity will increase from 15,000 chips per month (two (2) inches) in 2009 to 45,000 chips per month (two (2) inches) by the end of July 2011. It is expected that the increased production capacity of chips will not only satisfy the demand of our LED packaging production and shorten delivery time to end customers under such integrated supply chain, but also allow the external sales of chips in 2011 to increase to above 50% of the total production output, thereby enabling the Company to seize more market opportunities.

Currently, the brightness of self-produced LED chips of Neo-Neon has already exceeded 1201m/W and that of wafers and chips produced by chip factories has risen to 2700mcd, both of which have reached the internationally advanced level. In comparison with large foreign factories, all the technical staff of chip factories of Neo-Neon graduated from higher institutions with master or bachelor degrees, and all the production processes were of the highest international standard. As such, its production capacity was able to keep at a very stable level, and the LED chips produced were of high stability and consistency, so that it received a large number of orders from large domestic and foreign factories and its products were the selected products for use. The R&D team is conducting the R&D on the process of putting fluorescent powder directly on photonic crystal and vertically structural chips. It is expected to make a breakthrough in future.

The wafer products currently produced by the Company are mainly blue and green LED wafers with high brightness, which are primarily used in high-brightness LED Duralights, white-light illumination products, outdoor screens, indoor screens and high-brightness decorative lighting with blue and green light. Other cheaper red and yellow LED wafers are purchased externally. Our procurement ratio, which is mainly determined based on the clients' requirements and market demand, was less than 20%.

To better consolidate its production capacity and cope with the ever-rising labour cost in the PRC after the implementation of new Labour Law, the Group completed the transfer of incandescent lighting and decorative lighting production lines (which involve labour-intensive process) to a 1,200-mu plant in Thái Bình Province of Vietnam in consideration of the intense competition, low technology and labour-intensive production, concessionary electricity tariff and other favourable policies there. For one thing, the Group could then employ labors at a lower wage in Vietnam to continue the production of traditional lighting devices, so that the market status of Neo-Neon can be maintained. For another, the vacated plant and spared resources in Heshan could be better utilized to set up a facility that vertically integrates the functions of R&D, production, sales of LED products as well as project design and construction, in pursuit of higher efficiency and cost-effectiveness. The Group completed the construction of plant in 3 phases in 2010, which occupied a total area of 90,000 square meters. Currently, the Vietnam plant has employed more than 2,100 employees. The Group will develop it into the largest LED lighting production base in Asia, and further expand the production scale of Vietnam plant in 2011.

Quality Control

The Group is always determined to achieve the objective of "Perfection". It enhanced the quality management through tying the reward and punishment evaluation with quality and facilitating the comprehensive quality management incessantly. The Company has its own quality standard department and has established the Lide Photoelectric Test Center (麗得光電測試中心) with the South China University of Technology. With the strict quality management, the Company was granted ISO9001 Quality System Certification, and over 85% of its self-developed and self-produced products passed the international safety certifications including UL, ETL, CSA, GS, VDE, CE, IMQ, BS and SAA. In addition, it is a UL member and a silver member of International CIE. In 2009, Neo-Neon Group qualified for the certification of "LED Household Lighting" of US Energy-saving Star, which was the first lighting enterprise in Asia to be so recognized. It has stood for good brand image and rich customer resources. The Company has long included the brand building in its strategic objectives and is committed to enhancing the Company's brand image on the principle of "focus on quality and brand promotion". Through long-term cooperation, the Company established strategic partnership with a number of DIY enterprises such as Home Depot, Lowes, Juno, B&Q, CTC and Walmart.

Sales and Distribution

The Group maintained a sales team of over 210 staff members with offices in 16 countries and regions including the PRC, Korea, Taiwan, Hong Kong, Macau, Vietnam, Malaysia, Dubai, UK, Thailand, Netherlands, Germany, Russia, USA and Brazil. The Group planned to establish flagship showrooms in Shanghai (already established), Tianjin and Chongqing. We are confident that, through our constant consolidation of market resources and the best use of various resources by mergers within the industry, Neo-Neon can keep its industry leading role in the competitive LED market and constantly enlarge its LED market share in the future!

RESEARCH AND DEVELOPMENT

The Group's research and development efforts were driven towards product design, new product development and production efficiency improvement in order to reduce the overall production cost. During the period under review, with our continuing development of upstream epitaxy products to manufacture high-efficiency and good quality upstream LED materials, the Company's LED chips (including 10 mil x 23 mil chips) and packaging technology were improved up to international standard, as an effort to secure our leading position in the LED application market. The brightness of the Company's mass-produced LED chip SMD (3528 specification) rose to an average of 2,700 mcd, which is comparable to the brightness of 2,500 mcd to 2,800 mcd achieved by the leading Taiwan backlight factories, and higher than the 2,200 mcd to 2,600 mcd by mainland China manufacturers.

The Group established Lide Huagong Photoelectric Technology Research Institute (麗得華工光電技術研究所), the first photoelectric technology research institution, in Jiangmen city. There was remarkable breakthrough in the LED illumination technology in 2010. Currently, the luminous efficiency of HCD-LED chips (High Current Driving), AC-LED chips (Alternate Current) and HV-LED chips (High-Voltage) developed by the Company have reached 120 lumens per watt. Given the LED streetlights of the Group applied the design of the third-generation optical lens (so that the light of LED streetlights can be equally distributed in streets), they can save over 60% of electricity in comparison with the traditional streetlights, which received recognition from various countries around the world. Other than the LED streetlights, other LED application lighting products also received bulk orders from clients in such regions as the PRC, Europe, America and Southeastern Asia.

Neo-Neon has possessed more than 1,000 authorized patents at home and abroad, and its patented products have covered over 10,000 types of products in various technical aspects including traditional lighting, decorative lighting, commercial lighting, entertainment lighting, audio system, LED chips and LED packaging. Among them, there are over 800 domestic patents and 200 foreign patents, including 50 invention patents, more than 600 utility model patents and more than 400 exterior design patents. The LED Neonflex self-developed by the Company was granted patents from over 50 states and certificates jointly issued by six PRC ministries and commissions. With such achievements, the Company has been renowned domestically and internationally. Among 10,566 patent applications related to LED lighting technology in the PRC, Neo-Neon Group ranked the first with 212 relevant applications, which accounted for 2.01% of the total applications in the PRC, and other domestic and foreign enterprises were quite far behind to catch up with the Group.

TRADE RECEIVABLE MANAGEMENT

As at 31st March, 2011, the Group's receivable were HK$389.1 million (31st December 2009: HK$170.3 million), representing an increase of HK$218.8 million; in which the amount of receivables due within 180-360 days rose to HK$74.0 million. The rise was mainly due to a 53.9% increase in turnover resulting from the rapid market expansion during the period under review, the extension of credit period to 180 days for facilitating some creditworthy long-term clients' plans for business development, and the long payment periods of certain large projects at low risk (such as Yangzhou Streetlight Project) under relevant contracts.

INVENTORY MANAGEMENT

The Group operated an integrated industry chain that covered more than ninety percent of the production process in the whole business chain. During the period under review, the Group's inventory balances increased to HK$1,419.7 million from HK$810.2 million at the beginning of the year, an increase of approximately 75.2%, which was mainly due to a number factors. Firstly, turnover rose by 53.9% that resulted in an increased inventory. Secondly, the production capacity of chips and packaging plant increased from 15,000 pieces/month to 45,000 pieces/month which led to an increase in relevant materials by 140 million. Thirdly, in order to control the material price rise, we placed a one-off bulk order for materials at a preferential price so that the increase of material cost were controlled within a controllable range. Looking ahead, the Group will monitor its inventory management policy so as to give quicker response to customer orders and speed up inventory turnover. A number of internal management measures were also implemented which, as per the Group's expectation, will reap the benefits in the coming fiscal year.

EMPLOYEES AND REMUNERATION POLICY

As at 31st March 2011, the Group's total number of employees was approximately 9,200 (31st December 2009: 6,505). Due to MOCVD increased 14 sets, the management of high technology and research was increased accordingly. 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 provides discretionary bonus based upon the Group's results and the individual performance of the staff.

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 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

"Energy-saving and carbon reduction" is a core topic in the PRC Twelfth Five-year Plan, while the use of electricity for lighting accounted for over 20% in the total electricity consumption worldwide. Under the global trend of environmental protection, the gradual replacement of traditional lighting by the LED lighting (which is more efficient in electricity-saving) has become a critical topic for discussion. Along with the rapid development of the PRC economy, the semiconductor lighting industry, being the focus of the new-round development of high-tech energy-saving industry, enjoys massive support and attention from governments at all levels. At the same time, the bright prospect of LED industry also receives high recognition and draws attention from the investment world. Last year, the value of LED output in the PRC exceeded RMB60 billion. The market will bring a myriad of business opportunities to the LED industry.

We already established four major operation centers and logistics and warehousing bases in Shanghai, Tianjin, Chongqing and Heshan of Guangdong. To satisfy the demand arising from increasing sales opportunities in the PRC market, the Group set up 30 branches and allocated more resources for the expansion of our footholds in the mainland. Also, we will further establish provincial operation centers in the provincial capitals in the PRC, so that we can extend our influence in the Greater China market. There are 50 cities in the country participating in the launch of "10 Cities, 10,000 Streetlights" programme. Wuhan-Guangzhou High-speed Rail was commissioned at the end of last year, and Neo-Neon was responsible for the LED tunnel lighting along the route of the high-speed rail. Furthermore, in the 2010 Shanghai World Expo, Neo-Neon won the orders of lighting application for its LED products in the open ceremony and seven theme galleries, including Expo Cultural Centre, which became the biggest winner in Shanghai World Expo. In Guangzhou Asian Games, our Yingyu green LED energy-saving lighting products were used in the key construction projects (such as Sea Sand Island, Guangzhou Tower and the urban landscape lighting in the central axis of Guangzhou) as well as tens of venues and facilities including Asian Games Town and University Town. In respect of general lighting, our white LED interior lighting products were widely used in the office lighting of Guangdong Provincial Department of Science and Technology, Jiangmen Administration Center and the building of China Mobile Jiangmen Company, and the energy-efficient lighting renovation projects for indoor venues including post offices and banks, classrooms and telecommunication offices. In particular, advertising and promotion, urban lighting, venue construction, municipal projects, large malls, road traffic, hotels and restaurants, shopping centers, department stores, hospitals and entertainment projects will undergo large-scale construction, renovation and expansion, which will bring ample room for the market growth of LED industry.

Today, LED luminous efficiency is much higher than incandescent lamps, the world has started to pay attention to the third revolution of LED, so called "the technology of lighting up the future", and the resulting lighting field. As different countries in Europe and America will replace the incandescent light bulbs by LED from 2012, Neo-Neon will get the upper hand in the cost competition due to its competitive edges of economy of scale and integrated production model, not to mention its geographical advantage in the PRC. Our growth in the next year will be driven by the following:

1. **LED general illumination lighting** – In 2011 we generated a turnover of 292.2% higher than 2009. We can offer preferential prices of top-performance products in the market as our technological expertise is at the cutting-edge of the lighting industry. A good news is that we have successfully launched LED general illumination lighting products for home use through Home Depot, one of the largest DIY stores whose orders involves millions of US Dollars. It sufficiently proves the era of LED-based general lighting for home use has entered. In view of this, the growth of this industry will expectedly accelerate in 2011 and thereafter.

2. **LED decorative lighting** – Neo-Neon is now the largest lighting manufacturer in the world with over 10 per cent of market share in the global decorative lighting market. Its clients are internationally-renowned manufacturers including HOME DEPOT of the United States. As such, Neo-Neon has already become a leading LED lighting manufacturer, which is well known in Europe and America. At the same time, Neo-Neon has its proprietary brands such as NEO-NEON and Yingyu Illumination (銀雨照明).

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

The Directors are pleased to present their annual report and the audited financial statements for the year ended 31st March 2011.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 38 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year end 31 March 2011 are set cut in the Consolidated Statement of Comprehensive Income on page 41. The Directors recommended the payment of a final dividend of HK$0.032 per ordinary share to shareholders whose names appear on the Register of Members of the Company on 11 August 2011. For determining the entitlement to receive recommended final dividend, the register of members of the Company will be closed from Thursday, 11th August, 2011 to Monday, 15th August, 2011, both days inclusive, during which period no transfer of share will be effected. The final dividend will be paid approximately in late August 2011. Including the interim dividend of HK$0.028 per ordinary share paid to the shareholders in November 2010, total dividend paid to the shareholders for the year ended 31st March 2011 will be HK$0.060 per ordinary share.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 3th August, 2011 to Friday, 5th August, 2011, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrars in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 2nd August, 2011.

PROPERTY, PLANT AND EQUIPMENT

Movements during the period in the Group's property, plant and equipment are set out in note 16 to the consolidated financial statements.

Movements during the period in the Group's investment properties are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the period in the share capital of the Company are set out in note 31 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 period and up to the date of this report are:

Executive Directors

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

Non-Executive Directors

Mr. LEUNG Wai Chuen (resigned on 30th September 2010)

Independent non-executive Directors

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

In accordance with Article 87(1) of the Company's articles of association (the "Articles"), Mr. Ben FAN, Mr. WENG Shih Yuan, Mr. ZHAO Shan Xiang and Mr. WU Tak Lung 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 2011 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. 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 period 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 31st March 2011, 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 31st March 2011.

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

As at 31st March 2011, 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 31st March 2011
Mr. Ben FAN(2)	Ordinary	600,000	26,717,000	336,400,000	–	–	363,717,000	**38.593%**
Ms. Michelle WONG(2)	Ordinary	10,668,000	337,000,000	16,049,000	–	–	363,717,000	**38.593%**
Mr. FAN Pong Yang(3)	Ordinary	1,462,000	–	16,049,000	–	760,000(4)	18,271,000	**1.939%**
Mr. WENG Shih Yuan	Ordinary	246,500	–	–	–	200,000(4)	446,500	**0.047%**
Mr. WU Tak Lung	Ordinary	–	–	–	–	250,000(4)	250,000	**0.027%**
Mr. LEUNG Wai Chuen(5)	Ordinary	–	–	–	–	200,000(4)	200,000	**0.021%**
Mr. ZHAO Shan Xiang	Ordinary	–	–	–	–	250,000(4)	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 363,717,000 Shares of the Company held by Mr. Ben FAN (600,000 Shares), Ms. Michelle WONG (10,668,000 Shares), Rightmass Agents Limited ("Rightmass") (336,400,000 Shares) and Charm Light International Limited ("Charm Light") (16,049,000 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) 16,049,000 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 16,049,000 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 10,668,000 Shares of the Company held by Ms. Michelle WONG and 16,049,000 shares of the Company held by Charm Light.

(3) 16,049,000 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 16,049,000 Shares of the Company that Charm Light was interested.

(4) 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.

(5) Mr. LEUNG Wai Chuen resigned as Non-Executive Director of the Company on 30th September 2010.

Save as mentioned above, as at 31st March 2011, 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 31st March 2011, 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 31st March 2011
Rightmass[1]	Beneficial owner	336,400,000	35.695%
China Environment Fund	Investment Manager	96,731,000	10.264%

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 31st March 2011, 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 period, 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.

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 01.01.2010	Granted during the period	Lapsed during the period	Exercised during the period	Outstanding as at 31.3.2011
Directors								
Mr. WU Tak Lung	01.02.2008	5.03	01.02.2008 – 31.01.2016	50,000	–	–	–	50,000
	22.01.2010	6.75	22.01.2010 – 21.01.2018	–	200,000	–	–	200,000
Mr. ZHAO Shan Xiang	01.02.2008	5.03	01.02.2008 – 31.01.2016	50,000	–	–	–	50,000
	22.01.2010	6.75	22.01.2010 – 21.01.2018	–	200,000	–	–	200,000
Mr. WENG Shih Yuan	22.01.2010	6.75	22.01.2010 – 21.01.2018	–	200,000	–	–	200,000
Mr. LEUNG Wai Chuen	22.01.2010	6.75	22.01.2010 – 21.01.2018	–	200,000	(200,000)	–	–
Mr. FAN Pong Yang	22.01.2010	6.75	22.01.2010 – 21.01.2018	–	760,000	–	–	760,000
Employees								
Employees, in aggregate	15.02.2007	8.72	15.02.2007 – 14.02.2015	7,954,000	–	(665,500)	–	7,288,500
	01.02.2008	5.03	01.02.2008 – 31.01.2016	2,852,500	–	(122,500)	(24,000)	2,706,000
	29.02.2008	5.90	28.02.2008 – 28.02.2016	2,287,500	–	(30,000)	–	2,257,500
	13.07.2009	2.19	13.07.2009 – 12.07.2017	13,967,500	–	(2,373,000)	(2,238,500)	9,356,000
	22.01.2010	6.75	22.01.2010 – 21.01.2018	–	13,440,000	(2,987,500)	–	10,452,500
	23.07.2010	4.51	23.07.2010 – 22.07.2018	–	6,850,000	(800,000)	–	6,050,000
				27,161,500	21,850,000	(7,178,500)	(2,262,500)	39,570,500

The closing price of shares immediately before 15th February 2007, 1st February 2008, 29th February 2008,13th July 2009, 22nd January 2010 and 23rd July 2010 the dates on which the share options were granted, were HK$8.50, HK$5.03, HK$5.89, HK$2.15, HK$6.75and HK$4.51 respectively.

The weighted average exercise price of options granted during the period, options granted on January and July, forfeited during the period and outstanding at the balance sheet date is HK$6.45 and HK$4.31 (2009: HK$2.19), respectively.

During the period, options were granted in January and July 2010 with an aggregate estimated fair value of HK$37,503,000 and HK$12,600,000 (2009: HK$11,529,000).

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

	2011		2009
Number of share options	**6,850,000**	**15,000,000**	14,040,000
Vesting period	**Based on the terms stipulated in the Scheme**	**Based on the terms stipulated in the Scheme**	Based on the terms stipulated in the Scheme
Grant date share price per share	**4.51**	**6.75**	2.15
Exercise price per share	**4.51**	**6.75**	2.19
Expected volatility	**53.32%**	**54.07%**	58.59%
Risk-free interest rate	**1.95%**	**2.55%**	2.21%
Expected forfeiture rate	**Nil**	**Nil**	Nil
Expected dividend yield	**1.36%**	**3.81%**	3.95%
Suboptimal exercise factor	**1.64**	**1.64**	1.64

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 53.32%, 54.07% and 58.59% were assumed.

During the period, the Group recognised the net expense of HK$26,892,000 (2009: HK$10,616,000) 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.

Notes:

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

(2) Mr. LEUNG Wai Chuen resigned as Non-Executive Director of the Company on 30th September 2010.

Save as disclosed above and in note 32 to the consolidated financial statements, during the period, 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 period ended 31st March 2011, 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 period, the largest supplier accounted for 8.2% of the Group's purchases and the five largest suppliers accounted for 21.2% of the Group's total purchases. The largest customer accounted for 3.7% of the Group's turnover and the five largest customers accounted for 14.7% 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 9,200 as at 31st March 2011. 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 32 to 38 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, 29 June 2011

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 31st March 2011 ("FY2011").

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 FY2011.

THE BOARD

Board Composition

As at the date of this report, the Board has three executive Directors ("ED") and three independent non-executive Directors ("INED"), as shown on page 4 of this annual report. Biographies of the Company's Directors are shown on pages 9 to 10 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 50% 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. On 12th July, 2010, Mr. Tseng Jinsui resigned as the CEO of the Company due to Mr. Tseng's capabilities in research and development, production and sales, corporate management and years of experience in Yangzhou to serve as chairman in Yangzhou subsidiary of the Group. In respect to the rapid strategic development of LED lighting market, Mr. Ben FAN, the Chairman has been appointed as CEO and Mr. Ben FAN took the role of the Chairman of the Board and the CEO because Mr. FAN has the vision on the LED industry, technology and market development which is necessary for the Group to maximize the edge solutions for the upstream, middle steam and downstream industrial chain integration from LED wafers & chip production packaging and the LED lighting applications.

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 hasn't entered into service contract with the Company and has no fixed proposed service term. Mr. WENG shall retire by rotation and be eligible for re-election in the forthcoming Annual General Meeting of the Company subject to the Articles of Association of the Company. Service term of Mr. ZHAO Shan Xiang has been automatically terminated at his 65th birthday subject to the letter of appointment he has entered into with the Company, provided that he is eligible for re-election to enter into another service contract of one year with the Company. Mr. LEUNG Wai Chuen resigned his position as non-executive director of the Company on 30th September 2010.

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 letters of appointment. Each INED is eligible for emoluments, participation in share option scheme and expenses reimbursement relevant for their carrying out of duties.

Board Processes

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

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

Minutes of board meetings and meetings of board committees are kept by the Company Secretary. All Directors have free access to board papers and related materials, and are provided with adequate information in a timely manner, enabling the Board to make informed decision on matters placed before it. In FY2011, eleven (11) board meetings were held with attendance details shown in the followings:

Directors	Board Meetings attended/held in FY2011
Mr. Ben FAN	11/11
Ms. Michelle WONG	11/11
Mr. FAN Pong Yang	11/11
Mr. LEUNG Wai Chuen (resigned on 30th September 2010)	5/11
Mr. ZHAO Shan Xiang	11/11
Mr. WU Tak Lung	11/11
Mr. WENG Shih Yuan	11/11

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 4 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 2011 financial statements.

In FY2011, 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 4 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 FY2011, 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 4 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 FY2011, 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 FY2011. The AC was satisfied that the non-audit service provided by Deloitte did not affect its independence. The remuneration charged by Deloitte in FY2011 was shown below.

Audit & Non-audit services	HK$5,600,000

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 39 to 40 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.

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 41 to 111, which comprise the consolidated statement of financial position as at 31st March, 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period from 1st January, 2010 to 31st March, 2011, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these 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 control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the 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 March, 2011 and of its profit and cash flows for the period from 1st January, 2010 to 31st March, 2011 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

29th June 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period from 1st January, 2010 to 31st March, 2011

	Notes	1.1.2010 to 31.3.2011 HK$'000	1.1.2009 to 31.12.2009 HK$'000
Turnover	7	1,710,451	1,111,460
Cost of goods sold		(1,128,130)	(729,567)
Gross profit		582,321	381,893
Other income		22,201	17,646
Other gains, losses and expenses	8	(17,424)	18,032
Distribution and selling expenses		(134,759)	(75,739)
Administrative expenses		(322,234)	(200,710)
Finance costs	9	(11,403)	(5,852)
Change in fair value of investment properties		2,472	4,937
Gain on deemed disposal of partial interest in an associate		–	13,186
Share of losses of an associate		(6,708)	(6)
Share of profits of a jointly controlled entity		394	1,209
Profit before taxation	10	114,860	154,596
Taxation	12	(2,674)	2,351
Profit for the period/year		112,186	156,947
Other comprehensive income			
– exchange differences arising on translation		103,418	3,982
– reclassification adjustment relating to disposal of subsidiaries		–	3
– share of other comprehensive income of a jointly controlled entity		–	91
		103,418	4,076
Total comprehensive income for the period/year		215,604	161,023
Profit for the period/year attributable to			
– owners of the Company		116,608	157,989
– non-controlling interests		(4,422)	(1,042)
		112,186	156,947
Total comprehensive income for the period/year attributable to			
– owners of the Company		220,026	162,065
– non-controlling interests		(4,422)	(1,042)
		215,604	161,023
		HK cents	HK cents
Earnings per share			
– Basic	14	12.7	19.5
– Diluted		12.7	19.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st March, 2011

	Notes	31.3.2011 HK$'000	31.12.2009 HK$'000
Non-current assets			
Investment properties	15	**68,479**	61,736
Property, plant and equipment	16	**1,702,963**	1,223,977
Prepaid lease payments	17	**117,664**	86,160
Goodwill	18	**106,796**	–
Intangible assets	19	**127,344**	6,968
Interest in an associate	20	**14,225**	20,933
Interest in a jointly controlled entity	21	**24,928**	24,236
Deposits made on acquisition of property, plant and equipment		**111,895**	111,043
		2,274,294	1,535,053
Current assets			
Inventories	22	**1,419,674**	810,247
Trade and other receivables	23	**545,664**	257,360
Investments held-for-trading	24	**121,102**	391,312
Pledged bank deposits	25	**52,371**	2,269
Bank balances and cash	25	**371,432**	903,968
		2,510,243	2,365,156
Assets held for sale	26	**–**	62,428
		2,510,243	2,427,584
Current liabilities			
Trade and other payables	27	**384,390**	171,596
Taxation		**7,667**	6,000
Current portion of long-term bank loans	28	**778,586**	521,402
		1,170,643	698,998
Net current assets		**1,339,600**	1,728,586
Total assets less current liabilities		**3,613,894**	3,263,639
Non-current liabilities			
Long-term bank loans	28	**28,078**	29,022
Government grants	29	**9,681**	–
Deferred taxation	30	**31,243**	–
		69,002	29,022
Net assets		**3,544,892**	3,234,617

	Notes	31.3.2011 HK$'000	31.12.2009 HK$'000
Capital and reserves			
Share capital	31	**94,244**	91,333
Reserves		**3,433,705**	3,137,590
Equity attributable to owners of the Company		**3,527,949**	3,228,923
Non-controlling interests		**16,943**	5,694
Total equity		**3,544,892**	3,234,617

The consolidated financial statements on pages 41 to 111 were approved and authorised for issue by the Board of Directors on 29th June, 2011 and are signed on its behalf by:

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 1st January, 2010 to 31st March, 2011

	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	Non-controlling interests HK$'000	Total HK$'000
At 1st January 2009	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
Profit for the period	–	–	–	–	–	–	116,608	116,608	(4,422)	112,186
Exchange differences arising on translation	–	–	–	–	–	103,418	–	103,418	–	103,418
Total comprehensive income for the period	–	–	–	–	–	103,418	116,608	220,026	(4,422)	215,604
Issue of shares	2,911	109,562	–	–	(2,637)	–	–	109,836	–	109,836
Non-controlling interests arising on purchase of subsidiaries (note 33)	–	–	–	–	–	–	–	–	15,514	15,514
Contribution from non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	157	157
Recognition of equity-settled share based payments	–	–	–	–	26,892	–	–	26,892	–	26,892
Share options lapsed during the period	–	–	–	–	(1,296)	–	1,296	–	–	–
Dividends paid	–	–	–	–	–	–	(57,728)	(57,728)	–	(57,728)
	2,911	109,562	–	–	22,959	–	(56,432)	79,000	15,671	94,671
At 31st March, 2011	94,244	1,688,032	53,856	48,100	52,869	205,540	1,385,308	3,527,949	16,943	3,544,892

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 period from 1st January, 2010 to 31st March, 2011

	1.1.2010 to 31.3.2011 HK$'000	1.1.2009 to 31.12.2009 HK$'000
Operating activities		
Profit before taxation	**114,860**	154,596
Adjustments for:		
Interest income	**(5,496)**	(6,875)
Finance costs	**11,403**	5,852
Share of losses of an associate	**6,708**	6
Share of profits of a jointly controlled entity	**(394)**	(1,209)
Depreciation and amortisation	**202,380**	145,937
Operating lease rentals in respect of prepaid lease payments	**2,582**	1,681
Change in fair value of investment properties	**(2,472)**	(4,937)
(Gain) loss on disposal of property, plant and equipment	**(2,688)**	3,409
Impairment loss recognised in respect of intangible assets	**–**	4,455
Impairment loss recognised in respect of prepaid lease payments	**–**	1,568
Loss on liquidation of a subsidiary	**–**	404
Gain on disposal of an asset held for sale	**(43,188)**	–
Gain on deemed disposal of partial interest in an associate	**–**	(13,186)
Allowance (reversal of allowance) for inventories	**42,465**	(19,943)
Net allowance for bad and doubtful debts	**27,163**	10,747
Equity-settled share based payments	**26,892**	10,616
Effect of foreign exchange rate changes on inter-company balances	**(1,760)**	(2,063)
Operating cash flows before movements in working capital	**378,455**	291,058
(Increase) decrease in inventories	**(576,537)**	119,117
(Increase) decrease in trade and other receivables	**(267,914)**	71,454
Decrease (increase) in investments held-for-trading	**270,210**	(386,174)
Increase (decrease) in trade and other payables	**115,757**	(88,700)
Cash (used in) from operations	**(80,029)**	6,755
Taxation paid	**(1,970)**	(4,148)
Net cash (used in) from operating activities	**(81,999)**	2,607

	Note	1.1.2010 to 31.3.2011 HK$'000	1.1.2009 to 31.12.2009 HK$'000
Investing activities			
Interest received		5,496	6,875
Proceeds from disposal of property, plant and equipment		47,922	–
Purchase of property, plant and equipment		(158,539)	(59,272)
Prepaid lease payments paid		(46,954)	(53,862)
Purchase of subsidiaries	33	(68,075)	(6,014)
Net cash outflow on liquidation of a subsidiary		–	(38)
Purchase of an associate		–	(7,753)
Proceeds from disposal of an asset held for sale		105,616	–
Government grants received		71,406	–
Deposits paid on acquisition of property, plant and equipment		(555,770)	(201,577)
Increase in pledged bank deposits		(50,000)	–
Net cash used in investing activities		(648,898)	(321,641)
Financing activities			
Interest paid		(11,403)	(5,492)
Dividends paid		(57,728)	(20,386)
Proceeds from issue of shares		8,384	576,320
Expenses paid in connection with the issue of shares		–	(6,200)
Contribution from non-controlling interests of subsidiaries		157	–
Bank loans raised		534,778	271,197
Repayment of bank loans		(281,828)	(52,282)
Repayment of amount due to a director		–	(4,294)
Net cash from financing activities		192,360	758,863
Net (decrease) increase in cash and cash equivalents		(538,537)	439,829
Cash and cash equivalents at the beginning of the period/year		903,968	458,878
Effect of foreign exchange rate changes		6,001	5,261
Cash and cash equivalents at the end of the period/year		371,432	903,968
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		371,432	903,968

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. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Depositary Receipts of Taiwan 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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

During the current financial period, the reporting period end date of the Group and the Company was changed from 31st December to 31st March because the directors of the Company determined to take into account the seasonality factors of lighting product, in which from May to September, is usually the major lighting product peak seasons, to enable the Company to better utilise its resources and facilitate better planning and operational processes of the Company. Accordingly, the consolidated financial statements for the current period cover the fifteen-month period from 1st January, 2010 to 31st March, 2011. The corresponding comparative amounts shown for the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes cover a twelve-month period from 1st January, 2009 to 31st December, 2009 and therefore may not be comparable with amounts shown for the current period.

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

In the current period, 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.

HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (as revised in 2008)	Business combinations
HKAS 27 (as revised in 2008)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Eligible hedged items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC)* – INT 17	Distributions of non-cash assets to owners

* IFRIC represents the IFRS Interpretation Committee.

HKFRS 3 (as revised in 2008) Business combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1st January, 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current period.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS"s) *(Continued)*

HKFRS 3 (as revised in 2008) Business combinations *(Continued)*

HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

As a result of the application of HKFRS 3 (as revised in 2008), the Group has recognised HK$883,000 of acquisition-related costs in administrative expenses in the profit or loss resulting in a decrease in the profit for the period. Previously these costs would have been accounted for as part of the cost of the acquisition, resulting in additional goodwill of the same amount in the consolidated statement of financial position.

In the current period, the application of HKFRS 3 (as revised in 2008) has affected the purchase of subsidiaries (note 33), as follows:

- Less goodwill recognised as at 31st March, 2011, amounting HK$883,000.
- Decrease in profit for the period from 1st January, 2010 to 31st March, 2011 amounting to HK$883,000.
- Decrease in earnings per share of HK$0.0961 cent and decrease in diluted earnings per share of HK$0.0959 cent for the period from 1st January, 2010 to 31st March, 2011 respectively.

Amendments to HKAS 7 Statement of Cash Flows
(as part of Improvements to HKFRSs issued in 2009)

The amendments to HKAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. The application of the amendments to HKAS 7 has resulted in a change in the presentation of cash outflows in respect of development costs that do not meet the criteria in HKAS 38 "Intangible assets" for capitalisation as part of an internally generated intangible asset in the consolidated statement of cash flows. This change has been applied retrospectively.

Specifically, development costs paid in the current period that do not qualify for capitalisation as intangible assets of HK$22,841,000 are included in cash flows from operating activities in the consolidated statement of cash flows. Development costs of HK$29,490,000 paid in 2009 have been reclassified from investing to operating activities in the consolidated statement of cash flows for consistent presentation.

Amendment to HKAS 17 "Leases"

As part of Improvements to HKFRSs issued in 2009, HKAS 17 has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as land use rights in the statement of financial position. The amendment to HKAS 17 has removed such a requirement. The amendment requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The application of the amendment HKAS 17 has had no effect on the financial statements of the Group for the current or prior accounting periods.

The application of the other new and revised HKFRSs had no effect on the Group's accounting policies and the consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS"s) *(Continued)*

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)	Improvements to HKFRSs 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKFRS 10	Consolidated financial statements[4]
HKFRS 11	Joint arrangements[4]
HKFRS 12	Disclosure of interests in other entities[4]
HKFRS 13	Fair value measurement[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (Revised 2009)	Related party disclosures[6]
HKAS 27 (Revised 2011)	Separate financial statements[4]
HKAS 28 (Revised 2011)	Investments in associates and joint ventures[4]
HKAS 32 (Amendments)	Classification of rights issues[7]
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1st July, 2010 and 1st January, 2011, as appropriate.

2 Effective for annual periods beginning on or after 1st July, 2010.

3 Effective for annual periods beginning on or after 1st July, 2011.

4 Effective for annual periods beginning on or after 1st January, 2013.

5 Effective for annual periods beginning on or after 1st January, 2012.

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

7 Effective for annual periods beginning on or after 1st February, 2010.

HKFRS 9 "Financial instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS"s) *(Continued)*

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1st January, 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1st April, 2013. Based on the Group's financial assets and financial liabilities as at 31st March, 2011, the directors anticipate that the application of the new standard is not expected to have significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities.

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.

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 entities controlled by the Company (its subsidiaries). 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 period are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

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

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Business combinations

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1st January, 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Business combinations that took place on or after 1st January, 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that deferred tax assets or liabilities are recognised and measured in accordance with HKAS 12 "Income taxes".

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Business combinations that took place on or after 1st January, 2010 (Continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase.

Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 "Provisions, contingent liabilities and contingent assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Business combinations that took place prior to 1st January, 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit 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 in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

On disposal of the relevant cash-generating unit, the attributable amount of goodwill 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 initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. 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. Additional losses are 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 an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

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.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1st January, 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

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 initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

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 a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. 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.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1st January 2010 onwards, upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it looses joint control over that jointly controlled entity.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably; and
- it is probable that the economic benefits associated with the transaction will flow to the Group; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 from investment properties let under operating leases is recognised on a straight line basis over the period of the respective leases.

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 period 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 subsequent accumulated depreciation and any identified impairment losses.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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, 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

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land except for investment properties that is accounted for as an operating lease is presented as "prepaid lease payments" in the statement of financial position and is amortised over the lease term on a straight line basis.

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 for which the commencement date for capitalisation is on or after 1st January, 2009, 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

Intangible assets acquired separately

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.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to 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. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

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.

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 and 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 non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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.

Interest income is recognised on an effective interest basis for debt instruments.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. 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 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.

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 other than goodwill (see the accounting policy in respect of goodwill above)

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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) *(Continued)*

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 period. 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 periods 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. 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).

At the end of the reporting period, 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$"), which is the presentation currency for the consolidated financial statements. The functional currency of the Company is HK$.

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).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	31.3.2011 **HK$'000**	31.12.2009 HK$'000
Financial assets		
FVTPL (Investments held-for-trading)	**121,102**	391,312
Loans and receivables (including cash and cash equivalents)	**838,462**	1,102,477
Financial liabilities		
Amortised cost	**1,092,288**	677,644

6. FINANCIAL INSTRUMENTS *(Continued)*

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 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 56.1% (2009: 48.7%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sales, whilst almost 62.4% (2009: 69.7%) of costs are denominated in the respective group entities' functional currencies.

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

	Assets		Liabilities	
	31.3.2011 HK$'000	31.12.2009 HK$'000	**31.3.2011 HK$'000**	31.12.2009 HK$'000
HK$	**1,380,415**	2,323,995	**2,564,704**	2,539,783
Renminbi ("RMB")	**277,798**	283,888	**418,121**	290,692
United States dollar ("US$")	**1,736,040**	1,250,581	**2,144,446**	373,636
Euro	**3,415**	4,732	**40,868**	–
Australian dollar ("A$")	**35**	112,789	**–**	–
New Taiwan dollar ("NT$")	**12,361**	6,137	**655**	410
Others	**11,632**	21,940	**868**	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.

6. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(i) Currency risk (Continued)

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 period end for a 5% change in foreign currency rates. The sensitivity analysis includes receivables, payables and external loans where the denomination is in a currency other than the functional currency of the relevant group entity. A negative number below indicates a decrease in profit for the period where RMB and US$ strengthen 5% against the functional currency of the respective group entities. For a 5% weakening of RMB and US$ against the functional currency of the respective group entities, there would be an equal and opposite impact on the profit for the period. For HK$ impact, a positive number indicates a profit for the period where HK$ weaken 5% against the functional currency of the respective group entities. For a 5% weakening of HK$ against the functional currency of the respective group entities, there would be an equal and opposite impact on the profit for the period and the balances below would be negative.

	HK$ impact		RMB impact		US$ impact	
	1.1.2010 to 31.3.2011 HK$'000	1.1.2009 to 31.12.2009 HK$'000	**1.1.2010 to 31.3.2011 HK$'000**	1.1.2009 to 31.12.2009 HK$'000	**1.1.2010 to 31.3.2011 HK$'000**	1.1.2009 to 31.12.2009 HK$'000
Decrease	**(44,411)**	(8,092)(i)	**(5,262)**	(255)(ii)	**(15,315)**	(32,885)(iii)

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

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

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the period end exposure does not reflect the exposure during the period. The financial impact on exchange difference from A$, Euro and NT$ is immaterial and therefore no sensitivity analysis has been prepared.

6. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(ii) Interest rate risk

During the period, 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 NT$ 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.

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 the end of the reporting period, 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 period. A 30 basis points (2009: 50 basis points) represent management's assessment of the reasonably possible change in interest rates.

If interest rates had been 30 basis points (2009: 50 basis points) higher and all other variables were held constant, the potential effect on profit for the period is as follows:

	1.1.2010 to 31.3.2011 HK$'000	1.1.2009 to 31.12.2009 HK$'000
(Decrease) increase in profit for the period	**(1,436)**	1,768

6. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(iii) Other price risk

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to price risks at the reporting date. For sensitivity analysis purpose, the sensitivity rate is 10% in the current period as a result of the volatile financial market.

If the prices of the respective instruments had been 10% (2009: 10%) higher/lower, profit for the period would increase/decrease by HK$12,110,000 (2009: HK$39,131,000) 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 period end exposure does not reflect the exposure during the period.

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. 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. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other financial liabilities are based on the agreed repayment dates. 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.

6. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

Liquidity risk management (Continued)

	Effective interest rate	On demand	Less than 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31st March, 2011						
Non-derivative financial liabilities						
Trade and other payables	**–**	**–**	**285,624**	**–**	**285,624**	**285,624**
Bank loans	**1.35**	**262,642**	**533,414**	**28,521**	**824,577**	**806,664**
		262,642	**819,038**	**28,521**	**1,110,201**	**1,092,288**
At 31st December, 2009						
Non-derivative financial liabilities						
Trade and other payables	–	–	127,220	–	127,220	127,220
Bank loans	1.5	411,850	141,253	31,026	584,129	550,424
		411,850	268,473	31,026	711,349	677,644

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% (2009: 7.8%) and 27.4% (2009: 30.6%) 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.

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

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.
- 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$121,102,000 (2009: HK$391,312,000) are fair valued at Level 1.

7. TURNOVER AND SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered. Specifically, the Group's reportable segments under HKFRS 8 are as follows:

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
Incandescent decorative lighting	–	manufacture and distribution of incandescent decorative lighting products
Entertainment lighting	–	manufacture and distribution of entertainment lighting products
All others	–	distribution of lighting product accessories

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

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results

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

	1.1.2010 to 31.3.2011 HK$'000	1.1.2009 to 31.12.2009 HK$'000
Segment revenue		
LED decorative lighting	868,543	604,511
LED general illumination lighting	377,876	96,343
Incandescent decorative lighting	279,234	269,079
Entertainment lighting	132,648	108,979
All others	52,150	32,548
	1,710,451	1,111,460
Segment results		
Profit from operations		
LED decorative lighting	120,348	101,977
LED general illumination lighting	49,661	19,852
Incandescent decorative lighting	22,299	48,783
Entertainment lighting	8,286	15,845
All others	1,629	8,599
	202,223	195,056
Unallocated expenses	(54,694)	(71,966)
Unallocated other gains, losses and expenses	(17,424)	18,032
Finance costs	(11,403)	(5,852)
Change in fair value of investment properties	2,472	4,937
Gain on deemed disposal of partial interest in an associate	–	13,186
Share of losses of an associate	(6,708)	(6)
Share of profits of a jointly controlled entity	394	1,209
Profit before taxation	114,860	154,596

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 unallocated expenses, 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 board of directors 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:

	31.3.2011 HK$'000	31.12.2009 HK$'000
Segment assets		
LED decorative lighting	**2,157,581**	2,077,370
LED general illumination lighting	**854,080**	287,984
Incandescent decorative lighting	**851,634**	748,917
Entertainment lighting	**481,344**	304,990
All others	**211,164**	45,159
Total segment assets	**4,555,803**	3,464,420
Unallocated assets	**228,734**	498,217
Consolidated assets	**4,784,537**	3,962,637
Segment liabilities		
LED decorative lighting	**199,067**	92,762
LED general illumination lighting	**87,073**	16,122
Incandescent decorative lighting	**64,595**	45,029
Entertainment lighting	**28,742**	18,237
All others	**12,580**	5,446
Total segment liabilities	**392,057**	177,596
Unallocated liabilities	**847,588**	550,424
Consolidated liabilities	**1,239,645**	728,020

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 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, government grants and deferred taxation. 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

	LED decorative lighting HK$'000	LED general illumination lighting HK$'000	Incandescent decorative 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:								
Period from 1st January, 2010 to 31st March, 2011								
Capital additions	409,065	190,760	120,569	66,964	26,326	813,684	49,789	863,473
Depreciation and amortisation	100,525	35,178	33,010	15,681	6,165	190,559	11,821	202,380
Net allowance for bad and doubtful debts	14,774	2,355	6,576	2,663	795	27,163	–	27,163
Gain on disposal of property, plant and equipment	(358)	(233)	(651)	(264)	(79)	(1,585)	(1,103)	(2,688)
Allowance for inventories	23,096	3,681	10,281	4,164	1,243	42,465	–	42,465
Equity-settled share based payments	13,119	2,298	6,419	2,600	776	25,212	1,680	26,892
Year ended 31st December, 2009								
Capital additions	189,663	33,885	53,404	21,629	5,335	303,916	32,248	336,164
Depreciation and amortisation	73,568	12,654	35,342	14,314	4,228	140,106	5,831	145,937
Net allowance for bad and doubtful debts	5,471	1,579	1,941	1,122	634	10,747	–	10,747
Loss on disposal of property, plant and equipment	1,509	295	825	334	100	3,063	346	3,409
Reversal of allowance for inventories	(10,847)	(1,729)	(4,786)	(1,955)	(626)	(19,943)	–	(19,943)
Equity-settled share based payments	5,417	920	2,266	1,041	310	9,954	662	10,616

7. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Geographical information

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

	1.1.2010 to 31.3.2011 HK$'000	1.1.2009 to 31.12.2009 HK$'000
United States of America ("USA")	**586,610**	409,740
PRC	**409,800**	148,613
Netherlands	**80,195**	102,925
France	**74,263**	42,018
Russia	**52,126**	41,647
Other countries	**507,457**	366,517
	1,710,451	1,111,460

Information about major customers

There are no customers who individually contribute over 10% of the total sales of the Group for the year ended 31st December, 2009 and 31st March, 2011.

8. OTHER GAINS, LOSSES AND EXPENSES

	1.1.2010 to 31.3.2011 HK$'000	1.1.2009 to 31.12.2009 HK$'000
Compromise and legal fee relating to a settled litigation (note i)	(10,412)	–
Gain (loss) on disposal of property, plant and equipment	2,688	(3,409)
Gain on disposal of an asset held for sale (note 26)	43,188	–
Impairment loss recognised in respect of prepaid lease payments	–	(1,568)
Impairment loss recognised in respect of intangible assets	–	(4,455)
Net allowance for bad and doubtful debts	(27,163)	(10,747)
Research and development costs	(26,163)	(32,301)
Loss on liquidation of a subsidiary	–	(404)
Increase in fair value of investments held-for-trading	9,340	66,087
Government grants (note ii)	–	5,673
Net exchange loss	(8,902)	(844)
	(17,424)	18,032

Notes:

(i) In March 2009, a former employee filed a claim to USA court against Neo Neon International Limited ("NNI"), a wholly-owned subsidiary of the Company, seeking a compensation for the alleged NNI's infringement of the plaintiff's lighting product design. On 8th April, 2010, the USA court issued a final verdict and the case was settled where NNI paid to the plaintiff HK$7,376,000 for compromising the case and paid legal fee of HK$3,036,000, totalling HK$10,412,000 for final settlement of the case.

(ii) 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 had no conditions or contingencies attached to them and they were non-recurring in nature.

9. FINANCE COSTS

	1.1.2010 to 31.3.2011 HK$'000	1.1.2009 to 31.12.2009 HK$'000
Interest on bank borrowings		
– wholly repayable within five years	(9,528)	(5,315)
– not wholly repayable within five years	(1,425)	(177)
	(10,953)	(5,492)
Amortisation of transaction costs in relation to long-term bank loans	(450)	(360)
	(11,403)	(5,852)

10. PROFIT BEFORE TAXATION

	1.1.2010 to 31.3.2011 HK$'000	1.1.2009 to 31.12.2009 HK$'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration (note 11)		
– current period/year	10,987	7,764
– waived during the period/year	(6,870)	(5,496)
	4,117	2,268
– waiver of prior year's remuneration	–	(4,294)
	4,117	(2,026)
Other staff's retirement benefits scheme contributions	9,765	6,750
Other staff's equity-settled share based payments	24,661	10,556
Other staff costs	245,969	186,161
	284,512	201,441
Less: Staff costs included in research and development costs	(9,111)	(7,264)
	275,401	194,177
Depreciation of property, plant and equipment	196,334	143,480
Less: Depreciation included in research and development costs	(3,322)	(2,811)
	193,012	140,669
Amortisation of intangible assets included in administrative expenses	6,046	2,457
Auditor's remuneration	4,500	3,500
Cost of inventories recognised as an expense including allowance for inventories of HK$42,465,000 (2009: reversal of allowance for inventories of HK$19,943,000)	1,128,130	729,567
Operating lease rentals in respect of		
– prepaid lease payments	2,582	1,681
– rented premises	6,864	1,930
and after crediting:		
Dividend income from listed investments held-for-trading	6,997	2,878
Interest income	5,496	6,875
Property rental income before deduction of negligible outgoings	3,725	2,846

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	1.1.2010 to 31.3.2011						1.1.2009 to 31.12.2009					
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Equity-settled share based payments HK$'000	Waived during the period HK$'000	Total HK$'000	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Equity-settled share based payments HK$'000	Waived during the year HK$'000	Total HK$'000
Executive directors												
– Mr. Ben Fan	–	5,400	–	–	(5,400)	–	–	4,320	–	–	(4,320)	–
– Ms. Michelle Wong	–	1,620	8	–	(1,470)	158	–	1,296	12	–	(1,176)	132
– Mr. Fan Pong Yang	–	1,080	–	1,233	–	2,313	–	864	–	–	–	864
– Mr. Jang Jann Huan (resigned on 26th August, 2009)	–	–	–	–	–	–	–	703	–	–	–	703
Non-executive director												
– Mr. Leung Wai Chuen (appointed on 19th June,2009 and resigned on 30th September, 2010)	–	108	–	–	–	108	–	77	–	–	–	77
Independent non-executive directors												
– Mr. Wu Tak Lung	–	180	–	337	–	517	–	144	–	20	–	164
– Mr. Weng Shih Yuan (appointed on 10th March, 2009)	–	180	–	324	–	504	–	116	–	–	–	116
– Mr. Zhao Shan Xiang	–	180	–	337	–	517	–	144	–	20	–	164
– Ms. Fung Siu Wan Stella (resigned on 10th March, 2009)	–	–	–	–	–	–	–	28	–	20	–	48
	–	8,748	8	2,231	(6,870)	4,117	–	7,692	12	60	(5,496)	2,268

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

The five highest paid individuals included one (2009: two) director(s) of the Company, details of whose emoluments are set out above. The emoluments of the remaining four (2009: three) highest paid employee(s) are as follows:

	1.1.2010 to 31.3.2011 HK$'000	1.1.2009 to 31.12.2009 HK$'000
Employee(s)		
– basic salaries and allowances	**4,934**	2,964
– equity-settled share based payments	**2,318**	223
	7,252	3,187

Their emoluments were within the following bands:

	1.1.2010 to 31.3.2011 HK$'000	1.1.2009 to 31.12.2009 HK$'000
Up to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**3**	2

During the period, no emoluments were paid by the Group to directors and other 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 totalling HK$6,870,000 for the period (2009: HK$5,496,000). No other directors have waived their emoluments during the period.

12. TAXATION

	1.1.2010 to 31.3.2011 HK$'000	1.1.2009 to 31.12.2009 HK$'000
The (charge) credit comprises:		
PRC Enterprise Income Tax ("EIT")	**(2,314)**	(1,254)
(Under)overprovision of PRC EIT in prior years	**(881)**	9,588
Taxation in other overseas jurisdictions	**(208)**	–
	(3,403)	8,334
Underprovision of Hong Kong Profits Tax in prior years	**(310)**	–
Deferred taxation	**1,039**	(5,983)
	(2,674)	2,351

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

The Company's PRC subsidiaries are subject to EIT at 25% for the period except that one of which 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% from 1st January, 2010 to 31st December, 2010.

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 March, 2011 and at 31st December, 2009, there were no remaining retained profits earned by these PRC subsidiaries since 1st January, 2008, therefore there are no deferred tax liabilities recognised.

Profits arising from a subsidiary in Macau are exempted from income tax.

Pursuant to the relevant laws and regulations in Vietnam, a subsidiary in Vietnam was entitled to exemption from Vietnam income tax for four years commencing from its first profit-making year in 2010, followed by a 50% reduction from 2014 to 2022.

12. TAXATION *(Continued)*

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

	1.1.2010 to 31.3.2011 HK$'000	%	1.1.2009 to 31.12.2009 HK$'000	%
Profit before taxation	**114,860**		154,596	
Tax at the applicable income tax rate	**(28,715)**	**(25.0)**	(38,649)	(25.0)
Tax effect of share of results of an associate	**(1,677)**	**(1.5)**	(2)	(0.1)
Tax effect of share of results of a jointly controlled entity	**99**	**0.1**	302	0.2
Tax effect of expenses not deductible for tax purposes	**(6,910)**	**(6.0)**	(4,256)	(2.8)
Tax effect of income not taxable for tax purposes	**27,199**	**23.7**	12,387	8.0
Tax effect of tax losses and temporary differences not recognised	**(15,982)**	**(13.9)**	(2,687)	(1.7)
Effect of tax exemptions granted to subsidiaries	**25,451**	**22.1**	32,159	20.9
Tax effect of reversal of deferred tax assets recognised in prior year	**–**	**–**	(5,983)	(3.9)
Effect of different tax rates on subsidiaries operating in other jurisdictions	**(1,309)**	**(1.1)**	(2,439)	(1.6)
(Under) overprovision in prior years	**(1,191)**	**(1.0)**	9,588	6.2
Others	**361**	**0.3**	1,931	1.3
Tax effect and effective tax rate for the period/year	**(2,674)**	**(2.3)**	2,351	1.5

13. DIVIDENDS

	1.1.2010 to 31.3.2011 HK$'000	1.1.2009 to 31.12.2009 HK$'000
Dividends		
– interim dividends of 2.8 Hong Kong cents (2009: 1.4 Hong Kong cents) per share paid	**25,682**	12,013
– final dividends of 3.5 Hong Kong cents (2008: 1.1 Hong Kong cents) per share paid	**32,046**	8,373
	57,728	20,386
– proposed final dividends of 3.2 Hong Kong cents (2009: 3.5 Hong Kong cents) per share	**30,158**	31,966

The final dividend proposed by the directors for the period is subject to approval by the shareholders in the forthcoming annual general meeting and is calculated on the basis of 942,440,694 (2009: 913,328,500) shares in issue as at the date of this report.

14. 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:

	1.1.2010 to 31.3.2011 HK$'000	1.1.2009 to 31.12.2009 HK$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**116,608**	157,989

	Number of shares	
	1.1.2010 to 31.3.2011 '000	1.1.2009 to 31.12.2009 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**919,032**	810,288
Effect of dilutive potential ordinary shares – share options	**1,617**	14
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**920,649**	810,302

15. INVESTMENT PROPERTIES

	HK$'000
At 1st January, 2009	55,344
Currency realignment	1,455
Increase in fair value recognised in profit or loss	4,937
At 31st December, 2009	61,736
Currency realignment	4,271
Increase in fair value recognised in profit or loss	2,472
At 31st March, 2011	68,479

	31.3.2011 **HK$'000**	31.12.2009 HK$'000
The carrying value of investment properties comprises:		
Properties held under medium-term leases in the PRC	**16,239**	14,764
Freehold properties in Taiwan	**52,240**	46,972
	68,479	61,736

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.

16. 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, 2009	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
Currency realignment	14,508	864	11,435	87	3,077	26,722	–	6,035	62,728
Additions	99,090	13,061	58,057	2,640	20,073	428,162	–	62,654	683,737
Acquired on acquisition of subsidiaries	–	2,545	1,855	–	–	–	–	–	4,400
Disposals	(43,173)	(501)	(41)	(907)	(3,726)	(4,789)	–	–	(53,137)
Transfers	106,533	–	3,473	–	–	–	–	(110,006)	–
At 31st March, 2011	646,340	75,373	337,701	25,428	121,692	1,143,933	2,603	254,628	2,607,698
DEPRECIATION									
At 1st January, 2009	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 sale	(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
Currency realignment	6,676	369	7,927	78	2,038	13,223	–	–	30,311
Provided for the period	25,036	10,530	56,123	3,530	19,979	81,136	–	–	196,334
Eliminated on disposals	(1,620)	(199)	(8)	(906)	(3,539)	(1,631)	–	–	(7,903)
At 31st March, 2011	172,360	51,427	206,445	20,942	81,227	370,337	1,997	–	904,735
CARRYING VALUES									
At 31st March, 2011	473,980	23,946	131,256	4,486	40,465	773,596	606	254,628	1,702,963
At 31st December, 2009	327,114	18,677	120,519	5,368	39,519	416,229	606	295,945	1,223,977

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	31.3.2011 HK$'000	31.12.2009 HK$'000
The carrying value of property interests which are held under medium-term leases comprises:		
Land and buildings in Hong Kong	**127,766**	131,042
Buildings in the PRC	**323,946**	192,607
Land and buildings in Dubai	**3,340**	3,465
Land and buildings in United Kingdom	**18,928**	–
	473,980	327,114
Properties included in construction in progress held under medium-term prepaid lease payments in the PRC	**254,628**	295,945
	728,608	623,059

The Group has pledged certain of its buildings and machineries with aggregate carrying values of HK$127,766,000 (2009: HK$194,842,000) and HK$115,219,000 (2009: Nil) respectively to secure the credit facilities granted to the Group.

17. PREPAID LEASE PAYMENTS

	31.3.2011 HK$'000	31.12.2009 HK$'000
CARRYING VALUE		
At the beginning of the period/year	**86,160**	35,850
Currency realignment	**1,957**	(303)
Additions	**32,129**	53,862
Released to profit or loss for the period/year	**(2,582)**	(1,681)
Impairment loss	**–**	(1,568)
At the end of the period/year	**117,664**	86,160
The carrying value of medium-term prepaid lease payments are situated in		
– the PRC	**107,732**	74,339
– Vietnam	**9,932**	11,821
	117,664	86,160

18. GOODWILL

The goodwill acquired in business combination was allocated to each individual subsidiary which management considers represent separate cash generating units ("CGUs"). At the end of the reporting period, the carrying amount of goodwill had arisen from the acquisition of the following subsidiaries:

	31.3.2011 HK$'000
American Lighting, LLC ("American Lighting")	16,322
Neo-Neon Europe GmbH ("NNEG")	741
HCI Acquisition Corp. ("HCI")	89,733
	106,796

American Lighting

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 15.09%. American Lighting's cash flows beyond the 5-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

NNEG

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 19.30%. NNEG's cash flows beyond the 5-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

HCI

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 16.77%. HCI's cash flows beyond the 5-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

Since the recoverable amounts of the CGUs are higher than their carrying amount, the directors consider that the carrying amount of goodwill at the end of the reporting period is not impaired.

19. INTANGIBLE ASSETS

	Contracts in progress HK$'000	Customer relationship HK$'000	Licenses, patent and trademarks HK$'000	Non-compete agreements HK$'000	Total HK$'000
COST					
At 1st January, 2009	–	–	16,381	–	16,381
Currency realignment	–	–	1	–	1
At 31st December, 2009	–	–	16,382	–	16,382
Currency realignment	–	–	75	–	75
Acquired on acquisition of subsidiaries	6,391	22,659	92,154	5,199	126,403
At 31st March, 2011	6,391	22,659	108,611	5,199	142,860
AMORTISATION					
At 1st January, 2009	–	–	6,956	–	6,956
Currency realignment	–	–	1	–	1
Amortisation for the year	–	–	2,457	–	2,457
At 31st December, 2009	–	–	9,414	–	9,414
Currency realignment	–	–	56	–	56
Amortisation for the period	1,065	578	4,061	342	6,046
At 31st March, 2011	1,065	578	13,531	342	15,516
CARRYING VALUES					
At 31st March, 2011	5,326	22,081	95,080	4,857	127,344
At 31st December, 2009	–	–	6,968	–	6,968

The above intangible assets other than trademarks have definite useful lives. Such intangible assets are amortised on a straight line basis over the following periods:

Contracts in progress	1 year
Customer relationship	5 – 8 years
Licenses and patent	3 – 8 years
Non-compete agreements	3 – 8 years

19. INTANGIBLE ASSETS *(Continued)*

The trademarks, of carrying values HK$69,587,000 as at 31st March, 2011, have legal lives of 3 to 8 years but are renewable every 3 to 8 years at minimal cost. The directors of the Company are of the opinion that the Group would renew the trademarks continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which supports that the trademarks have no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Group.

The trademarks are considered by the management of the Group as having an indefinite useful life. The trademarks will not be amortised until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars of the impairment testing are as follows:

The recoverable amount of the trademarks has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate ranging from 15.09% to 16.77%. Cash flows beyond the 5-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

Since the recoverable amount of the trademarks are higher than their carrying amount, the directors consider that the carrying amount of trademarks at the end of the reporting period is not impaired.

20. INTEREST IN AN ASSOCIATE

	31.3.2011	31.12.2009
	HK$'000	HK$'000
Unlisted shares, at cost	**7,753**	7,753
Gain on changes in interest in associate	**13,186**	13,186
Share of post-acquisition losses	**(6,714)**	(6)
	14,225	20,933

20. INTEREST IN AN ASSOCIATE *(Continued)*

The Group's investment in an associate at the end of the reporting period represents its 34.57% (2009: 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 manufacture and distribution of LED chips.

	31.3.2011 HK$'000	31.12.2009 HK$'000
Total assets	**50,652**	60,553
Total liabilities	**(9,503)**	–
Net assets	**41,149**	60,553
Group's share of net assets of associates	**14,225**	20,933
Loss for the period/year	**(19,404)**	(18)
Group's share of losses of an associate for the period/year	**(6,708)**	(6)

21. INTEREST IN A JOINTLY CONTROLLED ENTITY

	31.3.2011 HK$'000	31.12.2009 HK$'000
Unlisted shares, at cost	**15,600**	15,600
Currency realignment	**1,017**	719
Share of post-acquisition profits, net of dividends received	**8,311**	7,917
	24,928	24,236

The Group's investment in jointly controlled entity at the end of the reporting period represents its 50% (2009: 50%) equity interest in Tivoli, LLC which was incorporated in the United States of America and engaged in the trading of lighting products.

22. INVENTORIES

	31.3.2011 HK$'000	31.12.2009 HK$'000
Raw materials	259,246	159,580
Work in progress	901,268	491,613
Finished goods	259,160	159,054
	1,419,674	810,247

23. TRADE AND OTHER RECEIVABLES

	31.3.2011 HK$'000	31.12.2009 HK$'000
Trade receivables		
– jointly controlled entity	1,014	116
– others	367,263	171,330
Bills receivables	56,364	37,355
Less: Allowance for bad and doubtful debts	(35,587)	(38,483)
	389,054	170,318
Deposits paid to suppliers	39,952	26,916
Value added tax refundable on export sales	77,211	25,109
Value added tax recoverable	13,842	9,095
Other receivables	25,605	25,922
	545,664	257,360

23. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	31.3.2011	31.12.2009
	HK$'000	HK$'000
Age		
0 to 60 days	**194,315**	71,806
61 to 90 days	**33,087**	18,751
91 to 180 days	**78,769**	30,999
181 to 360 days	**73,958**	40,717
Over 1 year	**8,925**	8,045
	389,054	170,318

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$82,883,000 (2009: HK$48,762,000) 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 360 days.

At the end of the reporting period, the Group made allowances for receivables over 1 year and over 2 years because historical experience is such that receivables that are past due beyond 1 year and beyond 2 years are generally not recoverable.

Movement in the allowance for bad and doubtful debts

	31.3.2011	31.12.2009
	HK$'000	HK$'000
Balance at the beginning of the period/year	**38,483**	59,147
Allowance recognised on receivables	**27,163**	10,747
Amounts written off as uncollectible	**(30,059)**	(31,411)
Balance at the end of the period/year	**35,587**	38,483

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$35,587,000 (2009: HK$38,483,000) which have been in severe financial difficulties. The Group does not hold any collateral over these balances.

24. INVESTMENTS HELD-FOR-TRADING

	31.3.2011 HK$'000	31.12.2009 HK$'000
Equity securities listed in Hong Kong	39,948	282,869
Gold, silver and platinum contracts held-for-trading*	39,720	75,593
Undated deeply subordinated notes listed overseas	33,542	25,195
US dollar step-up callable perpetual preferred securities listed overseas	7,892	7,655
	121,102	391,312

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

25. 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 0.45% (2009: 0.76%) per annum.

26. ASSETS HELD FOR SALE

On 31st December, 2009, the Group entered into a preliminary sale and purchase agreement with an independent third party to dispose of its land and building in Hong Kong with a carrying value of HK$62,428,000 for a consideration of HK$106,800,000. The disposal was completed on 30 September 2010. The gain on disposal of the property, after deducting the relevant selling expenses, is HK$43,188,000 which is recognised in profit or loss in current period.

27. TRADE AND OTHER PAYABLES

	31.3.2011 HK$'000	31.12.2009 HK$'000
Trade payables		
– associate	631	641
– others	197,826	96,158
Bills payables	40,321	56
	238,778	96,855
Customers' deposits	38,911	25,831
Payroll and welfare payables	26,908	16,589
Payables for acquisition of property, plant and equipment	20,870	3,787
Other tax payables	11,444	4,747
Other payables	47,479	23,787
	384,390	171,596

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

	31.3.2011 HK$'000	31.12.2009 HK$'000
Age		
0 to 30 days	121,304	42,772
31 to 60 days	25,646	22,046
61 to 90 days	32,152	7,382
91 to 120 days	38,428	5,454
121 to 360 days	21,248	19,201
	238,778	96,855

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.

28. BANK LOANS

	31.3.2011 HK$'000	31.12.2009 HK$'000
Bank loans		
– secured	**528,263**	402,486
– unsecured	**278,401**	147,938
	806,664	550,424
Secured bank loans are repayable* as follows:		
Within one year	**525,190**	134,515
Between one to two years	**187,922**	224,738
Between two to five years	**49,895**	123,832
After five years	**44,527**	68,659
Less: Unamortised transaction costs	**(870)**	(1,320)
	806,664	550,424
Less: Amounts due within one year shown under current liabilities	**525,190**	134,515
Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause shown under current liabilities	**253,396**	386,887
	778,586	521,402
Amounts shown under non-current liabilities	**28,078**	29,022

* The amounts due are based on scheduled repayment dates set out in the respective loan agreements.

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 1.2% to 7.55% (2009: 1% to 5.44%) per annum.

29. GOVERNMENT GRANTS

During the period, the Group received the following government grants:

The Group received government grants of HK$33,268,000 and HK$13,632,000 from the Management Committee of Jiangmen and Yangzhou Economic and Technological Development Zone respectively for the investment in the economic development zones located in Jiangmen and Yangzhou cities. They were granted as an incentive for acquiring machineries amounting to HK$113,484,000 and HK$81,060,000 respectively by the Group for producing LED chips lighting products in the economic development zones. The amount received has been deducted from the carrying amount of the relevant assets and is in the form of reduced depreciation charges over the useful lives of the relevant assets.

The Group received government grants of HK$1,185,000, HK$6,670,000 and HK$1,826,000 from the Management Committee of Guangdong Province Science Technology Bureau, Jiangmen Science and Technology Bureau and Tian Jin Logistic Development Bureau respectively for the investment in the economic development zones located in Jiangmen, Yangzhou and Tian Jin cities related to LED chips technology development. The government grants have been deferred as the Group has not fulfilled the conditions attaching to the government grants.

The Group received government grants of HK$14,825,000 from the Management Committee of Yangzhou Economic Technology Development Zone for the investment in the economic development zones located in Yangzhou city. It was granted as an incentive for acquiring prepaid lease payments amounting to HK$20,934,000 by the Group for constructing LED chips production facilities in the economic development zone. The amount received has been deducted from the carrying amount of the relevant assets and is in the form of reduced amortisation charges over the useful lives of the relevant assets.

30. DEFERRED TAXATION

The following is the deferred tax (assets) liabilities recognised by the Group and movements thereon during the period/year:

	Intangible assets HK$'000	Difference in depreciation HK$'000	Total HK$'000
At 1st January, 2009	–	(5,961)	(5,961)
Currency realignment	–	(22)	(22)
Charged to profit or loss for the year	–	5,983	5,983
At 31st December, 2009	–	–	–
Acquisition of subsidiaries	32,282	–	32,282
Credited to profit or loss for the period	(1,039)	–	(1,039)
At 31st March, 2011	31,243	–	31,243

31. 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, 2009	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	–	–	55,400,000	5,540
– at 31st December, 2009	5,000,000	500,000	913,328,500	91,333
– issue of shares as a consideration for acquisition of a subsidiary	–	–	25,174,194	2,517
– exercise of share options	–	–	3,938,000	394
– at 31st March, 2011	5,000,000	500,000	942,440,694	94,244

On 7th February, 2011, the Company issued 25,174,194 ordinary shares at a price of HK$4.03 as a partial consideration for the acquisition of a subsidiary (see note 33(c)).

During the period, 3,914,000 and 24,000 (2009: Nil) share options were exercised at a subscription price of HK$2.19 per share and HK$5.03 per share respectively, resulting in an aggregate issue of 3,938,000 ordinary shares of HK$0.10 each in the Company.

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

32. 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 38,645,000 (2009: 27,161,500), representing 4% (2009: 3%) 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.

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.

32. SHARE OPTION SCHEME *(Continued)*

Equity-settled share option scheme *(Continued)*

Details of the movements of share 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 1.1.2009	Granted during the year	Forfeited during the year	Outstanding at 31.12.2009	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 31.3.2011
Executive director	22.1.2010	Nil	22.1.2010 – 31.1.2016	6.75	–	–	–	–	152,000	–	–	152,000
	22.1.2010	22.1.2010 – 21.1.2011	22.1.2011 – 31.1.2016	6.75	–	–	–	–	152,000	–	–	152,000
	22.1.2010	22.1.2011 – 21.1.2012	22.1.2012 – 31.1.2016	6.75	–	–	–	–	152,000	–	–	152,000
	22.1.2010	22.1.2012 – 21.1.2013	22.1.2013 – 31.1.2016	6.75	–	–	–	–	152,000	–	–	152,000
	22.1.2010	22.1.2013 – 21.1.2014	22.1.2014 – 31.1.2016	6.75	–	–	–	–	152,000	–	–	152,000
Independent non-executive directors	1.2.2008	Nil	1.2.2008 – 31.1.2016	5.03	30,000	–	(10,000)	20,000	–	–	–	20,000
	1.2.2008	1.2.2008 – 31.1.2009	1.2.2009 – 31.1.2016	5.03	30,000	–	(10,000)	20,000	–	–	–	20,000
	1.2.2008	1.2.2009 – 31.1.2010	1.2.2010 – 31.1.2016	5.03	30,000	–	(10,000)	20,000	–	–	–	20,000
	1.2.2008	1.2.2010 – 31.1.2011	1.2.2011 – 31.1.2016	5.03	30,000	–	(10,000)	20,000	–	–	–	20,000
	1.2.2008	1.2.2011 – 31.1.2012	1.2.2012 – 31.1.2016	5.03	30,000	–	(10,000)	20,000	–	–	–	20,000
	22.1.2010	Nil	22.1.2010 – 31.1.2016	6.75	–	–	–	–	160,000	–	(40,000)	120,000
	22.1.2010	22.1.2010 – 21.1.2011	22.1.2011 – 31.1.2016	6.75	–	–	–	–	160,000	–	(40,000)	120,000
	22.1.2010	22.1.2011 – 21.1.2012	22.1.2012 – 31.1.2016	6.75	–	–	–	–	160,000	–	(40,000)	120,000
	22.1.2010	22.1.2012 – 21.1.2013	22.1.2013 – 31.1.2016	6.75	–	–	–	–	160,000	–	(40,000)	120,000
	22.1.2010	22.1.2013 – 21.1.2014	22.1.2014 – 31.1.2016	6.75	–	–	–	–	160,000	–	(40,000)	120,000
Employees	15.2.2007	Nil	15.2.2007 – 14.2.2015	8.72	1,346,000	–	–	1,346,000	–	–	(133,100)	1,212,900
	15.2.2007	15.2.2007 – 14.2.2008	15.2.2008 – 14.2.2015	8.72	1,987,000	–	–	1,987,000	–	–	(133,100)	1,853,900
	15.2.2007	15.2.2008 – 14.2.2009	15.2.2009 – 14.2.2015	8.72	1,987,000	–	(446,667)	1,540,333	–	–	(133,100)	1,407,233
	15.2.2007	15.2.2009 – 14.2.2010	15.2.2010 – 14.2.2015	8.72	1,987,000	–	(446,667)	1,540,333	–	–	(133,100)	1,407,233
	15.2.2007	15.2.2010 – 14.2.2011	15.2.2011 – 14.2.2015	8.72	1,987,000	–	(446,666)	1,540,334	–	–	(133,100)	1,407,234
	1.2.2008	Nil	1.2.2008 – 31.1.2016	5.03	842,000	–	–	842,000	–	(4,800)	(24,500)	812,700
	1.2.2008	1.2.2008 – 31.1.2009	1.2.2009 – 31.1.2016	5.03	842,000	–	(339,375)	502,625	–	(4,800)	(24,500)	473,325
	1.2.2008	1.2.2009 – 31.1.2010	1.2.2010 – 31.1.2016	5.03	842,000	–	(339,375)	502,625	–	(4,800)	(24,500)	473,325
	1.2.2008	1.2.2010 – 31.1.2011	1.2.2011 – 31.1.2016	5.03	842,000	–	(339,375)	502,625	–	(4,800)	(24,500)	473,325
	1.2.2008	1.2.2011 – 31.1.2012	1.2.2012 – 31.1.2016	5.03	842,000	–	(339,375)	502,625	–	(4,800)	(24,500)	473,325

32. 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 1.1.2009	Granted during the year	Forfeited during the year	Outstanding at 31.12.2009	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 31.3.2011
Employees	29.2.2008	Nil	15.2.2008 – 14.2.2016	5.90	462,500	–	–	462,500	–	–	(6,000)	456,500
	29.2.2008	15.2.2008 – 14.2.2009	15.2.2009 – 14.2.2016	5.90	462,500	–	(6,250)	456,250	–	–	(6,000)	450,250
	29.2.2008	15.2.2009 – 14.2.2010	15.2.2010 – 14.2.2016	5.90	462,500	–	(6,250)	456,250	–	–	(6,000)	450,250
	29.2.2008	15.2.2010 – 14.2.2011	15.2.2011 – 14.2.2016	5.90	462,500	–	(6,250)	456,250	–	–	(6,000)	450,250
	29.2.2008	15.2.2011 – 14.2.2012	15.2.2012 – 14.2.2016	5.90	462,500	–	(6,250)	456,250	–	–	(6,000)	450,250
	13.7.2009	Nil	13.7.2009 – 31.1.2016	2.19	–	2,808,000	(14,500)	2,793,500	–	(447,700)	(474,600)	1,871,200
	13.7.2009	13.7.2009 – 12.7.2010	13.7.2010 – 31.1.2016	2.19	–	2,808,000	(14,500)	2,793,500	–	(447,700)	(474,600)	1,871,200
	13.7.2009	13.7.2010 – 12.7.2011	13.7.2011 – 31.1.2016	2.19	–	2,808,000	(14,500)	2,793,500	–	(447,700)	(474,600)	1,871,200
	13.7.2009	13.7.2011 – 12.7.2012	13.7.2012 – 31.1.2016	2.19	–	2,808,000	(14,500)	2,793,500	–	(447,700)	(474,600)	1,871,200
	13.7.2009	13.7.2012 – 12.7.2013	13.7.2013 – 31.1.2016	2.19	–	2,808,000	(14,500)	2,793,500	–	(447,700)	(474,600)	1,871,200
	22.1.2010	Nil	22.1.2010 – 31.1.2016	6.75	–	–	–	–	2,688,000	–	(597,500)	2,090,500
	22.1.2010	22.1.2010 – 21.1.2011	22.1.2011 – 31.1.2016	6.75	–	–	–	–	2,688,000	–	(597,500)	2,090,500
	22.1.2010	22.1.2011 – 21.1.2012	22.1.2012 – 31.1.2016	6.75	–	–	–	–	2,688,000	–	(597,500)	2,090,500
	22.1.2010	22.1.2012 – 21.1.2013	22.1.2013 – 31.1.2016	6.75	–	–	–	–	2,688,000	–	(597,500)	2,090,500
	22.1.2010	22.1.2013 – 21.1.2014	22.1.2014 – 31.1.2016	6.75	–	–	–	–	2,688,000	–	(597,500)	2,090,500
	23.7.2010	Nil	23.7.2010 – 22.7.2018	4.51	–	–	–	–	1,370,000	–	(160,000)	1,210,000
	23.7.2010	23.7.2010 – 22.7.2011	23.7.2011 – 22.7.2018	4.51	–	–	–	–	1,370,000	–	(160,000)	1,210,000
	23.7.2010	23.7.2011 – 22.7.2012	23.7.2012 – 22.7.2018	4.51	–	–	–	–	1,370,000	–	(160,000)	1,210,000
	23.7.2010	23.7.2012 – 22.7.2013	23.7.2013 – 22.7.2018	4.51	–	–	–	–	1,370,000	–	(160,000)	1,210,000
	23.7.2010	23.7.2013 – 22.7.2014	23.7.2014 – 22.7.2018	4.51	–	–	–	–	1,370,000	–	(160,000)	1,210,000
					15,966,500	14,040,000	(2,845,000)	27,161,500	21,850,000	(2,262,500)	(7,178,500)	39,570,500

32. SHARE OPTION SCHEME *(Continued)*

Equity-settled share option scheme *(Continued)*

The weighted average exercise price of options granted during the period, forfeited during the period and outstanding at the end of the reporting period is HK$6.05 (2009: HK$2.19), HK$6.12 (2009: HK$6.71) and HK$5.49 (2009: HK$4.72), respectively.

During the period, options were granted on 22nd January, 2010 and 23rd July, 2010 with an aggregate estimated fair value of HK$37,503,000 and HK$12,600,000 respectively.

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

	1.1.2010 to 31.3.2011		1.1.2009 to 31.12.2009
Number of share options	6,850,000	15,000,000	14,040,000
Vesting period	Based on the terms stipulated in the Scheme	Based on the terms stipulated in the Scheme	Based on the terms stipulated in the Scheme
Grant date share price per share	4.51	6.69	2.15
Exercise price per share	4.51	6.75	2.19
Expected volatility	53.32%	54.07%	58.59%
Risk-free interest rate	1.95%	2.55%	2.21%
Expected dividend yield	1.36%	3.81%	3.95%
Suboptimal exercise factor	2.00	1.64	1.64

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 comparable companies in similar industries over the past 8 years, a volatility of 53.32%, 54.07% and 58.59% were assumed respectively.

During the period, the Group recognised the net expense of HK$26,892,000 (2009: HK$10,616,000) in relation to share options granted after taking into consideration the effect of revision of estimates due to forfeiture of unvested share options.

33. PURCHASE OF SUBSIDIARIES

(a) In December 2010, the Group acquired 60% equity interest of American Lighting, for a consideration of US$5,040,000. This acquisition has been accounted for using the acquisition method. American Lighting is engaged in the design, manufacture, and distribution of quality LED products. The acquisition was made to expand the LED operation and support the growth strategies of the Group.

Consideration transferred

	US$'000	Shown as HK$'000
Cash	5,040	39,284

Acquisition-related costs amounting to HK$198,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses line item in the profit or loss.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	US$'000	Shown as HK$'000
Property, plant and equipment	335	2,611
Intangible assets – customer relationship	467	3,640
Intangible assets – trademarks	1,667	12,993
Intangible assets – patents	521	4,061
Intangible assets – non-compete agreement	480	3,741
Inventories	1,904	14,841
Trade and other receivables	1,720	13,407
Bank balances and cash	135	1,052
Trade and other payables	(1,242)	(9,681)
Deferred taxation	(1,077)	(8,395)
	4,910	38,270

33. PURCHASE OF SUBSIDIARIES *(Continued)*

(a) *(Continued)*

The fair value of trade and other receivables at the date of acquisition amounted to HK$13,407,000. The gross contractual amounts of those trade and other receivables acquired amounted to HK$13,407,000 at the date of acquisition. None of the contractual cash flows are not expected to be collected at acquisition date.

Goodwill arising on acquisition:

	US$'000	Shown as HK$'000
Consideration transferred	5,040	39,284
Plus: Non-controlling interests (40% in American Lighting)	1,964	15,308
Less: Net assets acquired	(4,910)	(38,270)
Goodwill arising on acquisition	2,094	16,322

The goodwill is attributable to the anticipated profitability arising from the distribution of the Group's products in the new markets and the future operating synergies from the combination.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow on acquisition of American Lighting:

	US$'000	Shown as HK$'000
Cash consideration paid	5,040	39,284
Less: Cash and cash equivalent balances acquired	(135)	(1,052)
	4,905	38,232

American Lighting contributed a revenue of HK$36,110,000 and a loss of HK$1,153,000 for the period from the date of acquisition to 31st March, 2011.

33. PURCHASE OF SUBSIDIARIES *(Continued)*

(a) *(Continued)*

If the acquisition has been completed on 1st January, 2010, total group revenue for the period from 1st January, 2010 to 31st March, 2011 would have been HK$1,805,027,000 and profit for the period would have been HK$123,839,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2010, nor is it intended to be a projection of future results.

(b) Also, in December 2010, the Group acquired 92.3% equity interest of NNEG for a consideration of Euro 300,000. This acquisition has been accounted for using the acquisition method. NNEG is engaged in the design, manufacture, and distribution of quality LED products. The acquisition was made to expand the LED operation and support the growth strategies of the Group.

Consideration transferred

	Euro'000	Shown as HK$'000
Cash	300	3,209

Acquisition-related costs amounting to HK$16,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses line item in the profit or loss.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	Euro'000	Shown as HK$'000
Property, plant and equipment	4	43
Inventories	117	1,251
Trade and other receivables	83	888
Bank balances and cash	180	1,925
Trade and other payables	(134)	(1,433)
	250	2,674

33. PURCHASE OF SUBSIDIARIES *(Continued)*

(b) *(Continued)*

The fair value of trade and other receivables at the date of acquisition amounted to HK$888,000. The gross contractual amounts of those trade and other receivables acquired amounted to HK$888,000 at the date of acquisition. None of the contractual cash flows are not expected to be collected at acquisition date.

Goodwill arising on acquisition:

	Euro'000	Shown as HK$'000
Consideration transferred	300	3,209
Plus: Non-controlling interests (7.7% in NNEG)	19	206
Less: Net assets acquired	(250)	(2,674)
Goodwill arising on acquisition	69	741

The goodwill is attributable to the anticipated profitability arising from the distribution of the Group's products in the new markets and the future operating synergies from the combination.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow on acquisition of NNEG:

	Euro'000	Shown as HK$'000
Cash consideration paid	300	3,209
Less: Cash and cash equivalent balances acquired	(180)	(1,925)
	120	1,284

NNEG contributed a revenue of HK$1,858,000 and a loss of HK$857,000 for the period from the date of acquisition to 31st March, 2011.

If the acquisition has been completed on 1st January, 2010, based on the unaudited management accounts of the subsidiary, the impact on the Group's revenue and profit for the period from 1st January, 2010 to 31st March, 2011 would have been insignificant.

33. PURCHASE OF SUBSIDIARIES *(Continued)*

(c) In February 2011, the Group acquired 100% equity interest of HCI for a consideration of US$17,000,000. This acquisition has been accounted for using the acquisition method. HCI is engaged in the design, manufacture, and distribution of quality LED products. The acquisition was made to expand the LED operation and support the growth strategies of the Group.

Consideration transferred

	US$'000	Shown as HK$'000
Cash	4,000	31,178
Shares issued	13,000	101,452
Total	17,000	132,630

Acquisition-related costs amounting to HK$669,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses line item in the profit or loss.

As part of the consideration for the acquisition of HCI, 25,174,194 ordinary shares of the Company with par value of HK$0.1 each were issued. The fair value of the ordinary shares of the Company, determined using the published price available at the date of the acquisition, amounted to HK$4.03.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	US$'000	Shown as HK$'000
Property, plant and equipment	224	1,746
Intangible assets – contracts in progress	820	6,391
Intangible assets – customer relationship	2,440	19,019
Intangible assets – patent and license	3,981	31,030
Intangible assets – trademark	5,654	44,070
Intangible assets – non-compete agreement	187	1,458
Inventories	1,724	13,438
Trade and other receivables	1,524	11,879
Bank balances and cash	336	2,619
Trade and other payables	(8,322)	(64,866)
Deferred taxation	(3,065)	(23,887)
	5,503	42,897

33. PURCHASE OF SUBSIDIARIES *(Continued)*

(c) *(Continued)*

The fair value of trade and other receivables at the date of acquisition amounted to HK$11,879,000. The gross contractual amounts of those trade and other receivables acquired amounted to HK$11,879,000 at the date of acquisition. None of the contractual cash flows are not expected to be collected at acquisition date.

Goodwill arising on acquisition:

	US$'000	Shown as HK$'000
Consideration transferred	17,000	132,630
Less: Net assets acquired	(5,503)	(42,897)
Goodwill arising on acquisition	11,497	89,733

The goodwill is attributable to the anticipated profitability arising from the distribution of the Group's products in the new markets and the future operating synergies from the combination.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow on acquisition of HCI:

	US$'000	Shown as HK$'000
Cash consideration paid	4,000	31,178
Less: Cash and cash equivalent balances acquired	(336)	(2,619)
	3,664	28,559

HCI contributed a revenue of HK$2,823,000 and a loss of HK$2,774,000 for the period from the date of acquisition to 31st March, 2011.

If the acquisition has been completed on 1st January, 2010, total group revenue for the period from 1st January, 2010 to 31st March, 2011 would have been HK$1,716,257,000 and profit for the period would have been HK$117,342,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2010, nor is it intended to be a projection of future results.

33. PURCHASE OF SUBSIDIARIES *(Continued)*

(d) 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 YXO prior to the acquisition.

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:

	31.3.2011 HK$'000	31.12.2009 HK$'000
Within one year	2,115	663
In the second to fifth year inclusive	663	552
	2,778	1,215

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:

	31.3.2011 HK$'000	31.12.2009 HK$'000
Within one year	2,050	2,108
In the second to fifth year inclusive	2,708	1,706
	4,758	3,814

35. CAPITAL COMMITMENTS

	31.3.2011	31.12.2009
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of		
– property, plant and equipment	**169,321**	201,252
– land use rights in PRC	**–**	22,480
	169,321	223,732

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 period, the Group sold goods totalling HK$2,569,000 (2009: HK$1,974,000) to a jointly controlled entity.

The Company's directors represented the Group's key management and their emoluments for the period are set out in note 11.

38. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries 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	Attributable proportion of nominal value of issued share capital/registered capital indirectly held by the Company		Principal activity
			31.3.2011	31.12.2009	
Billion Choice	British Virgin Islands	Share – US$1	100%	100%	Investment holding
Cashware Technology Limited	British Virgin Islands/PRC	Share – US$1	100%	100%	Provision of research and development services
HCI	USA	Shares – US$10	100%	–	Trading of lighting products
Mitcham Profits Limited	British Virgin Islands/PRC	Share – US$1	100%	100%	Provision of marketing services
Neo-Neon Enterprises Limited	Hong Kong	Ordinary shares – HK$10,000	100%	100%	Trading of lighting products
Neo-Neon LED Lighting International Limited	Samoa/PRC	Shares – US$10,000	100%	100%	Trading of lighting products
Star Bright International (Macao Commercial Offshore) Limited	Macau	Registered capital – MOP100,000	100%	100%	Trading of lighting products
鶴山麗得電子實業有限公司 (Heshan Lide Electronic Enterprise Limited)	PRC as a wholly foreign owned enterprise for a term of 11 years commencing 9th May, 2003	Registered capital – US$264,414,980	100%	100%	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 – RMB50,000,000	100%	100%	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 period 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 period or at any time during the period.

FINANCIAL SUMMARY

	Year ended 31st December, 2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	For the period from 1st January, 2010 to 31st March, 2011 HK$'000
RESULTS					
Turnover	1,258,825	1,572,126	1,617,732	1,111,460	**1,710,451**
Profit before taxation	265,735	346,525	137,267	154,596	**114,860**
Taxation	(5,026)	(14,844)	357	2,351	**(2,674)**
Profit for the year/period	260,709	331,681	137,624	156,947	**112,186**
Attributable to					
– owners of the Company	259,965	334,029	138,676	157,989	**116,608**
– non-controlling interests	744	(2,348)	(1,052)	(1,042)	**(4,422)**
	260,709	331,681	137,624	156,947	**112,186**

	Year ended 31st December, 2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	As at 31st March, 2011 HK$'000
ASSETS AND LIABILITIES					
Total assets	2,443,360	2,716,788	3,124,584	3,962,637	**4,784,537**
Total liabilities	(419,379)	(335,059)	(611,340)	(728,020)	**(1,239,645)**
Net assets	2,023,981	2,381,729	2,513,244	3,234,617	**3,544,892**