

# Neo-Neon™

Neo-Neon Holdings Ltd.

(incorporated in the Cayman Islands with limited liability)  
Stock Code: 1868

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



We grow and glow around the world

# 2008

## Interim Report



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## CORPORATE INFORMATION

### Board of Directors

#### **Executive Directors**

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

#### **Independent Non-Executive Directors**

Mr. WU Tak Lung  
Ms. FUNG Siu Wan Stella  
Mr. ZHAO Shan Xiang

#### **Qualified Accountant**

Mr. Vincent Ho

#### **Company Secretary**

Ms. CHENG Yin Wah

#### **Authorized Representatives**

Ms. Michelle WONG  
Ms. CHENG Yin Wah

#### **Audit Committee**

Mr. WU Tak Lung (*Chairman*)  
Ms. FUNG Siu Wan Stella  
Mr. ZHAO Shan Xiang

#### **Remuneration Committee**

Ms. FUNG Siu Wan Stella (*Chairman*)  
Ms. Michelle WONG  
Mr. WU Tak Lung  
Mr. ZHAO Shan Xiang

#### **Nomination Committee**

Mr. ZHAO Shan Xiang (*Chairman*)  
Ms. FUNG Siu Wan Stella  
Ms. Michelle WONG  
Mr. WU Tak Lung



## **CORPORATE INFORMATION** *(Continued)*

<b><i>Principal Share Registrar</i></b>	Butterfield Fund Services (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands British West Indies
<b><i>Hong Kong Branch Share Registrar</i></b>	Tricor Investor Services Limited 26/F., Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
<b><i>Auditors</i></b>	Deloitte Touche Tohmatsu
<b><i>Principal Banker</i></b>	The Hongkong and Shanghai Banking Corporation Limited
<b><i>Registered Office</i></b>	Cricket Square Hutchins Drive P. O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b><i>Principal Place of Business in Hong Kong</i></b>	13/F., Tower A New Mandarin Plaza 14 Science Museum Road Kowloon Hong Kong
<b><i>Company Website</i></b>	<a href="http://www.neo-neon.com">www.neo-neon.com</a>
<b><i>Stock Code</i></b>	1868



## MANAGEMENT DISCUSSION AND ANALYSIS

### MARKET OVERVIEW

The growth of the LED lighting market remained vibrant despite challenging business conditions globally during the period under review. The recent surge in oil prices and rising environmental concerns around the world has prompted a greater need for clean and energy-saving lighting sources.

LED lighting is gaining ground as a new source for green lighting that offers energy-saving, environmental friendly and long durability lighting fixture. Governments of developed countries such as the US, Australia and European countries are taking the lead to encourage the replacement of conventional incandescent lighting with LED light products. This rising popularity is further bolstered by technological advancements which have gradually reduced ownership costs for LED lighting.

LED lighting is a highly versatile illumination means for decorative and commercial purposes. The 2008 Beijing Olympics widely applied different types of LED lighting to generate impressive effects at the competition venues as well as during the opening ceremony performances. The Group expects to see increased usage of LED lighting in commercial decoration, electronic display billboards as well as outdoor street lighting, opening a whole new world of immense opportunities for us to 'grow and glow' around the world.

### BUSINESS REVIEW

The Group continued to report strong growth in the period under review, driven by the accelerating applications of LED technology in decorative lighting and general lighting products. The Group's turnover rose 41.8% from HK\$505.1 million in the corresponding period in 2007 to HK\$716.5 million, while net profit surged 30.0% to HK\$104.4 million. Gross profit margin was maintained at a stable level of 34.6% compared to 34.5% in the corresponding period of the previous year.



## **BUSINESS REVIEW** *(Continued)*

### **LED Decorative Lighting**

The LED decorative lighting business continues to be the Group's major source of revenue. During the period under review, sales from LED decorative lighting products recorded strong sales growth of 60.6% to HK\$324.0 million and accounted for 45.2% of the Group's total turnover. In line with the Government's initiatives for banning the use of incandescent lighting products, we introduced an increased number of LED decorative lighting products to capitalize on the replacement demand. In addition, to expand commercial applications, the Group developed new models of modulated LED panels which offer easy and convenient wide ranging commercial applications.

The replacement of incandescent lighting products with LED lights is expected to accelerate over the next few years. Therefore, we are confident that the market will continue to grow at a fast pace over the mid- to long-term.

### **Incandescent Decorative Lighting**

Sales of incandescent decorative lighting products rose 37.6% to HK\$208.9 million and accounted for 29.2% of the Group's turnover compared to HK\$151.8 million in the corresponding period in the previous year. The business environment for incandescent decorative lighting in the period under review was marked by intense competition as small players in this sector survived by reducing prices due to the gloomy market outlook. Nevertheless, as a market leader, we continued to benefit from overall market consolidation. Our broad range of superior quality products serves as a strong attraction for customers. Overall the Group anticipates seeing stable sales from this business over the medium term.

### **Entertainment Lighting**

Sales of entertainment lighting products rose 4.9% to HK\$151.0 million, accounting for 21.1% of the Group's turnover compared to HK\$144.0 million during the corresponding period in the previous year. The Group sees ample opportunities for this business segment to further develop, in particular in the PRC market as rising disposable incomes and increasing purchasing power are creating needs for all types of entertainment lighting.



## **BUSINESS REVIEW** *(Continued)*

### **Entertainment Lighting** *(Continued)*

Having successfully developed high brightness LED light bulbs, we have now replaced certain existing HID and halogen light bulbs with LEDs in our entertainment lighting product line. In this respect, the Group can be considered the forerunner in the application of LED technology in the entertainment lighting business.

### **General Illumination Lighting Market**

LED-based general illumination lighting products form one of the key growth engines of the Group. We made a good head start and posted an encouraging sales growth of 328.9% to HK\$32.6 million, accounting for 4.5% of the Group's turnover compared to HK\$7.6 million for the corresponding period in the previous year.

The Group's LED street lights and tunnel lights received positive feedback from municipal governments in China as well as from Europe and Asia markets. Orders were placed by markets in China, such as cities and provinces of Zhaoqing, Harbin, Guangzhou, Changsha, Foshan, Taiyuan, Zhengzhou and Tianjin, as well as international markets such as Holland, Sweden, India and Indonesia. We also supplied products for street lights, tunnel lights and other outdoor LED general lighting needs.

With respect to commercial office use lighting, new white light illumination products with high brightness were successfully developed during the period under review. These products offer 100 lumen but consume only 10-20% of the energy needed for an incandescent light bulb of the same brightness. In terms of durability, they last up to 100,000 hours compared to 2,000 hours for conventional incandescent lighting. These products had been launched to the market during the period.

Leveraging our ongoing efforts in research and development, the Group expects to offer an even wider choice of products for customers at lower costs to help contribute to a greener world.



## **BUSINESS REVIEW** *(Continued)*

### **Research and Development**

The Group's research and development efforts were driven towards product design, new product development and improving production efficiency to reduce overall manufacturing costs. During the period under review, we have made a major breakthrough in controlling heat dissipation and optical design of lighting fixtures, which resulted in even longer life and high luminous output. This coupled with the development of advanced packaging/encapsulation technology enabled us to develop high powered LED light bulbs with 100 lumen per watt. Light bulbs with 125 lumen per watt are being carried out for test by our laboratory.

The Group continued to place strong emphasis on research and development, and register relevant patents whenever necessary. As of 30th June, 2008, we owned 364 registered patents.

### **Expansion of Production Capacity**

The Group continued to expand its presence in the LED-based decorative lighting products market and LED-based general lighting market. To cater for the rising demand, the Group has launched an expansion of its manufacturing capacity in chip manufacturing. The Group's total LED packaging capacity has already reached 450 million light bulbs per month, which is earlier than our expectation.

### **Quality Control**

Since our establishment, ensuring the highest product quality has always been a high priority of the Group. Benefiting from our strong vertically integrated business model, we are able to exercise strict quality controls throughout the entire process from product development, raw material procurement and production to sales and logistics. The Group's standards and compliance department is responsible for obtaining certifications for our products with the relevant agencies, some of which are country specific. All of our products comply or exceed the standards of every country in which our customers conduct business.





## **BUSINESS REVIEW** *(Continued)*

### **Sales and Distribution**

As of 30th June, 2008, the Group had a sales team of 280 with offices in eight countries and regions. While we continued to develop our LED-based decorative lighting business, we also stepped up our sales and marketing efforts in promoting and expanding sales channels for LED-based general lighting products to capture increased market demand and opportunities for this lucrative segment.

After seeing increased sales opportunities in PRC market, the Group has allocated more resources to expanding its presence on the mainland. To this end, the current energy-saving consciousness of the Chinese Government will provide ample opportunities for our business expansion in domestic sales.

### **New Showrooms and New Vietnam Plant**

The Group have established a showroom in Shanghai and are establishing showrooms in other cities in China, to strengthen our foothold in one of the world's fastest growing markets and to offer even better services to our existing customers. These cities include Chengdu and Tianjin. A new showroom will also be established in India in the fourth quarter of this year to capture market there.

In order to reduce labor costs and further develop our business in South Asia, we have established a new plant there in Vietnam during the period. Pilot run will be begun in the first quarter of 2009.



## FINANCIAL REVIEW

### Turnover

During the Review Period, the Group has recorded a turnover of approximately HK\$716.5 million, representing an increase of 41.8% as compared to approximately HK\$505.1 million in the corresponding period last year. The increase was mainly due to a remarkable growth of 70.4% in LED decorative lighting and general illuminating lighting markets.

### Cost of Goods Sold

The Group's costs of goods sold were HK\$468.6 million, representing an increase of 41.7% from HK\$330.7 million as compared to the same period last year.

### Gross Profit and Gross Profit Margin

The gross profit increased by 42.1% from HK\$174.4 million in 2007 to HK\$247.9 million as a result of an increase in sales during the Review Period. The gross profit margin 34.6% was in line with the corresponding period last year.

### Other Income

Other income was mainly contributed by bank interest income, investment income from marketable securities and gold contracts and exchange gain due to appreciation of monetary items which are denominated in renminbi.

### Administrative, Distribution and Selling Expenses

For the six months ended 30th June, 2008, the Group's administrative, distribution and selling expenses were HK\$188.0 million, an increase of 41.0% from HK\$133.3 million in the same period in 2007. However, the increments were line up with the sales turnover and the cost of goods sold.

### Financing Costs

The finance costs of the Group in the six months ended 30th June, 2008 was HK\$0.1 million, decreased by 92.9% from HK\$1.5 million in the corresponding period of 2007. The decrease was mainly attributable to the decrease of bank borrowings in 2008.



## FINANCIAL REVIEW *(Continued)*

### Net Profit

For the six months ended 30th June, 2008, the Group's net profit was HK\$104.4 million, an increase of 30.0% compared with HK\$80.3 million in the corresponding period of 2007. The increase was mainly attributable to increase in sales and the Group's success in implementing measures in cost control and overhead expenses. The net profit margin for the period was 15.0% compared with 15.9% in the same period in 2007.

### Financial Resources and Liquidity

The Group maintained a stable financial position. As at 30th June, 2008, the Group had bank balances and cash of HK\$182.8 million (at 31st December, 2007: HK\$609.8 million) and short-term bank loans of HK\$62.0 million (at 31st December, 2007: Nil). All short-term bank loans were denominated in Hong Kong dollars and at prevailing market interest. The gearing ratio representing the ratio of short-term bank loans to total equity of the Group was 2.5% as at 30th June, 2008 (at 31st December, 2007: Nil).

### Assets and Liabilities

As of 30th June, 2008, the Group's total assets were HK\$2,008.5 million, an increase of HK\$248.1 million compared with HK\$1,760.4 million as of 31st December, 2007. The Group's total liabilities as of 30th June, 2008 were increased by 118.3%, comparing to that as of 31st December, 2007, from HK\$335.1 million to HK\$731.3 million.

The Group's shareholders' equity as of 30th June, 2008 was HK\$2,492.4 million, representing an increase of 5.0% when compared with HK\$2,373.9 million as of 31st December, 2007. The increase was mainly due to the increase of the net profit for the six months ended 30th June, 2008.

### Taxation

Taxation of the Group for the six months ended 30th June, 2008 was HK\$5.8 million. The effective tax rate was 5.3% for the six months ended 30th June, 2008, which was 6.3% for the first half of 2007.



## **FINANCIAL REVIEW** *(Continued)*

### **Taxation** *(Continued)*

Our LED-based decorative and entertainment lighting products required the input and contribution from research and development as well as distribution and marketing functions. The Group's (i) research and development and (ii) distribution and marketing functions, among other things, have contributed to our success principally. To enhance the efficiency of these functions and preserve the value and contribution of these functions to the Group, it was desirable that they together with the related risks and uncertainties of the markets be undertaken by companies in the Group, which are separated from the manufacturing operations. As it is not mandatory for relevant companies in the Group undertaking such activities to be incorporated in the PRC or Hong Kong, they were set up in overseas jurisdictions, while operating in the PRC/Macau as non-resident enterprises, they have been taxed according to the relevant regulations of these jurisdictions, where required. The relevant intra-group transactions were carried out on the above-mentioned basis.

### **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 exposure should the need arise.



## FUTURE PLANS AND PROSPECTS

Recent oil price hikes and increasing energy saving awareness for a greener world have brought about immense business opportunities for the Group. To stay at the industry forefront in the face of surging raw materials costs, rising labor costs, renminbi appreciation and other factors, the Group will focus on market expansion as well as cost management to increase its competitiveness.

There are two crucial determining elements in the manufacturing of LED lighting. First and foremost is the stable supply of chips as these are the most important components in LED lighting, and second is the encapsulation technology and operational know-how to ensure a high yield rate.

### Chip Manufacturing Plant

As one of the world's leading manufacturers in the LED decorative and illumination lighting industry, the Group has invested in the construction and development of a new chip manufacturing plant of approximately 40,000 sq. m. in Heshan, Guangdong province to further strengthen its vertically integrated business model.

These are the major benefits of having our own chip plant:

1. Further vertical integration of the LED business to realize better quality control of the entire production process.
2. Ensures the stable supply of high quality, customized chips to meet the needs of different requirements of the Group's wide ranging product lines, and therefore shortens time-to-market.
3. Cost reductions and reduced reliance on outside suppliers.

The Group has also strengthened its management team with the addition of new members who boast extensive experience in the chip industry to spearhead the development of the new chip plant. Phase I of the plant will be operational in the fourth quarter of this year, with an initial production capacity of 12,500 wafers per month. We will flexibly adjust the progress of phases II and III in response to market demands and price trends of chips to maximize benefits to shareholders. The Group continues to have every confidence in the development of this new plant.



## **FUTURE PLANS AND PROSPECTS** *(Continued)*

### **Encapsulation Technology and Know-how**

The Group takes pride in having one of the world's most advanced LED encapsulation technology and know-how systems. To further strengthen our competitiveness, we have conducted a thorough review of our production processes as well as workflow and further raised the yield rate from 75% to over 95% in the period under review. This increase will contribute to cost savings and efficiency enhancement, benefiting the Group's development over the long run.

### **Inventory Management**

As a vertically integrated manufacturer, the Group operates a complete industry chain that encompasses every step of production. As a result, over the years the Group inventories as a whole have been keeping at a relatively high level, partly because the Group had stockpiled certain raw materials to counter raw material cost increases. Going forward, the Group will monitor its inventory management policy to speed up inventory turnover. A number of internal management procedures have also been implemented and the Group expects to reap the benefits of these measures in the coming fiscal year.

### **Product Development**

Concerning our patented products, we will optimize our product structure, focusing on product innovation as well as the sale of high-margin products to maximize economies of scale and lower production costs, which will further raise the Group's overall profitability.

We will continue to pursue new business opportunities in the lighting industry to maintain our leadership role in the industry and maximize returns for our shareholders.

## **INTERIM DIVIDEND**

The Board has declared an interim dividend of HK\$0.034 (2007: HK\$0.027) per ordinary share. The interim dividend will be paid on or about 13th November, 2008 to shareholders whose names appear on the Register of Members of the Company on 5th November, 2008.



## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 3rd November, 2008 to 5th November, 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed interim dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 31st October, 2008.

## HUMAN RESOURCES

At 30th June, 2008, the Group had 14,180 employees. The basic remunerations of the employees are determined with reference to the industry remuneration benchmark, the employees' experience and their performance. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each director. Apart from the basic remuneration and statutory benefits required by laws, the Group also provides discretionary bonuses based upon the Group's results and the individual performance of the staff.

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

The Group also adopts an employee share option scheme at the time of listing of its shares.

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

As at 30th June, 2008, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

### Long positions in shares and underlying shares of the Company

Name of Director	Number of ordinary shares held				Number of underlying shares held under equity derivatives	Total	Percentage of total issued share capital of the Company as at 30th June, 2008
	Personal interests <sup>(1)</sup>	Family interests	Corporate interests	Other interests			
Mr. Ben FAN <sup>(2)</sup>	600,000	44,467,000	351,000,000	-	-	396,067,000	52.032%
Mr. JANG Jann Huan <sup>(3)</sup>	425,000	-	34,648,000	-	-	35,073,000	4.608%
Ms. Michelle WONG <sup>(2)</sup>	9,819,000	351,600,000	34,648,000	-	-	396,067,000	52.032%
Mr. FAN Pong Yang <sup>(4)</sup>	566,000	-	34,648,000	-	-	35,214,000	4.626%
Mr. TONG Yee Ming <sup>(6)</sup>	210,000	-	-	-	412,000 <sup>(5)</sup>	622,000	0.082%
Mr. WU Tak Lung	-	-	-	-	50,000 <sup>(5)</sup>	50,000	0.007%
Ms. FUNG Siu Wan Stella	-	-	-	-	50,000 <sup>(5)</sup>	50,000	0.007%
Mr. LAM Yin Ming <sup>(7)</sup>	-	-	-	-	50,000 <sup>(5)</sup>	50,000	0.007%
Mr. ZHAO Shan Xiang	-	-	-	-	50,000 <sup>(5)</sup>	50,000	0.007%





## **DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES** *(Continued)*

### **Long positions in shares and underlying shares of the Company** *(Continued)*

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 the aggregate of 396,067,000 shares of the Company held by Mr. Ben FAN (600,000 shares), Ms. Michelle WONG (9,819,000 shares), Rightmass Agents Limited ("Rightmass") (351,000,000 shares) and Charm Light International Limited ("Charm Light") (34,648,000 shares), respectively as follows:
  - (a) 351,000,000 shares of the Company were held by Rightmass which was wholly-owned by Mr. Ben FAN. Thus, Mr. Ben FAN was taken to be interested in 351,000,000 shares of the Company;
  - (b) 34,648,000 shares of the Company were held by Charm Light which was owned as to 35% by Ms. Michelle WONG. Thus, Ms. Michelle WONG was taken to be interested in 34,648,000 shares of the Company;
  - (c) Ms. Michelle WONG is the spouse of Mr. Ben FAN. By virtue of the SFO, Ms. Michelle WONG was deemed to be interested in 600,000 shares of the Company held by Mr. Ben FAN and 351,000,000 shares of the Company held by Rightmass; and
  - (d) Mr. Ben FAN is the spouse of Ms. Michelle WONG. By virtue of the SFO, Mr. Ben FAN was deemed to be interested in 9,819,000 shares of the Company held by Ms. Michelle WONG and 34,648,000 share of the Company held by Charm Light.
- (3) 34,648,000 shares of the Company were held by Charm Light which was owned as to 10% by Mr. JANG Jann Huan. Thus, Mr. JANG Jann Huan was taken to be interested in 34,648,000 shares of the Company.
- (4) 34,648,000 shares of the Company were held by Charm Light which was owned as to 35% by Mr. FAN Pong Yang. Thus, Mr. FAN Pong Yang was taken to be interested in 34,648,000 shares of the Company.



## **DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES** *(Continued)*

### **Long positions in shares and underlying shares of the Company** *(Continued)*

Notes: *(Continued)*

- (5) This represents interests in options held by the relevant Director as a beneficial owner to subscribe for the relevant underlying shares in respect of the option shares granted by the Company under the share option scheme, details of which are set out in the section headed "Share Option Scheme" in this report.
- (6) Mr. TONG Yee Ming resigned as an Executive Director of the Company on 16th July, 2008.
- (7) Mr. LAM Yin Ming retired at the annual general meeting of the Company held on 26th May, 2008 and ceased to be an Independent Non-Executive Director.

Save as mentioned above, as at 30th June, 2008, none of the Directors and chief executives had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations which had been entered in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30th June, 2008, the interests and short positions of those persons (other than the Directors) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

### Long positions in shares of the Company

<b>Name</b>	<b>Capacity in which shares were held</b>	<b>Number of ordinary shares held</b>	<b>Percentage of total issued share capital of the Company</b>
Rightmass <sup>(1)</sup>	Beneficial owner	351,000,000	46.112%
FMR LLC.	Investment Manager	68,640,000	9.017%

Note:

- (1) The interests in ordinary shares held by Rightmass were included in the interests of Mr. Ben FAN and Ms. Michelle WONG 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 30th June, 2008, the Company had not been notified of any interests and short positions in the shares and underlying shares of the Company which had been entered in the register required to be kept under Section 336 of the SFO.



## SHARE OPTION SCHEME

A share option scheme was adopted by the Company pursuant to the shareholders' resolutions passed on 20th November, 2006 (the "Scheme") for the primary purpose of providing incentives to 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 10 years from the date of grant of the option. Under the Scheme, the Board of Directors may grant options to any employees of the Company or any of its subsidiaries to subscribe for 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 15th 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 of 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.

## SHARE OPTION SCHEME (Continued)

The option period is 8 years whereas the vesting period is 5 years. Details of movements of the share options during the six months ended 30th June, 2008 are as below:

Type of participants	Date of grant (D/M/Y)	Exercisable period <sup>(1)</sup> (D/M/Y to D/M/Y)	Exercise price per share (HK\$)	Number of share options				
				Outstanding at 1st January 2008	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding at 30th June, 2008
<b>Directors</b>								
Mr. TONG Yee Ming <sup>(2)</sup>	15.02.2007	15.02.2008 – 15.02.2015	8.72	412,000	–	–	–	412,000
Mr. WU Tak Lung	01.02.2008	01.02.2008 – 01.02.2016	5.03	–	50,000	–	–	50,000
Mr. LAM Yin Ming <sup>(2)</sup>	01.02.2008	01.02.2008 – 01.02.2016	5.03	–	50,000	–	50,000	–
Ms. FUNG Siu Wan Stella	01.02.2008	01.02.2008 – 01.02.2016	5.03	–	50,000	–	–	50,000
Mr. ZHAO Shan Xiang	01.02.2008	01.02.2008 – 01.02.2016	5.03	–	50,000	–	–	50,000
<b>Employees</b>								
In aggregate	15.02.2007	15.02.2007 – 15.02.2015	8.72	12,112,500	–	–	1,875,500	10,237,000
	01.02.2008	01.02.2008 – 01.02.2016	5.03	–	5,985,000	–	1,297,500	4,687,500
	29.02.2008	29.02.2008 – 29.02.2016	5.90	–	2,357,500	–	27,000	2,330,500
				12,524,500	8,542,500	–	3,250,000	17,817,000



## SHARE OPTION SCHEME *(Continued)*

The closing prices per share immediately before 15th February, 2007, 1st February, 2008 and 29th February, 2008, the dates on which the share options were granted, were HK\$8.55, \$4.75 and HK\$5.95 respectively.

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

No option was exercised during the period.

Notes:

- (1) Each of the option holders has to remain employed throughout each of the vesting period before the relevant options granted to them can be exercised during the relevant exercisable period.
- (2) Mr. TONG Yee Ming resigned as an Executive Director on 16th July, 2008.
- (3) Mr. LAM Yin Ming retired at the annual general meeting of the Company held on 26th May, 2008 and ceased to be an Independent Non-Executive Director.

## CORPORATE GOVERNANCE

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 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the six months ended 30th June, 2008 except for code provision E.1.2. The code provision stipulates that the chairmen of the audit, remuneration and nomination committees or in the absence of the chairmen of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting ("AGM"). At the AGM of the Company held on 26th May, 2008, the chairmen of the remuneration and nomination committees were unable to attend the AGM due to other business engagements. The Board believed that the Chairman and Executive Directors of the Company together with other members of the committees who attended the AGM were competent to answer the shareholders' questions.



## **CORPORATE GOVERNANCE** *(Continued)*

The Board 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.

### **MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS**

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules for securities transactions by Directors of the Company. 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 six months ended 30th June, 2008. The Model Code also applies to other specified senior management of the Group.

### **AUDIT COMMITTEE**

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

Mr. WU Tak Lung *(Chairman)*

Ms. FUNG Siu Wan Stella

Mr. ZHAO Shan Xiang

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 and 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.



## AUDIT COMMITTEE *(Continued)*

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 condensed consolidated interim financial information has not been audited but has been reviewed by the Audit Committee.

The Audit Committee has reviewed with the management of the Company 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 half year ended 30th June, 2008. At the meeting held on 23rd September, 2008, the Audit Committee reviewed the unaudited financial statements for the half year ended 30th June, 2008 together with the interim results announcement, with a recommendation to the Board of Directors for approval.

## REMUNERATION COMMITTEE

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

Ms. FUNG Siu Wan Stella (*Chairman*)

Ms. Michelle WONG

Mr. WU Tak Lung

Mr. ZHAO Shan Xiang

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.





## REMUNERATION COMMITTEE *(Continued)*

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.

## NOMINATION COMMITTEE

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

Mr. ZHAO Shan Xiang (*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).

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30th June, 2008.

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2008

	Notes	Six months ended 30th June,	
		2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Turnover		<b>716,456</b>	505,112
Cost of goods sold		<b>(468,605)</b>	(330,721)
Gross profit		<b>247,851</b>	174,391
Other income		<b>50,593</b>	44,898
Distribution and selling expenses		<b>(64,431)</b>	(23,437)
Administrative expenses		<b>(123,540)</b>	(109,870)
Finance costs		<b>(105)</b>	(1,469)
Share of profits of associates		<b>–</b>	490
Share of results of a jointly controlled entity		<b>(114)</b>	723
Profit before taxation	5	<b>110,254</b>	85,726
Taxation	6	<b>(5,822)</b>	(5,393)
Profit for the period		<b>104,432</b>	80,333
Attributable to			
– equity holders of the Company		<b>104,432</b>	83,327
– minority interests		<b>–</b>	(2,994)
		<b>104,432</b>	80,333
Proposed interim dividend	7	<b>26,108</b>	20,549
Earnings per share	8		
– Basic		<b>HK\$0.137</b>	HK\$0.110
– Diluted		<b>HK\$0.137</b>	HK\$0.109

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2008

	Notes	At 30th June, 2008 HK\$'000 (unaudited)	At 31st December, 2007 HK\$'000 (audited)
<b>Non-current assets</b>			
Investment properties		<b>14,993</b>	50,193
Property, plant and equipment	9	<b>932,220</b>	714,694
Land use rights		<b>50,093</b>	27,244
Intangible assets		<b>10,698</b>	11,781
Interest in a jointly controlled entity		<b>21,823</b>	21,938
Deposits made on acquisition of property, plant and equipment		<b>161,004</b>	118,529
Deposits made on acquisition of investment properties		<b>20,540</b>	–
Deferred tax assets		<b>11,560</b>	11,974
		<b>1,222,931</b>	956,353
<b>Current assets</b>			
Inventories		<b>1,192,189</b>	720,457
Trade and other receivables	10	<b>489,985</b>	362,641
Investment properties held for sale		<b>34,463</b>	–
Investments held-for-trading		<b>106,887</b>	47,336
Pledged bank deposits		<b>2,246</b>	2,105
Bank balances and cash		<b>182,805</b>	609,828
		<b>2,008,575</b>	1,742,367
Asset held for sale		<b>–</b>	18,068
		<b>2,008,575</b>	1,760,435

## CONDENSED CONSOLIDATED BALANCE SHEET

(Continued)

At 30th June, 2008

	Notes	At 30th June, 2008 HK\$'000 (unaudited)	At 31st December, 2007 HK\$'000 (audited)
Current liabilities			
Trade and other payables	11	575,888	296,046
Amount due to a Director		–	10,396
Taxation		30,308	28,617
Dividend payable		63,179	–
Short-term bank loans	12	61,974	–
		<b>731,349</b>	335,059
Net current assets		<b>1,277,226</b>	1,425,376
Net assets		<b>2,500,157</b>	2,381,729
Capital and reserves			
Share capital		76,120	76,120
Reserves		2,416,249	2,297,821
Equity attributable to equity holders of the Company		<b>2,492,369</b>	2,373,941
Minority interests		7,788	7,788
Total equity		<b>2,500,157</b>	2,381,729

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2008

	Share capital	Share premium	Special reserve	Share compensation reserve	Share options reserve	Translation reserve	Retained profits	Attributable to equity holders of the Company	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2007 (audited)	76,000	1,013,987	53,856	48,100	-	3,641	818,261	2,013,845	10,136	2,023,981
Exchange differences arising on translation of foreign operations and net investments	-	-	-	-	-	8,214	-	8,214	-	8,214
Share of translation reserve of associates	-	-	-	-	-	1,190	-	1,190	-	1,190
Net income recognized directly in equity	76,000	1,013,987	53,856	48,100	-	13,045	818,261	2,023,249	10,136	2,033,385
Profit for the period	-	-	-	-	-	-	83,327	83,327	(2,994)	80,333
Total recognized income for the period	76,000	1,013,987	53,856	48,100	-	13,045	901,588	2,106,576	7,142	2,113,718
Recognition of equity-settled share-based payments	-	-	-	-	13,071	-	-	13,071	-	13,071
Exercise of share options	63	6,911	-	-	(1,510)	-	-	5,464	-	5,464
<b>At 30th June, 2007 (unaudited)</b>	<b>76,063</b>	<b>1,020,898</b>	<b>53,856</b>	<b>48,100</b>	<b>11,561</b>	<b>13,045</b>	<b>901,588</b>	<b>2,125,111</b>	<b>7,142</b>	<b>2,132,253</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the six months ended 30th June, 2008

	Share capital	Share premium	Special reserve	Share compensation reserve	Share options reserve	Translation reserve	Retained profits	Attributable to equity holders of the Company	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2008 (audited)	76,120	1,023,563	53,856	48,100	15,800	24,762	1,131,740	2,373,941	7,788	2,381,729
Exchange differences arising on translation of foreign operations and net investments	-	-	-	-	-	73,677	-	73,677	-	73,677
Net income recognized directly in equity	76,120	1,023,563	53,856	48,100	15,800	98,439	1,131,740	2,447,618	7,788	2,455,406
Profit for the period	-	-	-	-	-	-	104,432	104,432	-	104,432
Total recognised income for the period	76,120	1,023,563	53,856	48,100	15,800	98,439	1,236,172	2,552,050	7,788	2,559,838
Recognition of equity-settled share-based payments	-	-	-	-	4,209	-	-	4,209	-	4,209
Release of reserve upon disposal of a subsidiary	-	-	-	-	-	(711)	-	(711)	-	(711)
Dividends	-	-	-	-	-	-	(63,179)	(63,179)	-	(63,179)
<b>At 30th June, 2008 (unaudited)</b>	<b>76,120</b>	<b>1,023,563</b>	<b>53,856</b>	<b>48,100</b>	<b>20,009</b>	<b>97,728</b>	<b>1,172,993</b>	<b>2,492,369</b>	<b>7,788</b>	<b>2,500,157</b>

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.



## **CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY** *(Continued)*

For the six months ended 30th June, 2008

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

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

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2008

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Net cash used in operating activities	<b>(192,737)</b>	(48,814)
Investing activities		
Purchase of property, plant and equipment	<b>(116,398)</b>	(117,644)
Deposits paid for acquisition of property, plant and equipment	<b>(153,996)</b>	(22,920)
Deposits paid for acquisition of investment properties	<b>(20,540)</b>	–
Proceeds from disposal of an associate	<b>22,962</b>	–
Other investing cash flows	<b>(20,262)</b>	19,853
Net cash used in investing activities	<b>(288,234)</b>	(120,711)
Financing activities		
Repayment of mortgage loans	<b>–</b>	(51,746)
Bank loans raised	<b>66,184</b>	–
Repayment of bank loans	<b>(4,210)</b>	(126,135)
Repayment to a director	<b>(10,396)</b>	–
Other financing cash flows	<b>(105)</b>	1,869
Net cash from (used in) financing activities	<b>51,473</b>	(176,012)
Net decrease in cash and cash equivalents	<b>(429,498)</b>	(345,537)
Cash and cash equivalents at 1st January	<b>609,828</b>	1,158,158
Effect of foreign exchange rate changes	<b>2,475</b>	2,021
Cash and cash equivalents at 30th June	<b>182,805</b>	814,642





## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

### 1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules") and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

### 2. Significant Accounting Policies

The condensed consolidated financial information has been prepared under the historical cost convention except for investment properties and investments held-for-trading which are carried at fair value.

The accounting policies used in the condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2007.

In the current interim period, the Group has applied, for the first time, new interpretations ("new Interpretations") issued by the HKICPA, which are effective for the Group's financial year beginning on 1st January, 2008.

The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30th June, 2008

### 3. Application of Hong Kong Financial Reporting Standards

The Group has not early applied the following new and revised standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and financial position of the Group.

HKAS 1 (Revised)	Presentation of financial statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and separate financial statements <sup>2</sup>
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation <sup>1</sup>
HKFRS 2 (Amendment)	Vesting conditions and cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business combinations <sup>2</sup>
HKFRS 8	Operating segments <sup>1</sup>
HK(IFRIC) – INT 13	Customer loyalty programmes <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1st July, 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1st July, 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards or interpretation will have no material impact on the results and the financial position of the Group.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30th June, 2008

### 4. Segment Information

#### **Business segment**

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

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June, 2008

## 4. Segment Information (Continued)

### Geographical segment

	<b>Six months ended 30th June,</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
<b>Turnover</b>		
America	<b>235,124</b>	171,813
Europe	<b>269,133</b>	179,371
The PRC	<b>54,533</b>	53,226
Asia Pacific, Middle East and Russia (excluding PRC)	<b>154,720</b>	98,408
Others	<b>2,946</b>	2,294
	<b>716,456</b>	505,112
<b>Results</b>		
Profit from operations		
– America	<b>41,272</b>	27,968
– Europe	<b>54,551</b>	32,163
– The PRC	<b>2,001</b>	2,518
– Asia Pacific, Middle East and Russia (excluding PRC)	<b>33,574</b>	21,866
– Others	<b>544</b>	417
	<b>131,942</b>	84,932
Unallocated other income	<b>50,593</b>	44,898
Unallocated expenses	<b>(72,062)</b>	(43,848)
Finance costs	<b>(105)</b>	(1,469)
Share of profits of associates	<b>–</b>	490
Share of results of a jointly controlled entity	<b>(114)</b>	723
Profit before taxation	<b>110,254</b>	85,726
Taxation	<b>(5,822)</b>	(5,393)
Profit for the period	<b>104,432</b>	80,333

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30th June, 2008

### 5. Profit Before Taxation

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	<b>58,756</b>	40,902
Less: Depreciation included in research and development costs	<b>(878)</b>	(573)
	<b>57,878</b>	40,329
Amortisation of intangible assets	<b>1,169</b>	1,159
Decrease in fair value of investments held-for-trading	<b>3,733</b>	–
and after crediting:		
Dividend income from listed investments held for trading	<b>455</b>	125
Gain on disposal of an associate	<b>4,894</b>	–
Increase in fair value of investments held-for-trading	<b>–</b>	713
Interest income	<b>5,072</b>	16,838
Net exchange gain	<b>37,775</b>	19,676

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June, 2008

### 6. Taxation

	<b>Six months ended 30th June,</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
The charge comprises:		
Hong Kong Profits Tax	<b>(551)</b>	(11)
(Under)/overprovision in prior periods	<b>(1,045)</b>	259
	<b>(1,596)</b>	248
PRC enterprise income tax	<b>(2,846)</b>	(3,000)
Taxation in other overseas jurisdictions	<b>120</b>	20
	<b>(2,726)</b>	(2,980)
Deferred taxation		
– current year	<b>(1,500)</b>	(1,500)
– attributable to change in tax rate	<b>–</b>	(1,161)
	<b>(1,500)</b>	(2,661)
	<b>(5,822)</b>	(5,393)

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

On 16th March, 2007, the People's Republic of China promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the applicable tax rate from 27% to 25% for certain subsidiaries from 1st January, 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realized or the liability is settled.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30th June, 2008

### 7. Dividend

The proposed interim dividend of HK\$0.034 per share for the six months ended 30th June, 2008 is calculated on the basis of 761,197,500 shares in issue at the date of approval of this report.

### 8. Earnings Per Share

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

	<b>Six months ended 30th June, 2008 HK\$'000 (unaudited)</b>	2007 HK\$'000 (unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	<b>104,432</b>	83,327
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>760,610,874</b>	760,137,992
Effect of dilutive potential ordinary shares – share options	<b>2,705</b>	2,941,321
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>760,613,579</b>	763,079,313

### 9. Movements in Property, Plant and Equipment

During the period, the Group incurred HK\$233,041,000 (2007: HK\$117,644,000) on additions to property, plant and equipment to expand and upgrade its manufacturing capabilities.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30th June, 2008

### 10. Trade and Other Receivables

	<b>At 30th June, 2008 HK\$'000 (unaudited)</b>	At 31st December, 2007 HK\$'000 (audited)
Trade receivables		
– associates	–	24,511
– jointly controlled entity	<b>1,747</b>	1,680
– others	<b>215,037</b>	201,130
Bills receivables	<b>149,629</b>	47,441
Less: Allowance for bad and doubtful debts	<b>(29,770)</b>	(6,143)
	<b>336,643</b>	268,619
Deposits paid to suppliers	<b>50,844</b>	53,977
Other receivables	<b>102,498</b>	40,045
	<b>489,985</b>	362,641



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June, 2008

### 10. 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, net of allowance for bad and doubtful debts, at the balance sheet date:

	<b>At 30th June, 2008 HK\$'000 (unaudited)</b>	At 31st December, 2007 HK\$'000 (audited)
Age		
0 to 60 days	<b>185,369</b>	179,275
61 to 90 days	<b>24,935</b>	31,619
91 to 180 days	<b>112,879</b>	48,162
181 to 360 days	<b>13,460</b>	9,424
Over 1 year	<b>—</b>	139
	<b>336,643</b>	268,619

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June, 2008

### 11. Trade and Other Payables

	<b>At 30th June, 2008 HK\$'000 (unaudited)</b>	At 31st December, 2007 HK\$'000 (audited)
Trade payables		
– associates	<b>90</b>	1,157
– others	<b>443,908</b>	189,230
Bills payables	<b>6,679</b>	2,314
	<b>450,677</b>	192,701
Customers' deposits	<b>47,268</b>	39,459
Payroll and welfare payables	<b>29,625</b>	21,291
Payables for acquisition of property, plant and equipment	<b>2,371</b>	3,713
Other tax payables	<b>6,175</b>	9,216
Other payables	<b>39,772</b>	29,666
	<b>575,888</b>	296,046

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June, 2008

### 11. Trade and Other Payables (Continued)

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

Age	<b>At 30th June, 2008 HK\$'000 (unaudited)</b>	At 31st December, 2007 HK\$'000 (audited)
0 to 30 days	<b>63,469</b>	35,817
31 to 60 days	<b>154,004</b>	60,976
61 to 90 days	<b>109,268</b>	22,164
91 to 120 days	<b>76,818</b>	47,464
121 to 360 days	<b>47,118</b>	26,280
	<b>450,677</b>	192,701

### 12. Short-term Bank Loans

During the period, the Group obtained new revolving bank loans and packing loans amounting to HK\$36,000,000 and HK\$25,974,000 respectively. The loans are unsecured and carry floating interests at the rate ranging from 1% to 1.25% per annum over Hong Kong Interbank Offer Rate. The proceeds were used to finance the daily operations of the Group.

### 13. Disposal of a Subsidiary

During the period, the Group disposed of its entire 100% interest in 鶴山真明麗激光科技有限公司 (Heshan Neo-Neon Laser Technology Co., Ltd.) ("JGK"). The net assets of JGK at the date of disposal were as follows:

Net assets disposed of	HK\$'000 —
Release of reserve upon disposal	(711)

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June, 2008

### 14. Share Options

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

	<b>Number of share options</b>	
	<b>2008</b>	2007
Outstanding at 1st January	<b>12,524,500</b>	–
Granted during the period	<b>8,542,500</b>	15,110,000
Exercised during the period	–	(626,500)
Cancelled during the period	<b>(3,250,000)</b>	(218,000)
Outstanding at 30th June	<b>17,817,000</b>	14,265,500

The share options granted have an exercise price of HK\$5.03 and HK\$5.9 with various vesting periods between February 2008 and February 2012.

The share options granted in 2007 had an exercise price of HK\$8.72 with various vesting periods between February 2007 and February 2011.

The closing price of the Company's shares immediately before 1st February, 2008 and 29th February, 2008, the dates when the share options were granted was HK\$4.75 and HK\$6 per share respectively.

The closing price of the Company's shares immediately before 15th February, 2007, the date when the share options were granted was HK\$8.5 per share.

The aggregate estimated fair values of the options determined at the dates of grant using the Binomial model were HK\$14,850,000 (2007: HK\$42,036,000).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30th June, 2008

### 15. Capital Commitments

	<b>At 30th June, 2008 HK\$'000 (unaudited)</b>	At 31st December, 2007 HK\$'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– the acquisition of property, plant and equipment	<b>304,596</b>	158,746
– investment projects in the PRC	<b>–</b>	217,749
– the acquisition of land use rights	<b>–</b>	4,378
– the acquisition of investment properties	<b>29,701</b>	–
	<b>334,297</b>	380,873

### 16. Related Party Transactions

During the period, the Group sold goods totalling HK\$9,252,000 (2007: HK\$29,150,000) to its associates and jointly controlled entity.

The emoluments to the Company's Directors, who are the Group's key management, are HK\$5,193,000 (2007: HK\$4,606,000).