



NEO-NEON HOLDINGS LIMITED

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

2010 Interim Report

Professional LED product research,
development and production.

LEDs Light It



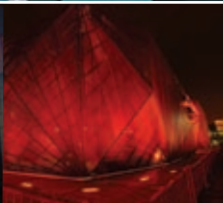
Neo-Neon lights up Expo 2010



Australia Hall



USA Hall



Canadian Hall



Peruvian Hall



Expo Culture Center

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Ben FAN (*Chairman*)
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

Mr. WENG Shih Yuan (*Chairman*)
Ms. 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 Bankers</i>	The Hongkong and Shanghai Banking Corporation Limited China Construction Bank (Asia) 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>	G/F & Basement Level 1 of New East Ocean Centre 9 Science Museum Road Tsim Sha Tsui East Kowloon Hong Kong
<i>Company Website</i>	www.neo-neon.com
<i>Stock Code</i>	1868

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

Light emitting diode (“LED”), is not volatilize, non-toxic and anti-pollution. The most important advantage of LED is majority of energy directly transforming into energy of light. Unlike the traditional lighting products, part of energy turns into heat energy and disappear. Now, 25% of the world’s electricity spends in the illumination, and if all the world’s illumination alters to the LED lighting, at least 12.5% of global electric power will be saved, apart from the energy savings in air-conditioning due to heat energy emission because LED can achieve at least 40%-60% of energy savings compared to fluorescent tubes and saves 90% compared to the incandescent lamps! Obviously, the effect of LED environmental protection and carbon emissions reduction has been well received by the market and from now on, LED will not only substitute for decorative lighting, but also substitute for all lighting products.

BUSINESS REVIEW

During the period under review, despite the recently worsened European market and the weak Euro, the Company’s sales and receivables in European market did not experience any negative financial impact or exchange rate risk because the Company’s sales and receivables were booked in US dollars and the Company’s major customers in the European market had relatively strong balance sheet and good financing ability. On the contrary, the Company’s good quality products and preferential selling prices had made the Company highly competitive. The Company had increased sales order amid the weak European market and weak Euro. Furthermore, a major part of the Company’s sales comes from the US, PRC, Asia Pacific (excl. PRC) and Russia.

For the interim period of 2010, the Group’s revenues increased 31.7% to HK\$730.1 million from HK\$554.3 million for the corresponding period in 2009, while net profit increased to HK\$99.3 million (2009: HK\$42.3 million) representing an increase of 134.8%. Gross profit margin was 33.1%, compared to 28.9% in the corresponding period of the previous year. In addition, many product lines of the Company have obtained the certification of US “Star of The Energy” which was an effective energy savings solution granted by the US government. Also, the Company was the first manufacturer in Asia that had been awarded such a certification.

Regarding LED streetlights, last year the Company’s representative project was WuGuang High-Speed Railway (“武廣高鐵”). This year, the Company’s LED lighting products were used intensively in the opening ceremony and 8 theme pavilions and the other 17 pavilions, including the World Expo Cultural Centre, Pavilion of Urbanian, Canadian Pavilion, United States Pavilion, Peru Pavilion, Australia Pavilion and General Motors Corporate Pavilion of the 2010 Shanghai World Expo. In the opening ceremony of the Expo, the Company especially provided 6,000 LED light balls flowing down the Huangpu River, which together with the mighty aerial fireworks formed a spectacular lighting performance. In the Expo Cultural Centre, the Company’s green LED lights were used, which were mixing evenly and angle of which could be adjusted to cast high power LED illumination onto the wing discs of “UFO”, casting a brilliant and blurred colour.

BUSINESS REVIEW *(Continued)*

LED-based Decorative Lighting

The LED-based decorative lighting business remains to be one of the Group's major source of revenue. During the period under review, orders for LED-based decorative lighting products from the United States, PRC, Asia Pacific (excluding PRC), Russia and Europe increased due to the recovery from economic recession all around the world, and sales of LED-based decorative lighting products increased by 28.1% to HK\$354,477,000 (2009: HK\$276,721,000). Owing to the competitive edge of LED general lighting, which increased by 228.5%, sales of LED-based decorative lighting products accounted for 48.5% of the Group's total turnover, representing a decrease of 1.4% as compared to 49.9% for the corresponding period of the previous year.

Incandescent Decorative Lighting

Sales of incandescent decorative lighting products dropped 20.9% to HK\$103.7 million and accounted for 14.2% of the Group's turnover compared to HK\$131.1 million in the corresponding period in the previous year. The Group anticipates that sales of incandescent decorative lighting products will be gradually replaced by LED-based decorative lighting which was introduced as a light source since 2008. Currently, incandescent lighting has less than 25% of market share in global lighting market.

Entertainment Lighting

Sales of entertainment lighting products increased 2.6% to HK\$83.0 million, accounting for 11.4% of the Group's turnover compared to HK\$80.9 million during the corresponding period in the previous year. Having successfully developed high brightness LED light bulbs, there will be enormous opportunities to replace certain 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, 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.

BUSINESS REVIEW *(Continued)*

LED General Lighting

During the period under review, our sales of LED-based general lighting products recorded a 228.5% increase to HK\$165,550,000, accounting for 22.7% of the Group's total turnover, compared with HK\$50,389,000 and 9.1% in the corresponding period of the previous year. The Copenhagen Conference 2009 will become the world's historical turning point for the transformation to an overall low carbon era. The Chinese government announced that it aims to reduce the emission of carbon dioxide to 40% – 45% in 2020 as compared to the amount of emission in 2005. Until now, there are already 50 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. For this reason, the company have received many LED streetlights projects.

With respect to commercial office use lighting, new white light illumination products with high brightness have been successfully developed. These products offer more than 100 lumen/watt but consume only 10% of the energy needed for an incandescent light bulb or 60% of the energy needed for CFL of the same brightness. In terms of durability, they last up to 50,000 hours in comparison to 2,000 hours for conventional incandescent lighting and 8,000-10,000 hours for CFL. Furthermore, at present, these products yield very close price-efficacy rate of CFL. These products have been launched to the market during the period.

The application of LED in general lighting will vigorously promote the growth of the LED lighting industry and make LED-based general lighting products our future bright spot. The replacement of tradition 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 coming years.

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, as an effort to secure our leading position in the LED application market, coupled with our continuing development of upstream epitaxy products to produce high-efficiency and good quality upstream LED materials, the Company's LED chips, including 10 mil x 23 mil chips, and packaging technology have risen to meet international standards. The brightness of the Company's mass produced LED chips has risen to an average of 2,100 mcd, which is comparable to the brightness level of 2,000 mcd to 2,200 mcd of the leading Taiwan backlight factories and higher than the 1,700 mcd to 1,900 mcd of mainland China manufacturers.

There has been remarkable breakthrough in the LED illumination technology in 2009. Currently, the Company is developing LED chips using AC power which will be put into production later. 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 contribution to a greener world.

BUSINESS REVIEW *(Continued)*

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. The second phase expansion in the production capacities of the Company's production plants in Vietnam and China's LED chip/wafer and packaging factories have been progressing smoothly in both Yangzhou and Jiangmen cities. Yangzhou and Jiangmen Municipal Government of China have been actively providing subsidy to the Company for the establishment of LED manufacturing plants in Yangzhou and Jiangmen cities. To take advantage of this policy, the Group has entered into the Investment Agreements with the Yangzhou Economic and Technological Development Zone and Management Committee of Jiangmen Industrial Park as disclosed in the Company's announcement dated October 2009 and June 2010 respectively, and plans to expand the existing LED manufacturing plants in the two green industrial cities of Yangzhou and Jiangmen within the next 5 years. With the expansion of LED manufacturing plant, the Group's production capacity will reach to an average of approximately 230,000 pieces of wafer or 5,000 million pieces of LED chips per month, and both Yangzhou and Jiangmen cities would be the Group's major focus of future development.

It is expected that with the future expansion in production volume, the economy of scale will help save the Company's production cost by approximately 25% to 40%. It will further consolidate the supply chain and shorten the delivery lead time to final customer.

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 to customer solutions throughout the entire process from product development, raw material procurement and collaboration among the various in-house production plants participants. 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, 2010, the Group had a sales team of 460 with offices in sixteen countries and regions including PRC, Korea, Taiwan, Hong Kong, Macau, Vietnam, Malaysia, Dubai, UK, Thailand, Netherlands, Germany, Russia, USA, Brazil, etc. While we continued to develop our LED-based 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 established 30 no. of sales offices and 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 showrooms in Shanghai, Shenzhen, Tianjin, Chengdu and is establishing 30 no. of 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.

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. Our first phase 20,000 M² factory was completed in September 2009 and the second phase and third phase factory construction for a total of 70,000 M² plant will be completed by end of this year.

To better consolidate its production capacity and regarding the continuous rising labour cost in PRC subsequent to the implementation of new Labour Law, the Group started to move its incandescent lighting and decorative lighting production lines to Vietnam plants 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 pursuit of higher efficiency and cost-effectiveness. Currently, the Vietnam plants have 3,000 no. of employee and no. of employee in PRC has reduced to 10,000 from 20,000 as in the peak season previously. 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\$730.1 million, representing an increase of 31.7% as compared to approximately HK\$554.3 million in the corresponding period in the last year. The increase was mainly due to the impact of global demand of LED-based lighting business turnover and increase in effectiveness of chips and packaging plants.

Cost of Goods Sold

The Group's costs of goods sold were HK\$488.3 million, representing an increase of 23.9% from HK\$394.1 million as compared to the same period in the last year.

Gross Profit and Gross Profit Margin

The gross profit increased by 51.0% from HK\$160.2 million in 2009 to HK\$241.9 million as a result of an increase in sales during the Review Period. The gross profit margin for the period increased to 33.1% as compared to 28.9% in the corresponding period last year.

Other Income

Other income was HK\$29.3 million during the Review Period (HY2009: HK\$28.9 million) representing an increase of HK\$0.4 million or 1.4%, mainly due to subsidy income of HK\$42.2 million, investment loss from trading of securities, foreign currency and gold contracts of HK\$17.2 million for the six months ended 30th June, 2010 while an investment income from trading of securities, foreign currency and gold contracts of HK\$23.4 million for the same period in the last year.

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

Administrative, Distribution and Selling Expenses

For the six months ended 30th June, 2010, the Group's administrative, distribution and selling expenses were HK\$167.0 million, an increase of 17.5% from HK\$142.1 million in the same period in 2009. The increases were in line with the increase in sales turnover and the cost of goods sold.

Financing Costs

The finance costs of the Group in the six months ended 30th June, 2010 was HK\$2.6 million, increase of 4.0% from HK\$2.5 million in the corresponding period of 2009. The increase was mainly attributable to the increase of bank borrowings.

FINANCIAL REVIEW *(Continued)*

Net Profit

For the six months ended 30th June, 2010, the Group's net profit was HK\$99.3 million, an increase of 134.8% compared with HK\$42.3 million in the corresponding period of 2009. The increase was mainly attributable to an increase in sales due to the impact of the global demand of LED-based lighting on our business operations resulting in a significant increase in Group's revenues, and an increase in effectiveness of chips and packaging plants. The net profit margin for the period was 13.6% compared with 7.6% in the same period in 2009.

Financial Resources and Liquidity

The Group maintained a stable financial position. As at 30th June, 2010, the Group had bank balances and cash of HK\$391.0 million (at 31st December, 2009: HK\$904.0 million) and short-term bank loans of HK\$491.9 million (at 31st December, 2009: HK\$521.4 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 15.5% as at 30th June, 2010 (at 31st December, 2009: 17.0%).

Assets and Liabilities

As of 30th June, 2010, the Group's total assets were HK\$4,270.0 million, an increase of HK\$307.4 million compared with HK\$3,962.6 million as of 31st December, 2009 representing an increase of 7.8%. The Group's total liabilities as of 30th June, 2010 were increased by 26.0%, comparing to that as of 31st December, 2009, from HK\$728.0 million to HK\$917.3 million.

The Group's shareholders' equity as of 30th June, 2010 was HK\$3,346.5 million, representing an increase of 3.6% when compared with HK\$3,228.9 million as of 31st December, 2009. The increase was mainly due to the increase of the net profit for the six months ended 30th June, 2010.

Taxation

Taxation of the Group for the six months ended 30th June, 2010 was HK\$1.3 million (2009: HK\$3.1 million). The effective tax rate was 1.3% for the six months ended 30th June, 2010, which was 6.8% for the first half of 2009. The Group's PRC production plants entitled to preferential Enterprise Income Tax of 15% in the capacity of High-New Technology Enterprise. Thus, Enterprise Income Tax is payable at a rate which is 10 percentage points lower when those applicable to compare with general decorative lighting manufacturers. The Group takes a further competitive advantage in terms of its tax charges.

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 the LED-based general lighting products market will also grow very fast in future. The Group will enhance its R&D and continue to look for merger and acquisition opportunities with a view to expand our market share and level of technology, and in turn to add value to the Company and its shareholders. 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.

As the LED streetlights projects commence in stages in cities in the PRC, many LED streetlights projects are 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 streetlights. Decorative lighting and streetlights product will be the star products in the coming years.

The Group’s LED wafers & chip production, packaging and LED lighting applications such as LED indoor and outdoor general lighting, LED streetlights, LED bulb, LED fluorescent tube, LED down light & track light has already formed a vertically integrated industrial chain which has a huge technological advantage and China has been the Group’s LED production base for global sales to more than 80 countries and regions including United States, European Union, China, Japan, South Korea.

Chip Manufacturing Plant

To cater for the rising demand, the Group has established LED epitaxy production capacity to complete the most vertical integration of the whole LED industrial chain in the globe incorporating “Chips R&D – Extending slice production – Chips production – Chips package – Product application”. With modern management technique and method, optimized production process, enhanced production efficiency and an established vertically integrated supply chain, the Group’s core competitiveness is strengthened while achieving cost effectiveness together with an approval granted by provincial government. Consequently a new profit growth source is established.

This year, the demand for LED chips has increased rapidly. Currently, prices for LED chips have increased for more than 40% from approximately RMB850 to 1200 per two (2) inches or from RMB20 to RMB30 per thousand chips of decorative LED lights, while the Company’s ex-factory cost is RMB650 per two (2) inches and RMB14 per thousand chips. Accordingly, the gross profit rate exceeds 50% and the net profit margin exceeds 40%.

FUTURE PLANS AND PROSPECTS *(Continued)*

Chip Manufacturing Plant *(Continued)*

As the market demand for chips continues to remain robust, the Company will continue to expand its metal organic chemical vapour depositor ("MOCVD") from the existing seven (7) sets to twenty (20) sets by the end of 2010 for the production of LED wafers and chips. By the end of 2010, the production capacity of the Company will increase from the current 15,000 wafer per month (two (2) inches) to 45,000 wafer per month (two (2) inches) or 900 million chips per month, and the annual output value will reach RMB600 million. It is expected that the increased production capacity of chips will not only meet the Company's own need but also allow the external sales of chips in 2010 to increase from the current 30% to above 50% of the total production output, thereby allowing the Company to seize more market opportunities.

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 has 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 97% in the period under review. This increase will contribute to cost savings and efficiency enhancement, benefiting the Group's development over the coming years.

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. During the period under review as a result of 31.7% rising in sales turnover, inventories level have been increased from HK\$810.2 million to HK\$979.6 million, representing an increased of 20.9%, partly because raw materials have been purchased and consumed on annual 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\$0.028 (2009: HK\$0.014) per ordinary share. The interim dividend will be paid on or about 12th October, 2010 to shareholders whose names appear on the Register of Members of the Company on 6th October, 2010.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 4th October, 2010 to 6th October, 2010, 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 September, 2010.

HUMAN RESOURCES

At 30th June, 2010, the Group had 13,000 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, 2010, 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, 2010
	Personal interests ⁽¹⁾	Family interests	Corporate interests	Other interests			
Mr. Ben FAN ⁽²⁾	600,000	27,494,500	336,400,000	-	-	364,494,500	39.810%
Ms. Michelle WONG ⁽²⁾	10,385,000	337,000,000	17,109,500	-	-	364,494,500	39.810%
Mr. FAN Pong Yang ⁽³⁾	1,242,000	-	17,109,500	-	760,000	19,111,500	2.087%
Mr. WU Tak Lung	-	-	-	-	250,000 ⁽⁴⁾	250,000	0.027%
Mr. ZHAO Shan Xiang	-	-	-	-	250,000 ⁽⁴⁾	250,000	0.027%
Mr. WENG Shih Yuan	-	246,500	-	-	200,000 ⁽⁴⁾	446,500	0.049%
Mr. LEUNG Wai Chuen	-	-	-	-	200,000 ⁽⁴⁾	200,000	0.022%

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 364,494,500 shares of the Company held by Mr. Ben FAN (600,000 shares), Ms. Michelle WONG (10,385,000 shares), Rightmass Agents Limited ("Rightmass") (336,400,000 shares) and Charm Light International Limited ("Charm Light") (17,109,500 shares), respectively as follows:
 - (a) 336,400,000 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 336,400,000 shares of the Company;
 - (b) 17,109,500 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 17,109,500 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 336,400,000 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 10,385,000 shares of the Company held by Ms. Michelle WONG and 17,109,500 share of the Company held by Charm Light.
- (3) 17,109,500 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 17,109,500 shares of the Company.
- (4) This represents interests in options held by the relevant Director as a beneficial owner to subscribe for the relevant underlying shares in respect of the option shares granted by the Company under the share option scheme, details of which are set out in the section headed "Share Option Scheme" in this report.

Save as mentioned above, as at 30th June, 2010, 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, 2010, 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	336,400,000	36.741%

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, 2010, 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, 2010 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 30th June, 2010
				Outstanding at 1st January 2010	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	
Directors								
Mr. WU Tak Lung	01.02.2008	01.02.2008 – 31.01.2016	5.03	50,000	–	–	–	50,000
	22.01.2010	22.01.2010 – 21.01.2017	6.75	–	200,000	–	–	200,000
Mr. ZHAO Shan Xiang	01.02.2008	01.02.2008 – 31.01.2016	5.03	50,000	–	–	–	50,000
	22.01.2010	22.01.2010 – 21.01.2017	6.75	–	200,000	–	–	200,000
Mr. WENG Shih Yuan	22.01.2010	22.01.2010 – 21.01.2017	6.75	–	200,000	–	–	200,000
Mr. LEUNG Wai Chuen	22.01.2010	22.01.2010 – 21.01.2017	6.75	–	200,000	–	–	200,000
Mr. FAN Pong Yang	22.01.2010	22.01.2010 – 21.01.2017	6.75	–	760,000	–	–	760,000
Employees								
In aggregate	15.02.2007	15.02.2007 – 14.02.2015	8.72	7,954,000	–	–	235,500	7,718,500
	01.02.2008	01.02.2008 – 31.01.2016	5.03	2,852,500	–	24,000	72,500	2,756,000
	29.02.2008	29.02.2008 – 28.02.2016	5.90	2,287,500	–	–	7,500	2,280,000
	13.07.2009	13.07.2009 – 12.07.2016	2.19	13,967,500	–	2,238,500	90,000	11,639,000
	22.01.2010	22.01.2010 – 21.01.2017	6.75	–	13,440,000	–	40,000	13,400,000
				27,161,500	15,000,000	2,262,500	445,500	39,453,500

SHARE OPTION SCHEME *(Continued)*

The closing prices per share immediately before 15th February, 2007, 1st February, 2008, 29th February, 2008, 13th July, 2009 and 22nd January, 2010, the dates on which the share options were granted, were HK\$8.50, \$4.75, HK\$6.00, HK\$2.15 and HK\$6.75 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.

2,262,500 no. of share 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 2009 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 except a deviation on 12th July, 2010, in respect to the rapid strategic development of LED lighting market, Mr. Ben FAN, the Chairman, has been appointed as CEO and Mr. TSENG Jinsui has resigned as the CEO of the Company due to Mr. TSENG’s capabilities in research and development, production and sales, corporate management and years of management experience in Yangzhou to serve as chairman in Yangzhou subsidiary of the Group. Mr. Ben FAN took the role of the Chairman of the Board and the CEO because Mr. FAN has the vision on the LED industry, technology and market development which is necessary for the Group to maximize the edge solutions for the upstream, middle stream and downstream industrial chain integration from LED wafers & chip production, packaging and the LED lighting applications.

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, 2010. 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, 2010. At the meeting held on 27th August, 2010, the Audit Committee reviewed the unaudited financial statements for the half year ended 30th June, 2010 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 30th June, 2010, the Group did not have any significant contingent liabilities. As at 30th June, 2010, the Group has pledged one of its investment properties with a fair value of HK\$47,502,000 (as at 31st December, 2009: HK\$46,972,000), certain of its land and buildings with an aggregate carrying value of HK\$194,842,000 (as at 31st December, 2009: HK\$194,842,000) and also bank deposits of aggregate carrying value of HK\$2,282,000 (as at 31st December, 2009: HK\$2,270,000) 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, 2010.

PUBLICATION OF 2010 INTERIM REPORT

The 2010 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, 2010

		Six months ended	
		30th June,	
		2010	2009
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Turnover	4	730,146	554,265
Cost of goods sold		(488,258)	(394,063)
Gross profit		241,888	160,202
Other income		29,275	28,928
Distribution and selling expenses		(46,821)	(42,252)
Administrative expenses		(120,193)	(99,848)
Finance costs		(2,629)	(2,544)
Share of losses of an associate		(1,648)	–
Share of results of a jointly controlled entity		746	946
Profit before taxation	5	100,618	45,432
Taxation	6	(1,330)	(3,102)
Profit for the period attributable to owners of the Company		99,288	42,330
Other comprehensive income			
– exchange differences arising on translation		9,258	1,252
Total comprehensive income for the period attributable to owners of the Company		108,546	43,582
Attributable to			
– equity holders of the Company		98,794	42,330
– minority interests		494	–
		99,288	42,330
Proposed interim dividend	7	25,637	12,011
Earnings per share	8		
– Basic		HK\$0.108	HK\$0.056
– Diluted		HK\$0.108	HK\$0.049

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2010

		At 30th June, 2010 <i>HK\$'000</i> (unaudited)	At 31st December, 2009 <i>HK\$'000</i> (audited)
	<i>Notes</i>		
<hr/>			
Non-current assets			
Investment properties		62,266	61,736
Property, plant and equipment	9	1,341,076	1,223,977
Prepaid lease payments		100,850	86,160
Intangible assets		5,740	6,968
Interest in an associate		19,285	20,933
Interest in a jointly controlled entity		24,982	24,236
Deposits made on acquisition of property, plant and equipment		192,973	111,043
		<hr/> 1,747,172 <hr/>	<hr/> 1,535,053 <hr/>
Current assets			
Inventories		979,565	810,247
Trade and other receivables	10	732,920	257,360
Investments held-for-trading		354,629	391,312
Pledged bank deposits		2,282	2,269
Bank balances and cash		390,969	903,968
		<hr/> 2,460,365 <hr/>	<hr/> 2,365,156 <hr/>
Assets held for sale		62,428	62,428
		<hr/> 2,522,793 <hr/>	<hr/> 2,427,584 <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*(Continued)*

At 30th June, 2010

	<i>Notes</i>	At 30th June, 2010 HK\$'000 (unaudited)	At 31st December, 2009 HK\$'000 (audited)
Current liabilities			
Trade and other payables	11	390,494	171,596
Taxation		5,546	6,000
Current portion of long-term bank loans		491,896	521,402
		887,936	698,998
Net current assets		1,634,857	1,728,586
Total assets less current liabilities		3,382,029	3,263,639
Non-current liabilities			
Long-term bank loans		29,350	29,022
Net assets		3,352,679	3,234,617
Capital and reserves			
Share capital		91,559	91,333
Share premium		1,583,267	1,578,470
Other reserves		246,379	233,988
Retained profits		1,425,286	1,325,132
Equity attributable to equity holders of the Company		3,346,491	3,228,923
Minority interests		6,188	5,694
Total equity		3,352,679	3,234,617

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2010

	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, 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
Release of reserve upon disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-
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

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

For the six months ended 30th June, 2010

	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, 2010 (audited)	91,333	1,578,470	53,856	48,100	29,910	102,122	1,325,132	3,228,923	5,694	3,234,617
Exchange differences arising on translation of foreign operations and net investments	-	-	-	-	-	9,264	-	9,264	-	9,264
Net income recognised directly in equity	91,333	1,578,470	53,856	48,100	29,910	111,386	1,325,132	3,238,187	5,694	3,243,881
Profit for the period	-	-	-	-	-	-	98,794	98,794	494	99,288
Total recognised income for the period	91,333	1,578,470	53,856	48,100	29,910	111,386	1,423,926	3,336,981	6,188	3,343,169
Recognition of equity-settled share-based payments	-	-	-	-	3,133	-	-	3,133	-	3,133
Exercise of share options	226	4,797	-	-	-	-	-	5,023	-	5,023
Dividends	-	-	-	-	-	-	1,354	1,354	-	1,354
At 30th June, 2010 (unaudited)	91,559	1,583,267	53,856	48,100	33,043	111,386	1,425,280	3,346,491	6,188	3,352,679

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, 2010

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, 2010

	Six months ended	
	30th June,	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(205,993)	(30,530)
Investing activities		
Purchase of property, plant and equipment	(64,771)	(31,670)
Purchase of prepaid lease payments	(15,707)	–
Deposits paid for acquisition of property, plant and equipment	(206,424)	(14,460)
Other investing cash flows	–	1,543
Net cash used in investing activities	(286,902)	(44,587)
Financing activities		
Dividends paid	–	(8,373)
Proceeds from exercise of share options	5,023	–
Bank loans raised	21,188	–
Repayment of bank loans	(50,694)	(247)
Other financing cash flows	1,354	(2,364)
Net cash from (used in) financing activities	(23,129)	(10,984)
Net decrease in cash and cash equivalents	(516,024)	(86,101)
Cash and cash equivalents at 1st January	903,968	458,878
Effect of foreign exchange rate changes	3,025	3,376
Cash and cash equivalents at 30th June	390,969	376,153

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2010

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 condensed consolidated financial information has 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 the Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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 13) 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.

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

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 values.

The accounting policies used in the condensed consolidated financial information is consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2009.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1st January, 2010.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30th June, 2010

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

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

New and revised HKFRSs affecting presentation and disclosure only

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1st January, 2010.

Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1st January, 2010.

The requirements in HKAS 27 (Revised)

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30th June, 2010

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

The requirements in HKAS 27 (Revised) *(Continued)*

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ²
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 9	Financial Instruments ⁵
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ³

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

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

³ Effective for annual periods beginning on or after 1st July, 2010

⁴ Effective for annual periods beginning on or after 1st January, 2011

⁵ Effective for annual periods beginning on or after 1st January, 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations 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, 2010

4. TURNOVER AND SEGMENT INFORMATION

The Group's reportable segments by product types under HKFRS 8 are as follows:

Incandescent decorative lighting	manufacture and distribution of incandescent decorative lighting products
Light emitting diode decorative lighting	manufacture and distribution of LED decorative lighting products
LED general illumination lighting	manufacture and distribution of LED general illumination lighting products
Entertainment lighting	manufacture and distribution of entertainment lighting products
All others	distribution of lighting product accessories including LED components & LED module

Segment Information

Business segment

	Six months ended	
	30th June, 2010	30th June, 2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Turnover		
Incandescent Decorative Lighting	103,662	131,123
LED Decorative Lighting	354,477	276,721
LED General Illumination Lighting	165,550	50,389
Entertainment Lighting	82,980	80,892
Others	23,477	15,140
	730,146	554,265
Gross Profit		
Incandescent Decorative Lighting	22,238	25,587
LED Decorative Lighting	135,939	100,279
LED General Illumination Lighting	63,558	18,853
Entertainment Lighting	17,725	14,318
Others	2,428	1,165
	241,888	160,202

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30th June, 2010

4. TURNOVER AND SEGMENT INFORMATION (Continued)

Segment Information (Continued)

Business segment (Continued)

	Six months ended	
	30th June, 2010 HK\$'000 (unaudited)	30th June, 2009 HK\$'000 (unaudited)
Results		
Profit from operations		
Incandescent Decorative Lighting	10,487	9,317
LED Decorative Lighting	82,044	36,514
LED General Illumination Lighting	36,104	6,924
Entertainment Lighting	10,698	5,213
Others	1,466	424
	140,799	58,392
Unallocated other income	29,274	28,928
Unallocated expenses	(65,924)	(40,290)
Finance costs	(2,629)	(2,544)
Share of results of a jointly controlled entity	(902)	946
Profit before taxation	100,618	45,432
Taxation	(1,330)	(3,102)
Profit for the period	99,288	42,330

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30th June, 2010

4. TURNOVER AND SEGMENT INFORMATION (Continued)

Segment Information (Continued)

Geographical segment

	Six months ended 30th June,	
	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Turnover		
America	254,280	214,751
Europe	191,214	186,101
The PRC	154,984	52,730
Russia	26,572	20,128
Asia Pacific and Middle East (excluding PRC)	101,484	78,875
Others	1,612	1,680
	730,146	554,265
Results		
Profit from operations		
– America	52,209	21,021
– Europe	37,845	23,186
– The PRC	21,877	1,801
– Russia	5,786	2,476
– Asia Pacific and Middle East (excluding PRC)	22,723	9,724
– Others	359	184
	140,799	58,392
Unallocated other income	29,274	28,928
Unallocated expenses	(65,924)	(40,290)
Finance costs	(2,629)	(2,544)
Share of results of a jointly controlled entity	(902)	946
	100,618	45,432
Taxation	(1,330)	(3,102)
	99,288	42,330

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

For the six months ended 30th June, 2010

5. PROFIT BEFORE TAXATION

	Six months ended	
	30th June,	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	70,632	76,853
Less: Depreciation included in research and development costs	(1,334)	(1,468)
	69,298	75,385
Amortisation of intangible assets	1,229	1,257
Decrease in fair value of listed investments held-for-trading	20,702	–
Research and developments costs	4,279	4,046
and after crediting:		
Dividend income from listed investments held-for-trading	3,528	289
Increase in fair value of listed investments held-for-trading	–	23,116
Interest income	3,785	2,931

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30th June, 2010

6. TAXATION

	Six months ended 30th June,	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The charge comprises:		
PRC Enterprise Income Tax ("EIT")	(457)	(2,964)
Taxation in other overseas jurisdictions	(873)	76
Hong Kong Profits Tax	–	–
(Under) over provision of Hong Kong profits tax	–	(214)
	–	(214)
Deferred taxation		
– current period	–	–
	(1,330)	(3,102)

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 16.5% (HY2009: 16.5%) on the estimated assessable profit for the period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30th June, 2010

7. DIVIDEND

The proposed interim dividend of HK\$0.028 per share for the six months ended 30th June, 2010 is calculated on the basis of 915,591,000 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:

	Six months ended 30th June,	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings		
Profit attributable to equity holders of the Company	98,794	42,330
Number of shares		
Weighted average number of ordinary shares in issue	915,287,750	761,197,500
Basic earning per share	HK\$0.108	HK\$0.056
Effect of dilutive potential ordinary shares		
– share options	–	–
– subscription for new shares (Note)	–	96,731,000
Weighted average number of ordinary shares for diluted earnings per share	915,287,750	857,928,500
Diluted earning per share	HK\$0.108	HK\$0.049

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, 2010

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred HK\$205,000,000 (2009: HK\$111,800,000) on additions to property, plant and equipment to expand and upgrade its manufacturing capabilities, of which buildings HK\$95,600,000 (six months ended 30th June, 2009: HK\$35,400,000), leasehold improvement HK\$12,800,000 (six months ended 30th June, 2009: HK\$6,100,000), furniture, fixture and equipment HK\$2,900,000 (six months ended 30th June, 2009: HK\$400,000), motor vehicles nil (six months ended 30th June, 2009: HK\$100,000), plant and machinery HK\$43,000,000 (six months ended 30th June, 2009: HK\$5,500,000), mould HK\$6,000,000 (six months ended 30th June, 2009: HK\$6,400,000), construction in progress HK\$29,000,000 (six month ended 30th June, 2009: HK\$57,900,000), land use right HK\$15,700,000 (six month ended 30th June, 2009: nil).

10. TRADE AND OTHER RECEIVABLES

	At 30th June, 2010 HK\$'000 (unaudited)	At 31st December, 2009 HK\$'000 (audited)
Trade receivables		
– jointly controlled entity	574	116
– others	495,009	171,330
Bills receivables	97,954	37,355
Less: Allowance for bad and doubtful debts	(46,392)	(38,483)
	547,145	170,318
Deposits paid to suppliers	44,754	26,916
Value added tax recoverable	75,320	34,204
Other receivables	65,701	25,922
	732,920	257,360

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30th June, 2010

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

	At 30th June, 2010 HK\$'000 (unaudited)	At 31st December, 2009 HK\$'000 (audited)
Age		
0 to 60 days	370,242	71,806
61 to 90 days	41,836	18,751
91 to 180 days	81,840	30,999
181 to 360 days	45,809	40,717
Over 1 year	7,418	8,045
	547,145	170,318

11. TRADE AND OTHER PAYABLES

	At 30th June, 2010 HK\$'000 (unaudited)	At 31st December, 2009 HK\$'000 (audited)
Trade payables		
– associates	638	641
– others	250,594	96,158
Bills payables	13,119	56
	264,351	96,855
Customers' deposits	39,352	25,831
Payroll and welfare payables	28,100	16,589
Payables for acquisition of property, plant and equipment	4,143	3,787
Other tax payables	5,090	4,747
Other payables	49,458	23,787
	390,494	171,596

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30th June, 2010

11. TRADE AND OTHER PAYABLES (Continued)

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

	At 30th June, 2010 HK\$'000 (unaudited)	At 31st December, 2009 HK\$'000 (audited)
Age		
0 to 30 days	100,013	42,772
31 to 60 days	88,979	22,046
61 to 90 days	38,822	7,382
91 to 120 days	15,722	5,454
121 to 360 days	20,815	19,201
	264,351	96,855

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	
	At 30th June, 2010 (unaudited)	At 31st December, 2009 (audited)
Outstanding at 1st January	27,161,500	15,966,500
Granted during the period/year	15,000,000	14,040,000
Exercised during the period/year	(2,262,500)	–
Forfeited during the period/year	(445,500)	(2,845,000)
	39,453,500	27,161,500

The share options granted in 2010 have an exercise price of HK\$6.75 with various vesting periods between January 2010 and January 2014.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30th June, 2010

12. SHARE OPTIONS (Continued)

The share options granted in 2009 have an exercise price of HK\$2.19 with various vesting periods between July 2009 and July 2013.

The share options granted in 2008 have an exercise price of HK\$5.03 and HK\$5.90 with various vesting period 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, 29th February, 2008, 13th July, 2009 and 22nd January, 2010 the dates when the share options were granted was HK\$8.50, HK\$4.75, HK\$6.00, HK\$2.15 and HK\$6.75 per share respectively.

The 2009 aggregate estimated fair values of the options determined at the dates of grant using the Binomial model were HK\$11,529,000 (2008: HK\$14,850,000).

13. CAPITAL COMMITMENTS

	At 30th June, 2010 HK\$'000 (unaudited)	At 31st December, 2009 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	251,578	201,252
– contribution to establish joint venture	3,245	–
– investment projects in the PRC	37,287	22,480
	292,110	223,732

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30th June, 2010

14. RELATED PARTY TRANSACTIONS

During the period, the Group sold goods totalling HK\$1,033,000 (2009: HK\$984,000) to its associates and jointly controlled entity.

The emoluments to the Company's directors, who are the Group's key management are HK\$783,000 (2009: HK\$1,259,000). During the period, the Chairman and another executive director have waived their emoluments of HK\$2,160,000 and HK\$588,000 in relation to their services respectively.

15. SUBSEQUENT EVENT

On 12th July, 2010, in response to the rapid strategic development of LED lighting market, it was announced with immediate effect that, Mr. TSENG Jinsui has resigned as the chief executive officer of the Company due to Mr. TSENG's capabilities in research and development, production and sales, corporate management and years of management experience in Yangzhou to serve as chairman in Yangzhou subsidiary of the Group and Mr. Ben FAN has been appointed as the chief executive officer of the Company because Mr. FAN has the vision on the LED industry, technology and market development which is necessary for the Group to maximize the edge solutions for the upstream, middle stream and downstream industrial chain integration from LED wafers & chip production, packaging and the LED lighting applications.

6,850,000 share options granted in 23rd July, 2010 have an exercise price of HK\$4.51 with various vesting periods between July 2010 and July 2014. The closing price of the Company's shares immediately before 23rd July, 2010, the date when the share options were granted was HK\$4.51 per Share.

On 23rd July, 2010, the Company has changed its financial year end date from 31st December to 31st March to make the financial year end date of the Company consistent with the business and marketing processes, and will enable the Company to better utilize its resources and facilitate better planning and operational processes of the Company. Accordingly, the next financial year end date of the Company will be 31st March, 2011 and the next published audited financial statements of the Company will cover a 15-month period from 1st January, 2010 to 31st March, 2011.