

CORPORATE GOVERNANCE PRACTICES

Good corporate governance is important to safeguarding the interests of the shareholders and enhancing the performance of the Group. The Directors are committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (“Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) for the year ended 31 December 2006 except for the following deviation:

CODE PROVISION A.2.1

Under Code provision A.2.1, the roles of chairman and chief executive officer (“CEO”) should be separated and should not be performed by the same individual. The Company does not at present separate the roles of chairman and CEO. Mr. Ben Fan is the chairman and CEO of the Company responsible for overseeing the operations of the Group. The Company is currently considering appointing a new CEO to replace Mr Fan if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group. However, due to the nature and extent of the Group’s operations, in particular, the in-depth knowledge and experience in the lighting industry and market which required for the position of CEO, it is not possible to determine as to when the appointment of a CEO for the Company can be effected..

The Directors will continuously review and enhance the corporate governance practices and standards of the Company throughout the Group and to ensure that business activities and decision making processes are conducted in a proper and prudent manner.

APPOINTMENT OF INDEPENDENT NON EXECUTIVE DIRECTORS

The Company was listed on the Stock Exchange of Hong Kong on 15 December 2006. With a view to further improve the Company’s corporate governance practices and in compliance with the Listing Rules, on 20 November 2006, the Company appointed three independent non-executive directors to further broaden the collective knowledge, perspective and skill of the Board. A comprehensive, formal and tailored orientation package to newly appointed directors was provided before their appointment by our lawyer, Gordon Ng & Co. in association with Hogan & Hartson LLP.

DIRECTORS’ SECURITIES TRANSACTIONS

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules for securities transactions by directors of the Company in 2004. All the members of the Board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2006. The Model Code also applies to other specified senior management of the Group.

BOARD OF DIRECTORS

As at 31 December 2006, the Board of Directors of the Company comprises:

Executive Directors:

Mr. Ben FAN

Ms. Michelle WONG

Mr. FAN Pong Yang

Non-executive Director:

Mr. LEONG Ka Cheong Christopher

Independent non-executive Directors:

Mr. WU Tak Lung

Ms. FUNG Siu Wan Stella

Mr. LAM Ying Ming

In view of the extensive sales and marketing experiences as well as the ability to broaden the perspective and contribute to the effectiveness of the Board, the Board had identified and invited Mr. Jang Jann Huan to join the Board in January 2007. Mr. Jang was appointed as executive director at the Board meeting held on 25 January 2007.

As at 31 December 2006, the Board comprises three executive directors (Mr. Ben Fan is the Chairman) and four non-executive directors. Of the four non-executive directors, three are independent non-executive directors; they represent more than 40% of the member of Board. In addition, one of the independent non-executive directors possesses appropriate professional accounting qualifications, one of them is a lawyer and one is an experienced banker with many years of financial management expertise. Biographies of the Board of directors of the Company are shown on pages 7 to 9 of this annual report.

The principal focus of the Board is on the overall strategic development of the Group. The Board also monitors the financial performance and the internal controls of the Group's business operations. With a wide range of expertise and a balance of skills, the non-executive directors bring independent judgment on issues of strategic direction, development, performance and risk management through their contribution at Board meetings and committee work.

The independent non-executive directors also serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. The Board considers that each independent non-executive director is independent in character and judgment and that they all meet the specific independence criteria as required by the Listing Rules. Before listing, the Company has received from each independent non-executive director a confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considers such directors to be independent. The independent non-executive directors are explicitly identified in all corporate communications.

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 access to board papers and related materials, and are provided with adequate information in a timely manner; this enables the Board to make informed decision on matters placed before it.

Due to the Company was listed in mid-December 2006, only one full board meeting was held before the year end and was attended by all the executive directors as well as all non-executive directors.

Re-election of Directors

Each of the non-executive directors of the Company has entered into a service contract with the Company for a term of three years. However, such term is subject to his/her re-appointment by the Company at general meeting upon retirement by rotation pursuant to the Bye-laws of the Company. In accordance with the relevant provisions in the Bye-laws of the Company, the appointment of directors is considered by the Board and the newly appointed directors are required to stand for election by shareholders at the first annual general meeting following their appointment and, except for the Chairman, shall retire and stand for re-election by shareholders at least once every three years. To uphold the good corporate governance practices, the Chairman had voluntarily retired from his office and offered himself for reelection at the annual general meeting held on 7 May 2007 notwithstanding that he is not statutorily required to do so pursuant to the Company's Bye-laws.

BOARD COMMITTEES

The Board has established three committees, each of them having specific terms of reference to consider matters relating to specific areas and to advise the Board on such matters. Details of these committees and their principal terms of reference are as follows:

AUDIT COMMITTEE

The Audit Committee was established on 20 November 2006 and its current members include:

Mr. WU Tak Lung (*Chairman*)

Ms. FUNG Siu Wan Stella

Mr. LAM Yin Ming

All Audit Committee members are independent non-executive directors. The Board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, legal, accounting and financial management on the Audit Committee. The composition and members of the Audit Committee satisfies the requirements under Rule 3.21 of the Listing Rules which requires a minimum of three members and at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.

The Audit Committee meets not less than twice a year to review the reporting of financial and other information to shareholders, the system of internal controls, risk management and the effectiveness and objectivity of the audit process. The Audit Committee also provides an important link between the Board and the Company's external auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the external auditors.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the financial statements for the year ended 31 December 2006. During the year, one Audit Committee meeting was held, with 100% attendance by all committee members.

At the meeting held on 28 March 2007, the Audit Committee reviewed the financial statements for the year ended 31 December 2006 together with the annual results announcement, with a recommendation to the Board of directors for approval.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 20 November 2006 and the current members include:

Ms. FUNG Siu Wan Stella (*Chairman*)

Ms. Michelle WONG

Mr. WU Tak Lung

Mr. LAM Yin Ming

The majority of the Remuneration Committee members are independent non-executive directors. The Remuneration Committee advises the Board on the Group's overall policy and structure for the remuneration of directors and senior management. The Remuneration Committee ensures that no director or any of his associate is involved in deciding his own remuneration.

In determining the remuneration for directors, the Remuneration Committee 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 Remuneration Committee meets to determine the policy for the remuneration of directors and assess the performance of executive directors and members of senior management. During the year, one Remuneration Committee meeting was 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. Base salary

Base 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 base 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 base 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 to be 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.

NOMINATION COMMITTEE

The Nomination Committee was established on 20 November 2006. Its current members include:

Mr. LAM Yin Ming (*Chairman*)

Ms. FUNG Siu Wan Stella

Ms. Michelle WONG

Mr. WU Tak Lung

The majority of the Nomination Committee members are independent non-executive directors. The Nomination Committee 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 Nomination Committee 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). During the year, one Remuneration Committee meeting was held, with 100% attendance by all committee members.

AUDITOR'S REMUNERATION

For the year ended 31 December 2006, the auditor of the Company provided audit and tax advisory services to the Company. The existing auditor of the Company is Deloitte Touche Tohmatsu.

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 Board has employed an external auditor, Baker Tilly, to conduct a review of the system of internal controls which covered all relevant financial, operational, compliance controls and risk management functions within an established framework.

A report by Baker Tilly was tabled before the members of the Audit Committee during the Audit Committee meeting on 28 March 2007.

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 principal purpose of the review report by Baker Tilly was to obtain sufficient knowledge of the control environment to understand the attitude of management and the governing body, awareness and actions concerning the factors of the control environment.

The Company will continue to engage external independent professionals to review its system of internal controls annually and further enhance its internal controls as appropriate.

There is currently no internal audit function within the Group. The directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit functions for the Group as the need arises. Nevertheless, the directors will continue to review at least annually the need for an internal audit function.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2006, the directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent, fair and reasonable; and have prepared the financial statements on the going concern basis. The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the auditors report on pages 40 to 41 of this annual report.

INVESTOR RELATIONSHIP AND COMMUNICATION

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 continue 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.

The Company is aware of its obligations under the Listing Rules that information which is expected to be price-sensitive should be announced immediately. The Company takes extreme precautionary measures in the handling of price-sensitive information and has in place a Memorandum on Disclosure of Price Sensitive Information (which includes the Guide on Disclosure of Price-sensitive Information issued by the Stock Exchange in 2002) for its senior management and other staff member who is in a position to have access to price-sensitive information. Members of the Board and other relevant senior management who have access to price-sensitive information are bound by the Model Code for securities transaction of the Company's securities and that of any related companies.

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.

The Company has also maintained a website at <http://www.neo-neon.com> which enables shareholders, investors and the general public to have access to the information of the Company on a timely basis.

Financial information and all shareholder corporate communications of the Company are made available on the Company's website and updated regularly.

SHAREHOLDERS' RIGHTS

The Board and management shall ensure shareholders' right and all shareholders are treated equitably and fairly. The Company has announced its 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. In addition, procedures for demanding a poll will be included in the circular to shareholders dispatched together with the annual report.

The annual general meeting may provide an opportunity for communication between the Board and the shareholders of the Company. 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 annual general meeting 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.

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.