

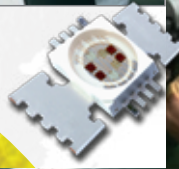
2009

Interim Report



We grow and color the world green

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



Neo-Neon™

NEO-NEON HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 1868

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Ben FAN (*Chairman*)
Mr. JANG Jann Huan
(*Resigned on 26th Aug 2009*)
Ms. Michelle WONG
Mr. FAN Pong Yang

Non-Executive Directors

Mr. LEUNG Wai Chuen

Independent Non-Executive Directors

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

Company Secretary

Mr. CHAN Cheung

Authorised Representatives

Ms. Michelle WONG
Mr. CHAN Cheung

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

CORPORATE INFORMATION *(Continued)*

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

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

During the period under review, the market for LED-based general lighting products continued its strong growth despite the global economic downturn. Compared to traditional lighting products, LED-based general lighting products can achieve energy saving of 80% and likely to reach 90% in the future. In 2007 or so, Australia, Canada, the United States, the European Union, Japan and China Taiwan announced one after another that they would gradually abandon incandescent -based lighting products.

The greatest advantage of light emitting diode (“LED”) is power-saving and longer life. A 5-watt LED emits the same luminance as a 30-watt incandescent lamp. As there is no ultraviolet and infrared spectra, it gives low heat and radiation and would not attract mosquitoes in summer. Unlike the incandescent lamps which contain mercury components, LED can be recycled and therefore it is known as green lighting source. In addition to its small volume with low heat emission, it's market has strong growth prospect. Apart from being used as display panel lights in electrical appliances, it also has been applied to mobile phone display, computer display, LED TVs as backlighting source. Furthermore, urban decorative lights and neon signs for commercial stores also tend to apply LED. In addition to high power consumption, the fluorescent tubes of traditional neon signs are filled with high-pressure and toxic gases.

It is widely accepted in the industry that the invention of LED is as another milestone in the field of lighting after light bulbs by the scientist Edison. Such semiconductor material capable of transforming electricity into light, is characterized by small size, low power consumption, long life and low heat emission. The new LED light industry is an important component of the fourth industrial revolution as characterized by new energy application which is flourishing throughout the world. This new energy revolution is generally considered as a major breakthrough to ride out the economic crisis.

BUSINESS REVIEW

During the period under review, despite that LED technology was further applied in the decorative lighting and general lighting products, the Group recorded a decrease in turnover due to the impact of the global financial crisis on the Group. The expansion of plants and equipment to meet the needs of business expansion also led to an increase in depreciation charge. For the interim period of 2009, the Group's revenues dropped 22.6% to HK\$554.3 million from HK\$716.5 million for the corresponding period in 2008, while net profit dropped to HK\$42.3 million representing a drop of 59.5%. Gross profit margin was 28.9%, compared to 34.6% in the corresponding period of the previous year.

BUSINESS REVIEW *(Continued)*

LED-based Decorative Lighting

The LED-based decorative lighting business continues to be the Group's major source of revenue. During the period under review, orders for LED-based decorative lighting products from the United States and Europe dropped due to the impact of the sub-prime mortgage crisis, and sales of LED-based decorative lighting products decreased by 14.6% to HK\$276,700,000. However, owing to its exceptional competitive edge, sales of LED-based decorative lighting products accounted for 49.9% of the Group's total turnover, representing an increase of 4.7% as compared to 45.2% for the corresponding period of the previous year. The application of LED in decorative lighting will vigorously promote the growth of the LED lighting industry and make LED-based decorative lighting products our future bright spot.

Christmas lighting, besides the common twinkle lighting sets, includes the Christmas spirit decorative lighting for special purposes, building lighting and Christmas candle light, etc. Traditional Christmas lighting may enrich the festival spirit more than anything, but consumes too much energy. As nowadays environmental awareness are higher among the public, LED is gradually replacing many traditional Christmas lighting devices and its market penetration has substantially expanded. Currently, giant Christmas trees placed on squares, especially on the facade of buildings lit-up with LED lights were mainly set up by the state government and federal government of the United States, and there are also quite a large number of cases of corporate application. Take the LED lighting Christmas trees set up by the US government in Washington D.C. as an example. With their huge size, they were recently redecorated with LED lights in stead of traditional tungsten filament light bulbs. The major benefit is energy-saving. LED lights can save at least 60% of power compared to the traditional tungsten filament light bulbs (depending on the AC/DC conversion module, the relevant power supply and the light emission efficiency of the LED used, it can save up to 90% of the power consumed by traditional tungsten filament light bulbs). What's more, LED-based decorative lights generate little heat (Christmas decorative lighting uses low wattage LEDs, which generate much less heat than tungsten filament light bulbs) and last much longer than traditional tungsten filament light bulbs.

In recent years, traditional neon light boxes and signs are being replaced by the LED-based alternatives, the brightness of which can be adjusted by current strength and they give various colours through the mix of lights. Through circuit control and video control, they turn into iridescent wall displays and vivid commercial billboards that make up the magnificent river-bank night view.

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

BUSINESS REVIEW *(Continued)*

Incandescent Decorative Lighting

Sales of incandescent decorative lighting products dropped 37.2% to HK\$131.1 million and accounted for 23.7% of the Group's turnover compared to HK\$208.9 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 cut prices in order to survive under the gloomy market outlook. However, incandescent decorative lighting products still hold market dominance. To better consolidate its production capacity, the Group started to build factories in Vietnam and moved its incandescent decorative lighting production lines there in consideration of the intense competition, low technology and labour-intensive production, concessionary electricity tariff and other favourable policies there. The vacated plants and spared resources in China will be better utilized to build a facility that vertically integrate the functions of R&D, production, sales of LED products as well as project design and construction, in pursuant of higher efficiency and cost-effectiveness.

The Group anticipates that sales of incandescent decorative lighting products will gradually slow down over the medium term. With growing environmental awareness, the use of incandescent lights must be gradually replaced by environment-friendly light sources. Since LED was introduced as a light source in 2007, it has become the main-stream alternative for energy-saving lighting in the new era. Currently, world-renowned lighting equipment manufacturers (like Lowe's, GE, Osram and Paulmann) and manufacturers in the Mainland and Taiwan are generally using LED as the light source for its new products.

Entertainment Lighting

Sales of entertainment lighting products dropped 35.1% to HK\$80.9 million, accounting for 14.6% of the Group's turnover compared to HK\$124.7 million during the corresponding period in the previous year. The Group believed there were enormous opportunities for this business segment, especially in the China market. The increase in disposable income and spending power of the people in the PRC are driving the demand for various sorts of entertainment lighting products.

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 is the forerunner in the application of LED technology in the entertainment lighting business.

BUSINESS REVIEW *(Continued)*

General Lighting Market

During the period under review, notwithstanding the global financial crisis, our sales of Led-based general lighting products recorded a 54.6% increase to HK\$50,400,000, accounting for 9.1% of the Group's total turnover, compared with HK\$32,600,000 and 4.5% in the corresponding period of the previous year. It is expected that demand for LED-based general lighting products will continue to grow, especially in the streetlight segment. The Group has developed a number of streetlights for the China market, among which the economic series are particularly competitive. Recently, Heshan Municipal Government has notified the Group of their approval on the Group's bid for the upgrade project of installing 10,000 LED streetlights in Heshan City. Meanwhile, there are already 21 cities in China joining the "10 Cities, 10,000 Streetlights" Upgrade Projects and it is expected that the market demand arising from this project in the following 3 years will be 2.5 million LED streetlights. So far, the Group has secured a contract for 10,000 streetlights contract in Heshan City and a contract for 20,000 streetlights in Jiangmen City.

As the LED streetlights projects commenced in stages in cities in the PRC, many LED streetlights projects were piloted in Taiwan due to increased government budget to boost domestic demands. Besides that, countries including USA and Europe have begun trial runs of LED streetlights on a moderate scale. These actions are aimed to substitute traditional streetlights and also try to complement those areas suffering from power shortage with renewable energy such as solar energy, wind energy, etc to produce regional street lighting. Therefore, LED streetlights are attracting more interest in the market.

With respect to commercial office use lighting, new white light illumination products with high brightness have been successfully developed. These products offer 100 lumen/watt 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.

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 Review Period, as an effort to secure our leading position in the LED application market, coupled with our continuing development of upstream epitaxy products, our subsidiary, Heshan Lide Electronic Enterprise Limited, joined the South China University of Technology (SCUT) of Guangdong to establish the Lide-SCUT Photoelectric Technology Research Centre aiming at developing high-end Photoelectric Technology. The centre has provided technical support for the Group to launch mass production of LED epitaxy. This high-end photoelectric research institute played an important role in improving the production yield ratio and shortening the process from commissioning to mass production. It also provided technical support to the Group's LED epitaxy factory which has been preparing for mass production, in order to produce high-efficiency and good quality upstream LED materials.

There has been remarkable breakthrough in the LED illumination technology, and 2009 will be the first year of the take-off of the LED-based lighting market. Prior to that, LED-based lighting products are not popular for their high prices. 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.

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 expanded its manufacturing capacity in chip manufacturing. The Group's total LED packaging capacity has already reached 450 million light bulbs per month. The most costly element in a LED light bulb is the wafer which is a product at the top of the supply chain. Therefore, the Group decided to build its own wafer factory and has invested US\$40 million in the first stage. Previously, annual purchases of wafers from external suppliers was around US\$20 million. The factory commenced trial production early this year and the monthly production reached 400 million wafers following the commencement of mass production in June 2009. It is expected that the costs of LED end products will be reduced by 10% to 15%.

BUSINESS REVIEW *(Continued)*

Quality Control

Ever since the inception of the Group, ensuring the highest product quality has always been a high priority. Benefiting from our strong vertically integrated business model, we are able to exercise strict quality control 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.

Sales and Distribution

As of 30th June, 2009, 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 tap into higher market demand and opportunities for this lucrative segment.

To cater for the increased sales opportunities in PRC market, the Group has allocated more resources to expand its presence on the mainland. To this end, the current concern for energy-saving from the Chinese Government will provide excellent opportunities for our business expansion in domestic sales.

New Showrooms and New Vietnam Plant

The Group has established a showroom in Shanghai and is establishing showrooms in other cities in China. Their purpose is 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 Jianyang and Tianjin.

In order to reduce the labour cost and further develop our business in South Asia, so that manufacturing cost for high and low priced products can be minimized, the Group acquired 1,200 mu of land in TAIPEI Vietnam as a backup to our Heshan Factory. Currently our Vietnam contractor is building our 20,000 M² first phase factory, which is expected to complete by the end of September 2009 and officially commence production. Subsequently, the second phase and third phase factory construction for a total of 70,000 M² plant will be completed within 18 months. During the early stage, it will focus on producing low-end traditional tungsten filament decorative lights with simple package as well as light bulb chains, with a staff of 3,000. Due to the huge demand for LED-based products, and to house the Vietnam factory and LED application production lines, the Group has added a new plant area of 150,000 M². However, the staff in our Heshan Factory has reduced to 10,000 from the 20,000 as in the peak season, even with the enhanced profitability with self-produced wafers. This is mainly due to the introduction of automated production and the moving of certain labour-intensive production lines to Vietnam.

FINANCIAL REVIEW

Turnover

During the Review Period, the Group has recorded a turnover of approximately HK\$554.3 million, representing a decrease of 22.6% as compared to approximately HK\$716.5 million in the corresponding period in the last year. The decrease was mainly due to the impact of the global financial crisis on our business turnover.

Cost of Goods Sold

The Group's costs of goods sold were HK\$394.1 million, representing a decrease of 15.9% from HK\$468.6 million as compared to the same period in the last year.

Gross Profit and Gross Profit Margin

The gross profit decreased by 35.4% from HK\$247.9 million in 2008 to HK\$160.2 million as a result of a decrease in sales during the Review Period. The gross profit margin for the period dropped to 28.9% as compared to 34.6% in the corresponding period last year.

Other Income

Other income was HK\$28.9 million during the Review Period (HY2008: HK\$50.6 million) representing a decrease of HK\$21.7 million or 42.8%, mainly due to exchange loss of HK\$1.2 million for the six months ended 30th June, 2009 while an exchange gain of HK\$37.8 million for the same period in the last year.

Other income was mainly contributed by bank interest income, investment income from marketable securities, foreign currency and gold contracts.

Administrative, Distribution and Selling Expenses

For the six months ended 30th June, 2009, the Group's administrative, distribution and selling expenses were HK\$142.1 million, a decrease of 24.4% from HK\$188.0 million in the same period in 2008. The decreases were in line with the drop in sales turnover and the cost of goods sold.

Financing Costs

The finance costs of the Group in the six months ended 30th June, 2009 was HK\$2.5 million, increased by 23.2 times from HK\$0.1 million in the corresponding period of 2008. The increase was mainly attributable to the increase of bank borrowings.

FINANCIAL REVIEW *(Continued)*

Net Profit

For the six months ended 30th June, 2009, the Group's net profit was HK\$42.3 million, a decrease of 59.5% compared with HK\$104.4 million in the corresponding period of 2008. The decrease was mainly attributable to decrease in sales due to the impact of the global financial crisis and increase in depreciation resulting from the significant addition of plant and machinery catering for business expansion. The net profit margin for the period was 7.6% compared with 14.6% in the same period in 2008.

Financial Resources and Liquidity

The Group maintained a stable financial position. As at 30th June, 2009, the Group had bank balances and cash of HK\$376.2 million (at 31st December, 2008: HK\$458.9 million) and short-term bank loans of HK\$13.5 million (at 31st December, 2008: 13.5 million). 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 13.0% as at 30th June, 2009 (at 31st December, 2008: 13.1%).

Assets and Liabilities

As of 30th June, 2009, the Group's total assets were HK\$3,141.7 million, an increase of HK\$17.1 million compared with HK\$3,124.6 million as of 31st December, 2008. The Group's total liabilities as of 30th June, 2009 were decreased by 3.3%, comparing to that as of 31st December, 2008, from HK\$611.3 million to HK\$590.9 million.

The Group's shareholders' equity as of 30th June, 2009 was HK\$2,544.0 million, representing an increase of 1.5% when compared with HK\$2,506.5 million as of 31st December, 2008. 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, 2009 was HK\$3.1 million. The effective tax rate was 6.8% for the six months ended 30th June, 2009, which was 5.3% for the first half of 2008.

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

It is expected that the growing demand of LED-based decorative lighting products will be continued in the future and there is a great potential in the LED-based general lighting products market. The Group will enhance its R&D and the investment in more new of facilities in order to expand LED-based decorative lighting business. Currently, the luminating efficacy of LED is much higher than that of incandescent-based lighting. The globe is paying attention to LED which is known as the “Technology Brightening the Future” that would lead to the third revolution in the lighting industry.

2009 is a year showing rapid growth of scale in the LED streetlight market. As the LED streetlights projects commenced in stages in cities in the PRC, many LED streetlight projects were piloted in Taiwan due to increased government budget to boost domestic demands. Besides that, countries including USA and Europe have begun trial runs of LED streetlights on a moderate scale. These actions are aimed to substitute traditional streetlights and also try to complement those areas suffering from power shortage with renewable energy such as solar energy, wind energy, etc to produce regional street lighting. Decorative lighting and streetlights product will be the star products in the coming years.

Chip Manufacturing Plant

As the largest cost of LED components is the most upstream wafer, the Group invested a self-owned Heshan Neo-Neon LED Epitaxy Plant (真明麗鶴山LED磊晶廠) with a gross area up to 300 mu. Phase one construction work for the plant and machinery equipment included 5 MOCVD with an investment amounted to US\$30 million. Production output per month is approximate 12,500 wafers. Trial production officially began early this year and the monthly production reached 400 million wafers following commencement of mass production in June.

The Group now established vertical integration of the whole LED industrial chain incorporating “Chips R&D – Extending slice production – Chips production – Chips package – Product application”, which is the most complete LED industrial chain in the globe. With modern management technique and method, optimized production process, enhanced production efficiency and an established complete highly-effective supply chain system, the enterprise’s core competitiveness is strengthened while achieving cost effectiveness. Consequently a new profit growth source is established.

FUTURE PLANS AND PROSPECTS *(Continued)*

Chip Manufacturing Plant *(Continued)*

Having the LED epitaxy production capacity, a well vertically integrated LED upstream, midstream and downstream operation together with an approval granted by provincial government, the whole Group will be entitled to preferential Enterprise Income Tax of 15% in the capacity of High-New Technology Enterprise in future. Thus, Enterprise Income Tax is payable at a rate which is 10 percentage points lower when those applicable to compare with general decorative lighting manufacturers. The Group takes a further competitive advantage in terms of its tax charges.

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. The Group had a flexible plan to modify the expansion work of phases two and three of the new plant when it deems necessary in order to maximize the returns to shareholders. The Group is confident of the future development of the new plant.

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. The Group completed an inventory management review that encompasses every step to reduce inventory. As a result, inventories level have been reduced from HK\$908.2 million to HK\$823.0 million, representing a drop of 9.4%, partly because raw materials have been purchased and consumed on consumption basis. Going forward, the Group will monitor its inventory management policy to speed up response to customer orders and 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.

FUTURE PLANS AND PROSPECTS *(Continued)*

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\$0.014 (2008: HK\$0.034) per ordinary share. The interim dividend will be paid on or about 12th November, 2009 to shareholders whose names appear on the Register of Members of the Company on 4th November, 2009.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 2nd November, 2009 to 4th November, 2009, 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 30th October, 2009.

HUMAN RESOURCES

At 30th June, 2009, the Group had 10,300 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, 2009, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the 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, 2009
	Personal interests ⁽¹⁾	Family interests	Corporate interests	Other interests			
Mr. Ben FAN ⁽²⁾	600,000	42,862,000	351,000,000	-	-	394,462,000	45.978%
Ms. Michelle WONG ⁽²⁾	10,102,000	351,600,000	32,760,000	-	-	394,462,000	45.978%
Mr. FAN Pong Yang ⁽³⁾	849,000	-	32,760,000	-	-	33,609,000	3.917%
Mr. JANG Jann Huan ⁽⁴⁾	613,500	-	32,760,000	-	-	33,373,500	3.890%
Mr. WU Tak Lung	-	-	-	-	50,000 ⁽⁵⁾	50,000	0.006%
Mr. ZHAO Shan Xiang	-	-	-	-	50,000 ⁽⁵⁾	50,000	0.006%
Mr. WENG Shih Yuan	-	307,500	-	-	-	307,500	0.036%

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 394,462,000 shares of the Company held by Mr. Ben FAN (600,000 shares), Ms. Michelle WONG (10,102,000 shares), Rightmass Agents Limited ("Rightmass") (351,000,000 shares) and Charm Light International Limited ("Charm Light") (32,760,000 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) 32,760,000 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 32,760,000 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 10,102,000 shares of the Company held by Ms. Michelle WONG and 32,760,000 share of the Company held by Charm Light.
- (3) 32,760,000 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 32,760,000 shares of the Company.
- (4) 32,760,000 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 32,760,000 shares of the Company.
- (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.

Save as mentioned above, as at 30th June, 2009, none of the Directors and chief executives had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations which had been entered in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30th June, 2009, the interests and short positions of those persons (other than the Directors) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long positions in shares of the Company

Name	Capacity in which shares were held	Number of ordinary shares held	Percentage of total issued share capital of the Company
Rightmass ⁽¹⁾	Beneficial owner	351,000,000	40.913%

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, 2009, the Company had not been notified of any interests and short positions in the shares and underlying shares of the Company which had been entered in the register required to be kept under Section 336 of the SFO.

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, 2009 are as below:

Type of participants	Date of grant (D/M/Y)	Exercisable period ⁽¹⁾ (D/M/Y to D/M/Y)	Exercise price per share (HK\$)	Number of share options				
				Outstanding at 1st January 2009	Granted during the period	Exercised during the period	Lapsed/cancelled during the period	Outstanding at 30th June, 2009
Directors								
Mr. WU Tak Lung	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
Employees								
In aggregate	15.02.2007	15.02.2007 – 15.02.2015	8.72	9,294,000	–	–	485,500	8,808,500
	01.02.2008	01.02.2008 – 01.02.2016	5.03	4,260,000	–	–	395,000	3,965,000
	29.02.2008	29.02.2008 – 29.02.2016	5.90	2,312,500	–	–	17,500	2,295,000
				15,966,500	–	–	898,000	15,068,500

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\$8.50, \$4.75 and HK\$6.00 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.

Note:

- (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.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining a high standard of corporate governance in the best interests of shareholders. The corporate governance principles adopted by the Company emphasise a highly efficient board of directors, sound internal control and the transparency and accountability to all shareholders.

The Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange stipulates the principles of good corporate governance and two levels of recommendations: (1) Code Provisions; and (2) Recommended Best Practices. As disclosed in the Corporate Governance Report contained in the Company’s 2008 annual report, the Company has applied the principles under the CG Code, and has been in full compliance with all the Code Provisions and certain Recommended Best Practices as set out in the CG Code. Throughout the Period, the Company has been in full compliance with all the Code Provisions and certain Recommended Best Practices as set out in the CG Code.

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 to 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, 2009. 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*)
 Mr. WENG Shih Yuan
 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.

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, 2009. At the meeting held on 13th September, 2009, the Audit Committee reviewed the unaudited financial statements for the half year ended 30th June, 2009 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:

Mr. WENG Shih Yuan (*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.

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*)

Mr. WENG Shih Yuan

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).

CONTINGENT LIABILITY AND CHARGE OF GROUP ASSETS

As at 30 June 2009, the Group did not have any significant contingent liabilities. As at 30 June 2009, the Group has pledged one of its investment properties with a fair value of HK\$42,072,000 (as at 31 December 2008: HK\$42,072,000), certain of its land and buildings with an aggregate carrying value of HK\$63,802,000 (as at 31 December 2008: HK\$63,802,000) and also bank deposits of aggregate carrying value of HK\$2,246,000 (as at 31 December 2008: HK\$2,269,000) to secure bank credit facilities granted to the Group.

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, 2009.

PUBLICATION OF 2009 INTERIM REPORT

The 2009 interim report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and will also be published on the website of the Company at <http://www.neo-neon.com> and the "HKExnews" website of Hong Kong Exchanges and Clearing Limited at <http://www.hkexnews.hk> in due course.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2009

		Six months ended	
		30th June,	
		2009	2008
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Turnover		554,265	716,456
Cost of goods sold		(394,063)	(468,605)
Gross profit		160,202	247,851
Other income		28,928	50,593
Distribution and selling expenses		(42,252)	(64,431)
Administrative expenses		(99,848)	(123,540)
Finance costs		(2,544)	(105)
Share of results of a jointly controlled entity		946	(114)
Profit before taxation	5	45,432	110,254
Taxation	6	(3,102)	(5,822)
Profit for the period		42,330	104,432
Attributable to			
– equity holders of the Company		42,330	104,432
– minority interests		–	–
		42,330	104,432
Proposed interim dividend	7	12,011	26,108
Earnings per share	8		
– Basic		HK\$0.056	HK\$0.137
– Diluted		HK\$0.049	HK\$0.137

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2009

	Six months ended 30th June,	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Profit for the period	42,330	104,432
Other comprehensive income		
Fair value gains/(loss) on available-for-sale financial assets, net of tax	1,082	(3,733)
Currency translation differences	(1,261)	37,775
Dividend income from listed investments held-for-trading	289	455
Total comprehensive income for the period, net of tax	42,440	138,929
Total comprehensive income attributable to:		
Equity holders of the Company	42,440	138,929
Minority interests	–	–
	42,440	138,929

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2009

	<i>Notes</i>	At 30th June, 2009 HK\$'000 (unaudited)	At 31st December, 2008 HK\$'000 (audited)
<hr/>			
Non-current assets			
Investment properties		56,460	55,344
Property, plant and equipment	9	1,144,663	1,160,353
Prepaid lease payments		82,842	35,850
Intangible assets		8,167	9,425
Interest in a jointly controlled entity		23,882	22,936
Deposits made on acquisition of property, plant and equipment		56,507	121,049
Deferred tax assets		5,967	5,961
		<hr/> 1,378,488 <hr/>	<hr/> 1,410,918 <hr/>
Current assets			
Inventories		823,035	908,208
Trade and other receivables	10	418,110	339,173
Investments held-for-trading		143,642	5,138
Pledged bank deposits		2,246	2,269
Bank balances and cash		376,153	458,878
		<hr/> 1,763,186 <hr/>	<hr/> 1,713,666 <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*(Continued)*

At 30th June, 2009

	<i>Notes</i>	At 30th June, 2009 HK\$'000 (unaudited)	At 31st December, 2008 HK\$'000 (audited)
Current liabilities			
Trade and other payables	11	240,989	258,532
Amount due to a Director		–	4,294
Taxation		19,131	18,463
Current portion of long-term bank loans		13,480	13,470
		273,600	294,759
Net current assets		1,489,586	1,418,907
Non-current liabilities			
Long-term bank loans		317,346	316,581
Net assets		2,550,728	2,513,244
Capital and reserves			
Share capital		76,120	76,120
Share premium		1,023,563	1,023,563
Other reserves		225,753	222,225
Retained profits		1,218,556	1,184,600
Equity attributable to equity holders of the Company		2,543,992	2,506,508
Minority interests		6,736	6,736
Total equity		2,550,728	2,513,244

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2009

	Share Capital	Share premium	Special reserve	Share compen- sation 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 recognised 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)
At 30th June, 2008 (unaudited)	76,120	1,023,563	53,856	48,100	20,009	97,728	1,172,993	2,492,369	7,788	2,500,157

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

For the six months ended 30th June, 2009

	Share Capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Share compen- sation reserve HK\$'000	Share options reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Attributable to equity holders of the Company HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st January, 2009 (audited)	76,120	1,023,563	53,856	48,100	22,223	98,046	1,184,600	2,506,508	6,736	2,513,244
Exchange differences arising on translation of foreign operations and net investments	-	-	-	-	-	1,252	-	1,252	-	1,252
Net income recognised directly in equity	76,120	1,023,563	53,856	48,100	22,223	99,298	1,184,600	2,507,760	6,736	2,514,496
Profit for the period	-	-	-	-	-	-	42,330	42,330	-	42,330
Total recognised income for the period	76,120	1,023,563	53,856	48,100	22,223	99,298	1,226,930	2,550,090	6,736	2,556,826
Recognition of equity-settled share-based payments	-	-	-	-	2,275	-	-	2,275	-	2,275
Dividends	-	-	-	-	-	-	(8,373)	(8,373)	-	(8,373)
At 30th June, 2009 (unaudited)	76,120	1,023,563	53,856	48,100	24,498	99,298	1,218,557	2,543,992	6,736	2,550,728

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, 2009

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, 2009

	Six months ended 30th June, 2009	2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(19,301)	(192,737)
Investing activities		
Purchase of property, plant and equipment	(64,009)	(116,398)
Deposits paid for acquisition of property, plant and equipment	16,704	(153,996)
Deposits paid for acquisition of investment properties	–	(20,540)
Proceeds from disposal of an associate	–	22,962
Other investing cash flows	(4,426)	(20,262)
Net cash used in investing activities	(51,731)	(288,234)
Financing activities		
Repayment of mortgage loans	–	–
Bank loans raised	399	66,184
Repayment of bank loans	(257)	(4,210)
Repayment to a director	(4,294)	(10,396)
Other financing cash flows	(10,917)	(105)
Net cash from (used in) financing activities	(15,069)	51,473
Net decrease in cash and cash equivalents	(86,101)	(429,498)
Cash and cash equivalents at 1st January	458,878	609,828
Effect of foreign exchange rate changes	3,376	2,475
Cash and cash equivalents at 30th June	376,153	182,805

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2009

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands and acts as an investment holding company. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate information" section of the Company's 2008 annual report. Its ultimate holding company is Rightmass Agents Limited, a company which is incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") under the historical cost convention, as modified by the revaluation of investment properties and derivatives financial instruments.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The Directors, having considered the current operation and business plan and capital commitment (Note 14) of the Group as well as the available banking facilities, are of the opinion that the Group will have sufficient working capital to enable it to operate as a going concern. Therefore, the consolidated financial statements are prepared on going concern basis.

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

For the six months ended 30th June, 2009

3. ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st December, 2008, as described in those annual financial statements.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1st January, 2009.

- HKAS 1 (revised), "Presentation of financial statements". The revised standard prohibits the presentation of items of income and expenses (that is "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All "non-owner changes in equity" are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The Group has elected to present two statements: an income statement and a statement of comprehensive income. The condensed consolidated interim financial information have been prepared under the revised disclosure requirements.

- HKFRS 8, "Operating segments". HKFRS 8 replaces HKAS 14, "Segment reporting". It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. This has no impact on the Group's financial statements, as the Group has already been using principles, which are consistent with HKFRS 8, in presenting segment information of the Group.

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

For the six months ended 30th June, 2009

3. ACCOUNTING POLICIES *(Continued)*

The following new standards, amendments to standards and interpretations which are or have become effective and did not have any material impact on the accounting policies of the Group.

HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligation Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
HK(IFRIC) 9 and HKAS 39 (Amendments)	Reassessment of Embedded Derivatives
HK(IFRIC) 13	Customer Loyalty Programmes
HK(IFRIC) 15	Agreements for the Construction of Real Estate
HK(IFRIC) 16	Hedges of a Net Investment in a Foreign Operation

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

For the six months ended 30th June, 2009

4. Segment Information

Business segment

	Six months ended	
	30th June, 2009 <i>HK\$'000</i> (unaudited)	30th June, 2008 <i>HK\$'000</i> (unaudited)
Turnover		
Incandescent Decorative Lighting	131,123	208,884
LED Decorative Lighting	276,721	324,005
LED General Illumination Lighting	50,389	32,588
Entertainment Lighting	80,892	124,707
Others	15,140	26,272
	554,265	716,456
Gross Profit		
Incandescent Decorative Lighting	25,587	57,154
LED Decorative Lighting	100,279	145,217
LED General Illumination Lighting	18,853	15,186
Entertainment Lighting	14,318	28,030
Others	1,165	2,264
	160,202	247,851

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

For the six months ended 30th June, 2009

4. Segment Information *(Continued)*

Business segment *(Continued)*

	Six months ended	
	30th June, 2009 HK\$'000 (unaudited)	30th June, 2008 HK\$'000 (unaudited)
Results		
Profit from operations		
Incandescent Decorative Lighting	9,317	30,426
LED Decorative Lighting	36,514	77,305
LED General Illumination Lighting	6,924	8,084
Entertainment Lighting	5,213	14,921
Others	424	1,206
	58,392	131,942
Unallocated other income	28,928	50,593
Unallocated expenses	(40,290)	(72,062)
Finance costs	(2,544)	(105)
Share of results of a jointly controlled entity	946	(114)
Profit before taxation	45,432	110,254
Taxation	(3,102)	(5,822)
Profit for the period	42,330	104,432

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

For the six months ended 30th June, 2009

4. Segment Information *(Continued)*

Geographical segment

	Six months ended 30th June,	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Turnover		
America	214,751	235,124
Europe	186,101	269,133
The PRC	52,730	54,533
Russia	20,128	31,614
Asia Pacific and Middle East (excluding PRC)	78,875	123,106
Others	1,680	2,946
	554,265	716,456
Results		
Profit from operations		
– America	21,021	41,272
– Europe	23,186	54,551
– The PRC	1,801	2,001
– Russia	2,476	6,744
– Asia Pacific and Middle East (excluding PRC)	9,724	26,830
– Others	184	544
	58,392	131,942
Unallocated other income	28,928	50,593
Unallocated expenses	(40,290)	(72,062)
Finance costs	(2,544)	(105)
Share of results of a jointly controlled entity	946	(114)
	45,432	110,254
Profit before taxation	45,432	110,254
Taxation	(3,102)	(5,822)
	42,330	104,432

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

For the six months ended 30th June, 2009

5. Profit Before Taxation

	Six months ended 30th June,	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	76,853	58,756
Less: Depreciation included in research and development costs	(1,468)	(878)
	75,385	57,878
Amortisation of intangible assets	1,257	1,169
Net exchange gain	1,261	(37,775)
and after crediting:		
Dividend income from listed investments held-for-trading	289	455
Gain on disposal of an associate	–	4,894
Interest income	2,931	5,072
Increase (Decrease) in fair value of listed investments held-for-trading	1,082	(3,733)

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

For the six months ended 30th June, 2009

6. Taxation

	Six months ended 30th June,	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
The charge comprises:		
Hong Kong Profits Tax	–	(551)
(Under) over provision of Hong Kong Profits Tax	(214)	(1,045)
	(214)	(1,596)
PRC enterprise income tax	(1,806)	(2,846)
Taxation in other overseas jurisdictions	76	120
	(1,730)	(2,726)
Deferred taxation		
– current period	(1,158)	(1,500)
	(1,158)	(1,500)
	(3,102)	(5,822)

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 16.5% (HY2008: 17.5%) on the estimated assessable profit for the period.

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

For the six months ended 30th June, 2009

7. Dividend

The proposed interim dividend of HK\$0.014 per share for the six months ended 30th June, 2009 is calculated on the basis of 857,928,500 shares in issue at the date of approval of this announcement.

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:

	Six months ended 30th June,	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Earnings		
Profit attributable to equity holders of the Company	42,330	104,432
Number of shares		
Weighted average number of ordinary shares in issue	761,197,500	760,610,874
Basic earning per share	HK\$0.056	HK\$0.137
Effect of dilutive potential ordinary shares		
– share options	–	2,705
– subscription for new shares <i>(Note)</i>	96,731,000	–
Weighted average number of ordinary shares for diluted earnings per share	857,928,500	760,613,579
Diluted earning per share	HK\$0.049	HK\$0.137

Note: On 3rd August, 2009, the Company allotted and issued 96,731,000 shares at a price of HK\$2.40 per share to China Environment Fund and raise US\$30,000,000 to finance continuing capital expenditure requirements and as general working capital for the Company's operating activities.

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

For the six months ended 30th June, 2009

9. Movements in Property, Plant and Equipment

During the period, the Group incurred HK\$111,800,000 (2008: HK\$233,000,000) on additions to property, plant and equipment to expand and upgrade its manufacturing capabilities, of which buildings HK\$35,400,000 (six months ended 30th June, 2008: HK\$2,400,000), leasehold improvement HK\$6,100,000 (six months ended 30th June, 2008: HK\$15,900,000), furniture, fixture and equipment HK\$400,000 (six months ended 30th June, 2008: HK\$6,200,000), motor vehicles HK\$100,000 (six months ended 30th June, 2008: HK\$2,700,000), plant and machinery HK\$5,500,000 (six months ended 30th June, 2008: HK\$81,600,000), mould HK\$6,400,000 (six months ended 30th June, 2008: HK\$10,600,000), construction in progress HK\$57,900,000 (six month ended 30th June, 2008: HK\$113,600,000).

10. Trade and Other Receivables

	At 30th June, 2009 HK\$'000 (unaudited)	At 31st December, 2008 HK\$'000 (audited)
Trade receivables		
– associates	–	–
– jointly controlled entity	306	1,066
– others	292,148	217,878
Bills receivables	123,431	75,492
Less: Allowance for bad and doubtful debts	(61,156)	(59,147)
	354,729	235,289
Deposits paid to suppliers	19,114	21,375
Other receivables	44,267	82,509
	418,110	339,173

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

For the six months ended 30th June, 2009

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:

	At 30th June, 2009 HK\$'000 (unaudited)	At 31st December, 2008 HK\$'000 (audited)
Age		
0 to 60 days	235,992	115,148
61 to 90 days	45,491	29,597
91 to 180 days	16,616	45,229
181 to 360 days	51,523	23,222
Over 1 year	5,107	22,093
	354,729	235,289

11. Trade and Other Payables

	At 30th June, 2009 HK\$'000 (unaudited)	At 31st December, 2008 HK\$'000 (audited)
Trade payables		
– associates	641	641
– others	147,554	182,281
Bills payables	192	3,225
	148,387	186,147
Customers' deposits	30,857	22,877
Payroll and welfare payables	22,011	16,858
Payables for acquisition of property, plant and equipment	3,419	2,262
Other tax payables	6,489	3,380
Other payables	29,826	27,008
	240,989	258,532

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

For the six months ended 30th June, 2009

11. Trade and Other Payables *(Continued)*

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

	At 30th June, 2009 HK\$'000 (unaudited)	At 31st December, 2008 HK\$'000 (audited)
Age		
0 to 30 days	39,475	70,694
31 to 60 days	45,312	34,523
61 to 90 days	26,583	10,076
91 to 120 days	8,278	27,227
121 to 360 days	28,739	43,627
	148,387	186,147

12. 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:

	Number of share options 2009	2008
Outstanding at 1st January	15,966,500	12,524,500
Granted during the period	–	8,542,500
Cancelled during the period	(898,000)	(3,250,000)
Outstanding at 30th June	15,068,500	17,817,000

The share options granted in 2008 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 15th February, 2007, 1st February, 2008 and 29th February, 2008, the dates when the share options were granted was HK\$8.50, HK\$4.75 and HK\$6.00 per share respectively.

No options was grant during the six months ended 30th June, 2009. Options granted in HY2008 have an aggregate estimated fair values of HK\$14,850,000.

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

For the six months ended 30th June, 2009

13. Capital Commitments

	At 30th June, 2009 HK\$'000 (unaudited)	At 31st December, 2008 HK\$'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	76,485	84,679
– investment projects in the PRC	22,480	89,922
	98,965	174,601

14. Related Party Transactions

During the period, the Group sold goods totalling HK\$984,000 (2008: HK\$9,252,000) to its associates and jointly controlled entity.

15. Subsequent Event

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