



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.

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

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CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Independent Non-Executive Directors

Mr. WU Tak Lung
Mr. 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

2010 CONCLUSION AND PERSPECTIVE

- **Company Takes Pro-active Profit Adjustment**

2010 was a challenging and unpredictable year; confronted with rising costs, un-expecting global market and unprecedented labor shortage, the company was still able to improve its revenue and gross profit. To further strengthen company's financial structure, the company decided to made provision for account receivables and inventory to a total of HK\$56 million which has resulted net profit to HK\$107.3 million.

- **Core Business Profitability Substantially Improved**

During the period, the company made HK\$687.7 million in fix assets investment, of which, HK\$422.2 million in new factory facilities and equipment. In 2010, the company have added and fully installed additional 14 MOCVD and related LED chips and LED chip packing production line equipment which enable the company to increase its LED wafer monthly capacity from 15,000 units (450 million LED chips) to 45,000 units (1.35 billion LED chips). This new capacity has formulated a solid foundation of company's improved revenue and net profit in 2011.

- **Labor Shortage Concerns Eliminated**

The company had invested over US\$20 million during the last three years in our Vietnam plant and steadily building up its production capabilities. The Vietnam plant was able to contribute in modest scale in 2010, and already ready for high volume mass production by years end. The company plans to expand the Vietnam plant into the largest decorative light manufacturing center in Asia. The company expecting the Vietnam plant to provide ample labor supply at a manageable costs, solving company's long term labor shortage and related concerns.

- **Improved Profitability in 2011**

To exercise accounting prudence, the company had earlier decided not to post China local governments' LED production related cash grants as revenue. As a consequence, this decision will result in reducing company's future manufacturing costs over a long period of time. The company's 2010 earning per share is decreased from HK\$0.195 to HK\$0.115 which we want to reiterate, does not indicate a weakening of company's competitiveness. The company perceives its overall competitiveness and profitability is significantly elevated. The company expects its 2011 overall financial result and net profit margin to be better than 2009 level.

2010 CONCLUSION AND PERSPECTIVE *(Continued)*

• Market Expansion

The company is vigorously expanding and consolidating our distribution channel. In the meantime, the company is continue to expanding through merger and acquisition of distribution channels. The company is working on distribution channels restructuring by creating operating profit centers and multi-level distribution agencies. The company had forged cooperation with major distributors to market company's branded LED lighting products through existing outlets and through creation of dedicated brand retail stores. The company is well positioned to compete in the LED evolution and the marketing explosion of traditional lighting replacement.

MARKET OVERVIEW

The era of Light emitting diode ("LED") indoor home lighting is coming. In comparing with traditional lighting products. The major advantage of LED is in Energy saving and environmental protection. LED can achieve 40%-60% of energy savings compared to fluorescent tubes and saves 90% compared to the incandescent lamps. If the world's illumination alter to the LED lighting, the world can save EURO120 billion electricity expenses, and to reduce the six hundred and thirty million tons of carbon dioxide emissions. That is, we can save 1.8 billion barrels of crude oil per year. In addition, the advantage of LED products is including longer usage life, better Luminous efficiency, larger illumination area, adjustable in light color etc. Therefore, the government of many countries have introduced polices to restricted or banned the production and sales of incandescent products, and strongly advocated the application of LED lamps.

BUSINESS REVIEW

As of 31st of December, 2010, the Group had a sales team of 510 with offices in sixteen countries and regions including PRC, Korea, Taiwan, Hong Kong, Macau, Vietnam, Malaysia, Dubai, UK, Thailand, Netherland, Germany, Russia, USA, Brazil, etc..While we continue 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 sales offices and 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.

BUSINESS REVIEW *(Continued)*

In the domestic market, the group's LED-based products were widely applied in the open ceremony and seven theme galleries in the 2010 Shanghai World Expo, including Expo Cultural Centre, and became the biggest winner of LED-based products in the World Expo. In 2010 Asian Games of Guangzhou, Neo-Neon LED-based products were used in urban landscape lighting of Sea Sand Island, Guangzhou tower and the central axis of Guangzhou. Besides, Neo-Neon's green energy-saving LED lighting products were shining in Asian Games Town, University Town and many different venues and facilities. In general lighting, our white LED interior lighting products were widely used in post banks, classrooms, telecommunication offices and other indoor places for energy-efficient lighting renovation projects.

This Group is planning to set up a flagship showroom in Shanghai (established already), Shenzhen (established already), Tianjin and Chongqing respectively, and has established forty showrooms already in other cities in China. This move is aimed to consolidate a stronghold for the Group in one of the fastest growing markets around the globe, combining with all our branch offices to provide a better quality customer service before and after sales.

During review period, despite the weakening condition of both European market and Euros, the Group had not suffered from any negative financial impact or foreign exchange risk in terms of sales amount and account receivable in European market, which benefited from US dollar used for both sales amount and account receivable, and the relatively stable financial status and excellent financing capacity of our major clients in Europe. On the other hand, our Company's quality products and favorable selling pricing also contributed to the Company's competitiveness. Furthermore, most of our Company's sales come from the US, PRC and Asian Pacific Region (excluding China).

In Year 2010, Neo-Neon successfully merged with both Ilio International USA, Inc. (Ilio International) and American Lighting Inc. (American Lighting) in North America, two leading lighting enterprises in the industry.

Ilio International is an enterprise specialized in Christmas tree lighting sales in North America. After the merging in 2010, Neo-Neon, upon several runs of selection, successfully appointed Ms. Jennifer A. Sethre (Jennifer henceforward) as the CEO of the said Company. Jennifer has had over 20 years experience in both sales and enterprise management in Christmas tree lighting industry. Under her leadership, Ilio International continues to sell Christmas tree lighting as their major product, and via a strategic allies relationship with The Home Depot and Costco, retailer giants in North America, has successfully set up large number of sales counter of Christmas tree lighting, which resulted in an expressively strong sales performance in the industry in 2010.

Neo-Neon is convinced, with the factors of a strong brand effect, a leading role in the industry, an excellent resources of product, a sharp market sense as well as Jennifer's extraordinary leadership and execution capacity, Ilio International will make one more step up in their future sales performance.

BUSINESS REVIEW *(Continued)*

American Lighting is a lighting fixture sales enterprise focused in commercial illumination for 16 years of history in North America, with excellent sales channel and outstanding sales team. Based on sales of traditional incandescent lighting fixture, American Lighting has a clientel all over North America. In recent years, as the awareness of energy-saving and environmentally-friendliness awakens among people, a green revolution has stormed the fixture market by the LED lighting fixture industry. American Lighting has been gradually expanding the LED lighting fixture sales. On one hand, American Lighting continues to consolidate and enlarge its share in traditional lighting project illumination market of LED Duralight, Neonflex and Christmas light string, etc, on the other hand, it has also started to step into area of commercial lighting products such as downlight, T8 tube, undercabinet light and high power flood light, etc. Through a healthy cooperation relationship with both retailer and project enterprises, American Lighting has made a successful landing in commercial lighting fixture market. Their sales performance in Year 2011 is forecast to double the figure of 15 million USD achieved in 2010. With the backup of Neo-Neon as a stronghold, American Lighting is expected to become bigger and stronger in LED based lighting market.

We are confident through our constant integration of market resources and our efforts for an industry merging by making the best utilization of industrial resources, Neo-Neon will continue its leading role in the industry in a competitive LED market and constantly enlarge its LED market share in the future!

For the twelve months period in Year 2010, the Group has recorded a turnover of HK\$1,482.8 million, representing an increase of 33.4% as compared to HK\$1,111.5 million in the corresponding period in Year 2009; with net profit decreased to HK\$107.3 million (HK\$156.9 million in Year 2009), including provision for account receivable and inventory to a total of HK\$56 million, which resulted in the 31.6% decline and a gross profit rate of 32.5% compared to 34.4% of the corresponding period last year. In addition, many LED based products by the Company have been qualified for the US "Energy Star", a recognition as a solution scheme for efficient energy-saving by the American Government, making us the first in Asia on record as a manufacturer. The year the sales of the Group owned LED bulb and T8 tube has witnessed a significant growth in Japan and Europe respectively, the latter part of the year saw the cooperation signed up with several LED illumination distributors in the States that our LED illumination products are expected to have a speedy growth in the USA in Year 2011.

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 over the world, and sales of LED-based decorative lighting products increased by 24.3% to HK\$751.2 million (against HK\$604.5 million in 2009). Owing to the competitive edge of LED general lighting, which increased by 226.1%, sales of LED-based decorative lighting products accounted for 50.7% of the Group's total turnover, representing a decrease of 3.7% as compared to 54.4% for the corresponding period of the previous year.

Incandescent Decorative Lighting

Sales of incandescent decorative lighting products dropped 6.2% to HK\$252.5 million and accounted for 17.0% of the Group's turnover compared to HK\$269.1 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 5.1% to HK\$114.6 million, accounted for 7.7% of the Group's turnover compared to HK\$109.0 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 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.

LED General and Components Lighting

During the period under review, our sales of LED-based general and components lighting products recorded a 226.1% increase to HK\$314.0 million, accounted for 21.2% of the Group's total turnover, compared to HK\$96.3 million and 8.7% 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.

BUSINESS REVIEW *(Continued)*

LED General and Components Lighting *(Continued)*

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. These products have been launched to the market during the period. Furthermore, at present, these products yield very close price-efficacy rate of CFL.

The application of LED in general and components lighting will vigorously promote the growth of the LED lighting industry and make LED-based general and components lighting products our future bright spot. The replacement of traditional 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 2,500 mcd, which is comparable to the brightness level of 2,400 mcd to 2,700 mcd of the leading Taiwan backlight factories and higher than the 2,100 mcd to 2,300 mcd of mainland China manufacturers.

There has been remarkable breakthrough in the LED illumination technology in 2010. Currently, the Company is developing HCD-LED chips (High Current Driving), AC-LED chips (Alternate Current) and HV-LED chips (High-Voltage) 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)*

Research and Development *(Continued)*

As the demand for LED decorative lighting products will continue to increase in future, while the LED general lighting market will rapidly increase. The Group will continue to seek merger to increase research and development and opportunities to expand our market share and technology, thereby enhancing the Group and shareholder value. Currently, LED luminous efficiency is much higher than incandescent lamps, LED around the world have started to pay attention to the “light up the future of technology” and the resulting light field on the third revolution.

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.

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.

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.

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.

As the market demand for chips continues to remain robust, the Company will continue to expand its metal organic chemical vapour depositor ("MOCVD") to nineteen (19) sets by the end of 2010 for the production of LED wafers and chips. By the end of April 2011, 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 1.35 billion chips per month. 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 2011 to increase above 50% of the total production output, thereby allowing the Company to seize more market opportunities.

BUSINESS REVIEW *(Continued)*

Chip Manufacturing Plant *(Continued)*

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.

Vietnam Plant

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 pursuant of higher efficiency and cost-effectiveness. Currently, the Vietnam plants have 2,000 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.

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.

FINANCIAL REVIEW

Turnover

During the Review Period, the Group has recorded a turnover of approximately HK\$1,482.8 million, representing an increase of 33.4% as compared to approximately HK\$1,111.5 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\$1,000.5 million, representing an increase of 37.1% from HK\$729.6 million as compared to the same period in the last year.

Gross Profit and Gross Profit Margin

The gross profit increased by 26.3% from HK\$381.9 million in 2009 to HK\$482.3 million as a result of an increase in sales during the Review Period. The gross profit margin for the period decreased 1.9% to 32.5% as compared to 34.4% in the corresponding period last year. Mainly due to rising material prices, the Group has adopted a series of measures to control rising costs, including placing one-time big order with a special offer price for major material, in which the material cost increasing had been controlled in a controllable range.

Other Income

Other income was HK\$62.3 million during the Review Period (2009: HK\$40.6 million) representing an increase of HK\$21.7 million or 53.4%, mainly due to Gain on disposal of property of HK\$43.3 million, investment income from trading of securities, foreign currency and gold contracts of HK\$4.5 million for the twelve months ended 31st December, 2010 while an investment income from trading of securities, foreign currency and gold contracts of HK\$69.0 million for the same period in the last year.

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

Administrative, Distribution and Selling Expenses

For the twelve months ended 31st December, 2010, the Group's administrative, distribution and selling expenses were HK\$421.9 million, an increase of 52.6% from HK\$276.4 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 twelve months ended 31st December, 2010 was HK\$8.7 million, increase of 47.5% from HK\$5.9 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 twelve months ended 31st December, 2010, the Group's net profit was HK\$107.3 million, a decrease of 31.6% compared with HK\$156.9 million in the corresponding period of 2009. Net profit decrease was mainly due to the price of bulk materials and staff salary increases, and the provision for accounts receivable and inventory to a total of HK\$56 million. The net profit margin for the period was 7.2% compared with 14.1% in the same period in 2009.

Financial Resources and Liquidity

The Group maintained a stable financial position. As at 31st December, 2010, the Group had bank balances and cash of HK\$634.7 million (at 31st December, 2009: HK\$904.0 million) and short-term bank loans of HK\$722.4 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 22.2% as at 31st December, 2010 (at 31st December, 2009: 17.0%), which is still in lower level.

Assets and Liabilities

As of 31st December, 2010, the Group's total assets were HK\$4,532.3 million, an increase of HK\$569.7 million compared with HK\$3,962.6 million as of 31st December, 2009 representing an increase of 14.4%. The Group's total liabilities as of 31st December, 2010 were increased by 57.4%, comparing to that as of 31st December, 2009, from HK\$728.0 million to HK\$1,145.7 million.

The Group's shareholders' equity as of 31st December, 2010 was HK\$3,378.4 million, representing an increase of 4.6% 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 twelve months ended 31st December, 2010, which is mainly due to the sales growth in year 2010.

Inventory Management

The Group operates an integrated industry chain, and is responsible for the whole industry chain of more than ninety percent of the production process. During the review period, the Group's inventory balances from the beginning of the HK\$810.2 million increase to HK\$1,172.4 million, an increase of approximately 44.7%, which is mainly due to: revenue increased by 33.4% resulting in relative inventories increase; secondly, the production capacity of chips and packaging plant increase from 15,000 pieces/Month to 45,000 pieces/Month which resulting in relevant materials increased by 140 million; thirdly, in order to control the material prices increase, the group placed one-time big order with a special offer price for major material, in which the material cost increasing had been controlled in a controllable range. 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.

FINANCIAL REVIEW *(Continued)*

Trade Receivable Management

As at 31st December, 2010, the Group's receivable were HK\$369.6 million, (2009: HK\$170.3 million) representing an increase of HK\$199.3 million; in which the amount of receivables within 180-360 days increased to HK\$121.3 million, the increasing was mainly due to rapidly expand the market with turnover increased by 33.4%; secondly, in order to cooperate the market expansion of some long-term cooperation with reputable customers, the payment period is extended to hundred and eighty days; thirdly, some of the larger projects (such as Yangzhou Street project) is collection according to contract execution with longer time, but the risk is small.

Taxation

Taxation of the Group for the twelve months ended 31st December, 2010 was HK\$3.3 million (2009: tax credit of HK\$2.4 million). The effective tax rate was 2.9% for the twelve months ended 31st December, 2010, which was credit 1.5% for 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.

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.

CHANGE OF FINANCIAL YEAR END DATE

As at 23rd July, 2010, the Company has changed its financial year end date from 31st December to 31st March. Which make the financial year end date of the Company consistent with the business processes, and 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.

INTERIM DIVIDEND

No dividend will be paid for the twelve months ended 31st December, 2010. For the six months ended 30th June, 2010 interim dividend of HK\$0.028 was paid (2009: HK\$0.014) per ordinary share.

HUMAN RESOURCES

At 31st December, 2010, the Group had 10,000 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 31st December, 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 31st December, 2010
	Personal interests ⁽¹⁾	Family interests	Corporate interests	Other interests			
Mr. Ben FAN ⁽²⁾	600,000	27,423,500	336,400,000	-	-	364,423,500	39.729%
Ms. Michelle WONG ⁽²⁾	10,385,000	337,000,000	17,038,500	-	-	364,423,500	39.729%
Mr. FAN Pong Yang ⁽³⁾	1,179,000	-	17,038,500	-	760,000	18,977,500	2.069%
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%

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 364,423,500 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") (17,038,500 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) 17,038,500 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 17,038,500 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 17,038,500 share of the Company held by Charm Light.
- (3) 17,038,500 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 17,038,500 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 31st December, 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 31st December, 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	36.674%

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 31st December, 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 twelve months ended 31st December, 2010 are as below:

Type of participants	Date of grant (DIMIY)	Exercisable period ⁽¹⁾ (DIMIY to DIMIY)	Exercise price per share (HK\$)	Number of share options				
				Outstanding at 1st January, 2010	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding at 31st December, 2010
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 ⁽¹⁾	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	–	–	578,500	7,375,500
	01.02.2008	01.02.2008 – 31.01.2016	5.03	2,852,500	–	24,000	137,500	2,691,000
	29.02.2008	29.02.2008 – 28.02.2016	5.90	2,287,500	–	–	30,000	2,257,500
	13.07.2009	13.07.2009 – 12.07.2016	2.19	13,967,500	–	3,914,000	247,500	9,806,000
	22.01.2010	22.01.2010 – 21.01.2017	6.75	–	13,440,000	–	50,000	13,390,000
	23.07.2010	23.07.2010 – 22.07.2018	4.51	–	6,850,000	–	400,000	6,450,000
				27,161,500	21,850,000	3,938,000	1,643,500	43,430,000

Notes:

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

SHARE OPTION SCHEME *(Continued)*

The closing prices per share immediately before 15th February, 2007, 1st February, 2008, 29th February, 2008, 13th July, 2009, 22nd January, 2010, and 23rd July, 2010, the dates on which the share options were granted, were HK\$8.50, \$4.75, HK\$6.00, HK\$2.15, HK\$6.75 and HK\$4.51 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.

3,938,000 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 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 steam 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 twelve months ended 31st December, 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 twelve months ended 31st December, 2010. At the meeting held on 25th February, 2011, the Audit Committee reviewed the unaudited financial statements for the twelve months ended 31st December, 2010 together with the second 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 31st December, 2010, the Group did not have any significant contingent liabilities. As at 31st December, 2010, the Group has pledged one of its investment properties with a fair value of HK\$49,685,000 (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\$2,326,000 (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 twelve months ended 31st December, 2010.

PUBLICATION OF 2010 SECOND INTERIM REPORT

The 2010 second 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 twelve months ended 31st December, 2010

	Notes	Twelve months ended 31st December,	
		2010	2009
		HK\$'000	HK\$'000
		(unaudited)	(audited)
Turnover	4	1,482,759	1,111,460
Cost of goods sold		(1,000,491)	(729,567)
Gross profit		482,268	381,893
Other income		62,295	40,615
Distribution and selling expenses		(132,559)	(75,739)
Administrative expenses		(289,314)	(200,710)
Finance costs		(8,732)	(5,852)
Share of (losses)/profits of an associate		(4,947)	13,180
Share of results of a jointly controlled entity		1,589	1,209
Profit before taxation	5	110,600	154,596
Taxation	6	(3,253)	2,351
Profit for the period attributable to owners of the Company		107,347	156,947
Other comprehensive income			
– exchange differences arising on translation		59,867	4,076
Total comprehensive income for the period attributable to owners of the Company		167,214	161,023
Attributable to			
– equity holders of the Company		104,925	157,989
– minority interests		2,422	(1,042)
		107,347	156,947
Proposed interim dividend	7	57,728	20,386
Earnings per share	8		
– Basic		HK\$0.115	HK\$0.195
– Diluted		HK\$0.114	HK\$0.195

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2010

	<i>Notes</i>	At 31st December, 2010 HK\$'000 (unaudited)	At 31st December, 2009 HK\$'000 (audited)
<hr/>			
Non-current assets			
Investment properties		64,450	61,736
Property, plant and equipment	9	1,730,019	1,223,977
Prepaid lease payments		131,458	86,160
Intangible assets		26,083	6,968
Interest in an associate		16,890	20,933
Interest in a jointly controlled entity		25,825	24,236
Deposits made on acquisition of property, plant and equipment		132,234	111,043
		<hr/> 2,126,959 <hr/>	<hr/> 1,535,053 <hr/>
Current assets			
Inventories		1,172,357	810,247
Trade and other receivables	10	545,927	257,360
Investments held-for-trading		49,997	391,312
Pledged bank deposits		2,326	2,269
Bank balances and cash		634,717	903,968
		<hr/> 2,405,324 <hr/>	<hr/> 2,365,156 <hr/>
Assets held for sale		–	62,428
		<hr/> 2,405,324 <hr/>	<hr/> 2,427,584 <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*(Continued)*

At 31st December, 2010

	Notes	At 31st December, 2010 HK\$'000 (unaudited)	At 31st December, 2009 HK\$'000 (audited)
Current liabilities			
Trade and other payables	11	339,672	171,596
Taxation		7,185	6,000
Current portion of long-term bank loans		722,398	521,402
		1,069,255	698,998
Net current assets		1,336,069	1,728,586
Total assets less current liabilities		3,463,028	3,263,639
Non-current liabilities			
Long-term bank loans		27,943	29,022
Deferred income		48,530	–
		76,473	29,022
Net assets		3,386,555	3,234,617
Capital and reserves			
Share capital		91,727	91,333
Share premium		1,587,052	1,578,470
Other reserves		326,954	233,988
Retained profits		1,372,706	1,325,132
Equity attributable to equity holders of the Company		3,378,439	3,228,923
Minority interests		8,116	5,694
Total equity		3,386,555	3,234,617

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the twelve months ended 31st December, 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	-	-	-	-	-	4,076	-	4,076	-	4,076
Net income recognised directly in equity	76,120	1,023,563	53,856	48,100	22,223	102,122	1,184,600	2,510,584	6,736	2,517,320
Profit for the year	-	-	-	-	-	-	157,989	157,989	(1,042)	156,947
Total recognised income for the year	76,120	1,023,563	53,856	48,100	22,223	102,122	1,342,589	2,668,573	5,694	2,674,267
Issue of shares	15,213	561,107	-	-	-	-	-	576,320	-	576,320
Expenses incurred in connection with the issue of shares	-	(6,200)	-	-	-	-	-	(6,200)	-	(6,200)
Recognition of equity-settled share-based payments	-	-	-	-	10,616	-	-	10,616	-	10,616
Share options lapsed during the year	-	-	-	-	(2,929)	-	2,929	-	-	-
Dividends	-	-	-	-	-	-	(20,386)	(20,386)	-	(20,386)
At 31st December, 2009 (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

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

For the twelve months ended 31st December, 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	-	-	-	-	-	59,867	-	59,867	-	59,867
Net income recognised directly in equity	91,333	1,578,470	53,856	48,100	29,910	161,989	1,325,132	3,288,790	5,694	3,294,484
Profit for the period	-	-	-	-	-	-	104,925	104,925	2,422	107,347
Total recognised income for the period	91,333	1,578,470	53,856	48,100	29,910	161,989	1,430,057	3,393,715	8,116	3,401,831
Recognition of equity-settled share-based payments	-	-	(176)	-	33,652	-	-	33,476	-	33,476
Share options lapsed during the period	-	-	-	-	(377)	-	377	-	-	-
Exercise of share options	394	8,582	-	-	-	-	-	8,976	-	8,976
Dividends	-	-	-	-	-	-	(57,728)	(57,728)	-	(57,728)
At 31st December, 2010 (unaudited)	91,727	1,587,052	53,680	48,100	63,185	161,989	1,372,706	3,378,439	8,116	3,386,555

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 twelve months ended 31st December, 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 twelve months ended 31st December, 2010

	Twelve months ended	
	31st December,	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Net cash used in operating activities	215,906	27,803
Investing activities		
Interest received	5,001	6,875
Research and development costs paid	(21,312)	(29,490)
Purchase of investment properties	62,428	–
Purchase of property, plant and equipment	(153,953)	(59,272)
Purchase of prepaid lease payments	(46,430)	(53,862)
Deposits paid for acquisition of property, plant and equipment	(508,461)	(201,577)
Government grants received	48,530	–
Other investing cash flows	(21,564)	(13,805)
Net cash used in investing activities	(635,761)	(351,131)
Financing activities		
Interest paid	(8,732)	(5,492)
Dividends paid	(57,728)	(20,386)
Proceeds from issue of shares	–	576,320
Proceeds from exercise of share options	8,582	–
Expenses paid in connection with the issue of shares	394	(6,200)
Bank loans raised	382,353	271,197
Repayment of bank loans	(181,357)	(52,282)
Other financing cash flows	540	–
Net cash from financing activities	144,052	763,157
Net (decrease)/increase in cash and cash equivalents	(275,803)	439,829
Cash and cash equivalents at 1st January	903,968	458,878
Effect of foreign exchange rate changes	6,552	5,261
Cash and cash equivalents at 31st December	634,717	903,968

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31st December, 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 twelve months ended 31st December, 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 twelve months ended 31st December, 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

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For the twelve months ended 31st December, 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
LED components lighting	manufacture and distribution of LED components lighting products
Entertainment lighting	manufacture and distribution of entertainment lighting products
All others	distribution of lighting product accessories including LED module

Segment Information

Business segment

	Twelve months ended 31st December, 2010 HK\$'000 (unaudited)	31st December, 2009 HK\$'000 (audited)
Turnover		
Incandescent Decorative Lighting	252,482	269,079
LED Decorative Lighting	751,197	604,511
LED General Illumination Lighting	139,257	68,493
LED Components Lighting	174,694	27,850
Entertainment Lighting	114,625	108,979
Others	50,504	32,548
	1,482,759	1,111,460
Gross Profit		
Incandescent Decorative Lighting	55,101	65,933
LED Decorative Lighting	284,967	252,518
LED General Illumination Lighting	56,132	26,712
LED Components Lighting	60,890	10,752
Entertainment Lighting	20,632	23,275
Others	4,546	2,703
	482,268	381,893

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

For the twelve months ended 31st December, 2010

4. TURNOVER AND SEGMENT INFORMATION *(Continued)***Segment Information** *(Continued)***Business segment** *(Continued)*

	Twelve months ended	
	31st December, 2010 HK\$'000 (unaudited)	31st December, 2009 HK\$'000 (audited)
Results		
Profit from operations		
Incandescent Decorative Lighting	18,582	48,783
LED Decorative Lighting	96,100	101,977
LED General Illumination Lighting	18,930	14,114
LED Components Lighting	20,534	5,738
Entertainment Lighting	6,958	15,845
Others	1,532	8,599
	162,636	195,056
Unallocated other income	62,295	22,969
Unallocated expenses	(102,241)	(71,966)
Finance costs	(8,732)	(5,852)
Share of results of a jointly controlled entity	(3,358)	14,389
Profit before taxation	110,600	154,596
Taxation	(3,253)	2,351
Profit for the period	107,347	156,947

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the twelve months ended 31st December, 2010

4. TURNOVER AND SEGMENT INFORMATION (Continued)

Segment Information (Continued)

Geographical segment

	Twelve months ended 31st December,	
	2010 HK\$'000 (unaudited)	2009 HK\$'000 (audited)
Turnover		
America	538,557	409,740
Europe	346,449	335,543
The PRC	353,383	148,613
Russia	44,562	41,647
Asia Pacific and Middle East (excluding PRC)	193,690	170,503
Others	6,118	5,414
	1,482,759	1,111,460
Results		
Profit from operations		
– America	45,660	67,831
– Europe	45,080	57,009
– The PRC	36,769	22,265
– Asia Pacific and Middle East (excluding PRC)	34,784	37,645
– Others	865	962
	163,158	185,712
Unallocated other income	62,295	40,615
Unallocated expenses	(102,763)	(80,268)
Finance costs	(8,732)	(5,852)
Share of results of a jointly controlled entity	(3,358)	14,389
	110,600	154,596
Taxation	(3,253)	2,351
	107,347	156,947

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

For the twelve months ended 31st December, 2010

5. PROFIT BEFORE TAXATION

	Twelve months ended	
	31st December,	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	150,255	143,480
Less: Depreciation included in research and development costs	(2,665)	(2,811)
	147,590	140,669
Amortisation of intangible assets	2,534	2,457
Decrease in fair value of listed investments held-for-trading	1,977	–
Research and developments costs	13,624	22,226
and after crediting:		
Dividend income from listed investments held-for-trading	6,840	2,878
Increase in fair value of listed investments held-for-trading	–	66,087
Interest income	5,001	6,875

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

For the twelve months ended 31st December, 2010

6. TAXATION

	Twelve months ended	
	31st December,	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(audited)
The charge comprises:		
PRC Enterprise Income Tax ("EIT")	(2,067)	(1,254)
Taxation in other overseas jurisdictions	(876)	–
Hong Kong Profits Tax	–	–
(Under) over provision of Hong Kong profits tax	(310)	9,588
	(3,253)	8,334
Deferred taxation		
– current period	–	(5,983)
	(3,253)	2,351

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% (2009: 16.5%) on the estimated assessable profit for the period.

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

For the twelve months ended 31st December, 2010

7. DIVIDEND

No dividend will be paid for the twelve months ended 31st December 2010. For the six months ended 30th June, 2010 interim dividend of HK\$0.028 was paid (2009: HK\$0.014) per ordinary share.

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:

	Twelve months ended 31st December,	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Earnings		
Profit attributable to equity holders of the Company	104,925	157,989
Number of shares		
Weighted average number of ordinary shares in issue	915,297,500	810,287,580
Basic earning per share	HK\$0.115	HK\$0.195
Effect of dilutive potential ordinary shares – share options	7,190,286	13,849
Weighted average number of ordinary shares for diluted earnings per share	922,487,786	810,301,429
Diluted earning per share	HK\$0.114	HK\$0.195

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the twelve months ended 31st December, 2010

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred HK\$687,700,000 (2009: HK\$326,800,000) on additions to property, plant and equipment to expand and upgrade its manufacturing capabilities, of which buildings HK\$97,600,000 (twelve months ended 31st December, 2009: HK\$166,600,000), leasehold improvement HK\$40,100,000 (twelve months ended 31st December, 2009: HK\$8,100,000), furniture, fixture and equipment HK\$11,700,000 (twelve months ended 31st December, 2009: HK\$1,200,000), motor vehicles HK\$1,300,000 (twelve months ended 31st December, 2009: HK\$400,000), plant and machinery HK\$422,200,000 (twelve months ended 31st December, 2009: HK\$37,200,000), mould HK\$18,500,000 (twelve months ended 31st December, 2009: HK\$10,400,000), construction in progress HK\$52,000,000 (twelve months ended 31st December, 2009: HK\$96,900,000), land use right HK\$44,300,000 (twelve months ended 31st December, 2009: HK\$6,000,000).

10. TRADE AND OTHER RECEIVABLES

	At 31st December, 2010 HK\$'000 (unaudited)	At 31st December, 2009 HK\$'000 (audited)
Trade receivables		
– jointly controlled entity	211	116
– others	327,315	171,330
Bills receivables	73,378	37,355
Less: Allowance for bad and doubtful debts	(31,325)	(38,483)
	369,579	170,318
Deposits paid to suppliers	34,961	26,916
Value added tax recoverable	85,916	34,204
Other receivables	55,471	25,922
	545,927	257,360

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the twelve months ended 31st December, 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 31st December, 2010 HK\$'000 (unaudited)	At 31st December, 2009 HK\$'000 (audited)
Age		
0 to 60 days	140,300	71,806
61 to 90 days	49,561	18,751
91 to 180 days	46,664	30,999
181 to 360 days	121,330	40,717
Over 1 year	11,724	8,045
	369,579	170,318

11. TRADE AND OTHER PAYABLES

	At 31st December, 2010 HK\$'000 (unaudited)	At 31st December, 2009 HK\$'000 (audited)
Trade payables		
– associates	634	641
– others	193,422	96,158
Bills payables	32,836	56
	226,892	96,855
Customers' deposits	31,615	25,831
Payroll and welfare payables	35,676	16,589
Payables for acquisition of property, plant and equipment	2,473	3,787
Other tax payables	5,370	4,747
Other payables	37,646	23,787
	339,672	171,596

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the twelve months ended 31st December, 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 31st December, 2010 HK\$'000 (unaudited)	At 31st December, 2009 HK\$'000 (audited)
Age		
0 to 30 days	138,995	42,772
31 to 60 days	34,899	22,046
61 to 90 days	14,204	7,382
91 to 120 days	20,432	5,454
121 to 360 days	18,362	19,201
	226,892	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 31st December, 2010 (unaudited)	At 31st December, 2009 (audited)
Outstanding at 1st January	27,161,500	15,966,500
Granted during the period/year	21,850,000	14,040,000
Exercised during the period/year	(3,938,000)	–
Forfeited during the period/year	(1,643,500)	(2,845,000)
	43,430,000	27,161,500

At 23rd July, 2010, 6,850,000 shares option had been granted as an exercise price of HK\$4.51 with vesting periods between July 2010 and July 2014. At 22nd January, 2010, 15,000,000 shares option had been granted as an exercise price of HK\$6.75 with vesting periods between January 2010 and January 2014.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the twelve months ended 31st December, 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, 22nd January, 2010 and 23rd July, 2010, the dates when the share options were granted was HK\$8.50, HK\$4.75, HK\$6.00, HK\$2.15, HK\$6.75 and HK\$4.51 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.

13. CAPITAL COMMITMENTS

	At 31st December, 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	98,623	201,252
– contribution to establish joint venture	3,235	–
– investment projects in the PRC	37,353	22,480
	139,211	223,732

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the twelve months ended 31st December, 2010

14. RELATED PARTY TRANSACTIONS

During the period, the Group sold goods totalling HK\$1,766,000 (2009: HK\$1,974,000) to its associates and jointly controlled entity.

The emoluments to the Company's directors, who are the Group's key management are HK\$7,020,000 (2009:HK\$7,692,000). During the period, the Chairman and another executive director have waived their emoluments of HK\$4,320,000 and HK\$1,176,000 in relation to their services respectively.

15. SUBSEQUENT EVENT

On 25th January, 2011, the Company and HCI entered into the Agreement with Consideration for the Merger is approximately USD17,000,000, in which USD13,000,000 will be satisfied by the allotment and issue of 25,174,194 Shares and USD4,000,000 in cash. HCI has been engaging in designing, manufacturing, and distributing an extensive line of quality animated holiday decorations and commercial grade LED product line for professional applications to designers, electrical engineers, architects, installers and distributors worldwide. It is expected that the Merger can enhance the sales penetration of the Group in the United States of America and Canada and fuel the expansion of the Group in the world's lighting community.