

# 2011/12

## INTERIM REPORT

LED There Be Light · LEDs Light It

**Professional LED product research,  
development and production.  
Sales network and storage network development.**

Yangzhou

Beijing

Tianjin

Shanghai

Hong Kong

Hong Kong

Shanghai

Beijing

Yangzhou

Tianjin

# Neo-Neon™

**NEO-NEON HOLDINGS LIMITED**

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

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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)*

<b><i>Principal Share Registrar</i></b>	Butterfield Fund Services (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands British West Indies
<b><i>Hong Kong Branch Share Registrar</i></b>	Tricor Investor Services Limited 26/F., Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
<b><i>Auditors</i></b>	Deloitte Touche Tohmatsu
<b><i>Principal Bankers</i></b>	China Construction Bank (Asia) Corporation Limited CITIC International Bank Taishin International Bank
<b><i>Registered Office</i></b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b><i>Principal Place of Business in Hong Kong</i></b>	G/F & Basement Level 1 of New East Ocean Centre 9 Science Museum Road Tsim Sha Tsui East Kowloon Hong Kong
<b><i>Company Website</i></b>	<a href="http://www.neo-neon.com">www.neo-neon.com</a>
<b><i>Stock Code</i></b>	1868

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Turnover

During the Review Period, the Group has recorded a turnover of approximately HK\$788.0 million, representing an increase of 7.9% as compared to approximately HK\$730.1 million in the corresponding period in the June 2010. The increase was mainly due to the inclusion of acquired overseas subsidiaries (HCI, American Lighting) turnover of HK\$219.0 million in the review period, and the Group (excluded overseas subsidiaries) recorded principal turnover of HK\$569.0 million representing a decrease of HK\$161.1 million or 22.1%. The decrease mainly because of (i) a lower turnover than expected, as a result of generally increasing customer prudence in placing orders caused by deteriorating of economic environment; (ii) a decrease of market price, as a result of intense competition.

#### Cost of Goods Sold

The Group's costs of goods sold were HK\$679.9 million, representing an increase of 39.2% from HK\$488.3 million as compared to the same period in the June 2010.

#### Gross Profit and Gross Profit Margin

The gross profit and gross profit margin decreased from HK\$241.9 million (33.1%) in the June 2010 to HK\$108.1 million (13.7%). The decline in unaudited consolidated interim results for the six months ended 30 September 2011 is primarily attributable to: (i) the deteriorating economic environment resulted a lower turnover than expected; (ii) a decrease in gross profit margins as a result of the soaring prices of raw materials, increase in labor costs and appreciation of RMB; (iii) a significant increase in depreciation expenses related to our expansion into the upstream plant and equipments of chips; and (iv) the obsolete inventories disposal caused a loss HK\$65.9 million.

#### Other Income

Other income was HK\$8.4 million during the Review Period (June 2010: HK\$8.7 million) representing a decrease of HK\$0.3 million or 3.4%, mainly due to a decrease of dividend income from investment in securities.

#### Other Gains, Losses and Expenses

Other gains, losses and expenses showed a gain of HK\$1.1 million in 30th September, 2011 (June, 2010: a loss of HK\$1.6 million). The gain was mainly due to gain on disposal of property, plant and equipment HK\$35.7 million, net allowance for bad and doubtful debts HK\$14.5 million and for the six months ended 30 June 2010, received government grants HK\$43.1 million, decrease in fair value of listed investments held-for-trading HK\$20.7 million and compromise, and legal fee relating to a settled litigation HK\$10.4 million.

## FINANCIAL REVIEW *(Continued)*

### Administrative, Distribution and Selling Expenses

For the six months ended 30th September, 2011, the Group's administrative, distribution and selling expenses were HK\$209.8 million, an increase of 44.9% from HK\$144.8 million in the same period in June 2010. The increase was mainly attributable to: (i) administrative, distribution and selling expenses and intangible, goodwill amortization of overseas subsidiaries (HCI, American Lighting) HK\$45.2 million, (ii) an increase of HK\$8.7 million or 28.4% in depreciation during the period.

### Financing Costs

The finance costs of the Group in the six months ended 30th September, 2011 was HK\$6.9 million, increase of 165.4% from HK\$2.6 million in the corresponding period of June 2010. The increase was mainly attributable to the increase in the amount of bank borrowings and loan interest rates.

### Net Profit

For the six months ended 30th September, 2011, the Group's net loss was HK\$102.2 million, a decrease of 202.9% compared with the Group's net profit HK\$99.3 million in the June 2010. The net loss margin for the period was 13.0% compared with net profit margin was 13.6% in the June 2010. The main reasons: (i) a lower turnover than expected, as a result of generally increasing customer prudence in placing orders caused by deteriorating of economic environment; (ii) a decrease in gross profit margins as a result of the soaring prices of raw materials, increase in labor costs and appreciation of RMB; (iii) the obsolete inventories disposal caused a loss HK\$65.9 million and provisions for bad and doubtful debts of HK\$14.5 million, but received a government subsidy income of HK\$43.1 million in June 2010; and (iv) a significant increase in depreciation expenses related to our expansion into upstream plant and equipments of chips. The Board will improve the efficiency of resource allocation by the Company so as to strengthen the Group's competitiveness. The Group will efficiently reallocate its resources to create a rational organisation structure and achieve strategic growth by becoming more cost-effective, simplified in structure, effective in performance management and better-positioned to implement employee-oriented long-term incentive schemes.

### Financial Resources and Liquidity

The Group maintained a stable financial position. As at 30th September, 2011, the Group had bank balances and cash of HK\$399.2 million (at 31st March, 2011: HK\$371.4 million) and short-term bank loans of HK\$731.5 million (at 31st March, 2011: 778.6 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 20.8% as at 30th September, 2011 (at 31st March, 2011: 22.8%).

## FINANCIAL REVIEW *(Continued)*

### Assets and Liabilities

As of 30th September, 2011, the Group's total assets were HK\$4,567.4 million, a decrease of HK\$217.1 million compared with HK\$4,784.5 million as of 31st March, 2011 representing a decrease of 4.5%. The Group's total liabilities as of 30th September, 2011 were decreased by 14.7%, comparing to that as of 31st March, 2011, from HK\$1,239.6 million to HK\$1,057.0 million.

The Group's shareholders' equity as of 30th September, 2011 was HK\$3,491.5 million, representing a decrease of 1.0% when compared with HK\$3,527.9 million as of 31st March, 2011. The decrease was mainly due to the decrease of the net profit for the six months ended 30th September, 2011.

### Taxation

Taxation of the Group for the six months ended 30th September, 2011 was HK\$0.6 million (June 2010: HK\$1.3 million). The effective tax rate was 0.6% for the six months ended 30th September, 2011, which was 1.3% for the June 2010. 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.

### 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.

## MARKET OVERVIEW

Light emitting diode ("LED") has advantages in terms of luminous efficiency, usage life and environmental protection. Against the recent backdrop of energy conservation and emission reduction, even apart from the energy savings in air-conditioning due to heat energy emission, LED illumination lighting products can be installed promptly without any difficulty, achieve as high as 90% of energy savings compared with incandescent lamps and save 40%-60% compared with the fluorescent tubes. Furthermore, it does not utilize mercury. Therefore, it is regarded as a save and environment-friendly lighting product that has prosperous future. The effect of LED environmental protection and carbon emission reduction has been well received by the market, and these traits are also in line with the policies. From now on, LED lighting will not only substitute for decorative lighting, but also substitute for all lighting products.

## BUSINESS REVIEW

During the period under review, although orders from domestic customers were increasing over time, customers in market were generally more and more prudent about placing orders because of the bleak outlook there, which led to lower sales as compared with our expectation. In general, except the inclusion of acquired overseas subsidiaries (HCI, American Lighting) turnover of HK\$219.0 million, most of the Company's sales came from the US and Europe, where the sluggish local economies dragged down our sales orders for the period. However, the Company's sales orders from Asian Pacific region (excluding China) still showed increment amidst weak markets. This was because the Company's quality products and favorable selling prices enabled us to stay highly competitive. Moreover, 2011 is the first year in the "Twelfth Five-year Plan". As China strengthens its supports for green lighting products, it is expected that the government subsidy policy for LED lighting products will be introduced by the end of this year. Therefore, as the urbanization of China gains pace and consumers continuously seek higher standards of living, there will be greater demand for LED products which will create more opportunities for the Company. The Company has mitigated the negative impact of economic recessions in Europe and the US on it by increasing its share of the domestic market and increasing the proportion of high value-added products in its business. It is expected that, during the year, the China market will gradually become a major source of profits and a driving force for sustained growth in the Company.

The extensive territory of China and rapid economic growth in cities of different regions greatly propelled urban landscape lighting and streetlight lighting market in mainland China. The holding of Shanghai World Expo, Asian Games of Guangzhou and some other grand international ceremonies in China, coupled with government's advocacy on environmental protection and increase in energy conservation awareness, made our NEONEON Yingyu LED favored by all kinds of projects and brought us a number of projects. Out of these projects, even eight of them were Shanghai World Expo projects, including World Expo Cultural Centre; Pavilion of Urbanian, one of the five major Theme Pavilions; Canadian Pavilion, United States Pavilion, Peru Pavilion and Australia Pavilion, which are national pavilions; and General Motors Corporate Pavilion. The LED light balls applied in the Open Ceremony of the World Expo were also from the Group and these LED light balls, which flowed down the Huangpu River, were sold at an auction after conclusion of the World Expo. In addition, the Group also secured various orders from Beijing Tiananmen Tower, Olympic Games Celebration Square, London Gatwick Airport, Japan Narita warehouse, clubs in Las Vegas, WuGuang High-Speed Railway, Qingdao Sports Centre, Shenzhen Universiade and many other projects. Among our products, the Group's LED streetlights and LED tunnel lighting products were applied in energy-efficient road lighting reform projects in many districts of China, and we also had many successful projects in Beijing, Shanghai, Guangzhou, Shenzhen, Changsha, Hengyang, Changde, Inner Mongolia, Linfen, Foshan, Zhaoqing, Meizhou, Jiangmen, Heshan and some other districts. The luxury passenger railway line, WuGuang High-Speed Railway (Changsha section), which was commissioned recently, also used NEONEON Yingyu LED streetlights and tunnel lighting.



## BUSINESS REVIEW *(Continued)*

As there is an increasing demand for energy conservation and environmental protection, every nation has put more and more emphasis on semiconductor lighting. The Group's LED streetlights are recognized by nations all over the world for their high luminous efficiency and perfect optical design. As such, the Group's LED streetlights also replaced traditional streetlights in Vittorio of Italy, Sweden, Canada, Peru, India and the US in an extensive manner. Furthermore, Netherlands Public Broadcasting, Scotch Whisky Heritage Centre, the inner decoration of luxury cruise in Miami of the US, Hooters (a US fast-food restaurant) and underwater lights of Fuente de la Republica in Mexico used the Group's super high brightness LED Neonflex for decorative lighting.

Today, LED luminous efficiency is much higher than incandescent lamps; the world has started to pay attention to the third revolution of LED, so called "the technology of lighting up the future", and the resulting lighting field. As different countries in Europe and America will replace the incandescent light bulbs by LED general illumination lighting from 2012, Neo-Neon will get the upper hand in the cost competition due to its competitive edges of economy of scale and integrated production model, not to mention its geographical advantage in the PRC. Our growth in the next year will be driven by the following:

**LED general illumination lighting** – In September, 2011 we generated a turnover of 21.2% higher than June 2010. We can offer preferential prices of top-performance products in the market as our product research and development is at the cutting-edge of the lighting industry. A good news is that we have successfully launched LED general illumination lighting products for home use through Home Depot, one of the largest DIY stores whose orders involves millions of US Dollars. It sufficiently proves the era of LED-based general lighting for home use has entered. In view of this, the growth of this industry will expectedly accelerate in 2011 and thereafter.

**LED decorative lighting** – In September 2011 the turnover for LED decorative lighting increased 17.1% higher than June 2010. Neo-Neon is now the largest lighting manufacturer in the world with over 10 per cent of market share in the global decorative lighting market. Its clients are internationally-renowned manufacturers including HOME DEPOT of the United States. As such, Neo-Neon has already become a leading LED lighting manufacturer, which is well known in Europe and America. At the same time, Neo-Neon has its proprietary brands such as NEO-NEON and Yingyu Illumination (銀雨照明).

**Entertainment lighting** – As we have developed high-power LED emitters to replace existing HIDs and halogen light bulbs, these super high-tech bulbs can be flexibly applied to the entertainment lighting industry in different aspects.

## BUSINESS REVIEW *(Continued)*

### Production Facilities and Capacity

The LED products gradually replaced incandescent-based lighting in our sales mix. We proactively reinforced the Group's continued effort at research and development (R&D), and strove towards green lighting technology in future. Following the expansion of LED packaging plant in 2010, the Group reached a production capacity of 800 million LEDs per month. Our high-power LED emitter can achieve 120 lumens per watt, attaining the highest mass-production level in the LED industry. We continued our R&D effort in replacing existing HID and halogen light bulbs by high-power LED emitter so as to increase the variety and flexibility in entertainment lighting applications. In respect of general LED-based lighting, we firstly produced the whole series of LED white-light illumination products, including LED streetlights, LED T8 tubes, LED downlights and LED bulbs.

By the end of 2010, the Company newly added 14 metal organic chemical vapour depositors ("MOCVD") and the related packing production line. Currently, there were nineteen (19) sets in total for the production of blue and green LED wafers with production capacity of 55,000 number of wafers per month (two (2) inches). The brightness of self-produced LED chips of Neo-Neon has already exceeded 120lm/W and that of wafers and chips produced by chip factories has risen to 2,700 mcd, both of which have reached the internationally advanced level. The R&D team is conducting the R&D on the process of putting fluorescent powder directly on photonic crystal and vertically structural chips. It is expected to make a breakthrough in future.

To better consolidate its production capacity and cope with the ever-rising labour cost in the PRC after the implementation of new Labour Law, the Group completed the transfer of incandescent lighting and LED decorative lighting production lines (which involve labour-intensive process) to a plant, which had occupied 90,000 square meters in Thai Binh Province of Vietnam in consideration of the intense competition, low technology and labour-intensive production, concessionary electricity tariff and other favourable policies there. For one thing, the Group could then employ labors at a lower wage in Vietnam to continue the production of traditional lighting devices, so that the market status of Neo-Neon can be maintained. For another, the vacated plant and spared resources in Heshan could be better utilized to set up a facility that vertically integrates 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 plant has employed more than 1,600 employees. The Group will develop it into the largest LED lighting production base in Asia, and further expand the production scale of Vietnam plant in the future.

## BUSINESS REVIEW *(Continued)*

### Quality Control

The Group is always determined to achieve the objective of “Perfection”. It enhanced the quality management through tying the reward and punishment evaluation with quality and facilitating the comprehensive quality management incessantly. The Company has its own quality standard department and has established the Lide Photoelectric Test Center (麗得光電測試中心) with the South China University of Technology. With the strict quality management, the Company was granted ISO9001 Quality System Certification, and over 85% of its self-developed and self-produced products passed the international safety certifications including UL, ETL, CSA, GS, VDE, CE, IMQ, BS and SAA. In addition, it is a UL member and a silver member of International CIE. In 2009, Neo-Neon Group qualified for the certification of “LED Household Lighting” of US Energy-saving Star, which was the first lighting enterprise in Asia to be so recognized. It has stood for good brand image and rich customer resources. The Company has long included the brand building in its strategic objectives and is committed to enhancing the Company’s brand image on the principle of “focus on quality and brand promotion”. Through long-term cooperation, the Company established strategic partnership with a number of DIY enterprises such as Home Depot, Lowes, Juno, B&Q, CTC and Walmart.

### Sales and Distribution

The Group maintained a sales team of over 180 staff members with offices in 16 countries and regions including the PRC, Korea, Taiwan, Hong Kong, Macau, Vietnam, Malaysia, Dubai, UK, Thailand, Netherlands, Germany, Russia, USA and Brazil. The Group planned to establish flagship showrooms in Shanghai (already established), Tianjin and Chongqing. We are confident that, through our constant consolidation of market resources and the best use of various resources by mergers within the industry, can keep its industry leading role in the competitive LED market and constantly enlarge its LED market share in the future!

### Research and Development

The Group’s research and development efforts were driven towards product design, new product development and production efficiency improvement in order to reduce the overall production cost. During the period under review, with our continuing development of upstream epitaxy products to manufacture high-efficiency and good quality upstream LED materials, the Company’s LED chips (including 10 mil x 23 mil chips) and packaging technology were improved up to international standard, as an effort to secure our leading position in the LED application market. The brightness of the Company’s mass-produced LED chip SMD (3528 specification) rose to an average of 2,700 mcd, which is comparable to the brightness of 2,500 mcd to 2,800 mcd achieved by the leading Taiwan backlight factories, and higher than the 2,200 mcd to 2,600 mcd by mainland China manufacturers.

## BUSINESS REVIEW *(Continued)*

### Research and Development *(Continued)*

The Group established Lide Huagong Photoelectric Technology Research Institute (麗得華工光電技術研究所), the first photoelectric technology research institution, in Jiangmen city. There was remarkable breakthrough in the LED illumination technology in 2010. Currently, the luminous efficiency of HCD-LED chips (High Current Driving), AC-LED chips (Alternate Current) and HV-LED chips (High-Voltage) developed by the Company have reached 120 lumens per watt. Given the LED streetlights of the Group applied the design of the third-generation optical lens (so that the light of LED streetlights can be equally distributed in streets), they can save over 60% of electricity in comparison with the traditional streetlights, which received recognition from various countries around the world. Other than the LED streetlights, other LED application lighting products also received bulk orders from clients in such regions as the PRC, Europe, America and South-eastern Asia.

Neo-Neon has possessed more than 1,000 authorized patents at home and abroad, and its patented products have covered over 10,000 types of products in various technical aspects including traditional lighting, decorative lighting, commercial lighting, entertainment lighting, audio system, LED chips and LED packaging. Among them, there are over 800 domestic patents and 200 foreign patents, including 50 invention patents, more than 600 utility model patents and more than 400 exterior design patents. The LED Neonflex self-developed by the Company was granted patents from over 50 states and certificates jointly issued by six PRC ministries and commissions. With such achievements, the Company has been renowned domestically and internationally. Among 10,566 patent applications related to LED lighting technology in the PRC, Neo-Neon Group ranked the first with 212 relevant applications, which accounted for 2.01% of the total applications in the PRC, and other domestic enterprises were quite far behind to catch up with the Group.

### Trade Receivable Management

As at 30th September, 2011, the Group's receivable were HK\$500.6 million (31st March, 2011: HK\$389.1 million), representing an increase of HK\$111.5 million; in which the amount of receivables due within 180-360 days rose to HK\$36.6 million. The rise was mainly due to a 14.1% increase in turnover resulting from the rapid market expansion during the period under review, the extension of credit period to 180 days for facilitating some creditworthy long-term clients' plans for business development, and the long payment periods of certain large projects at low risk (such as Yangzhou Streetlight Project) under relevant contracts.

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

### **Inventory Management**

The Group operated an integrated industry chain that covered more than ninety percent of the production process in the whole business chain. During the period under review, the Group's inventory balances decreased to HK\$1,253.8 million from HK\$1,419.7 million as at the month ended 31st March, 2011, a decrease of approximately 13.2%, which was mainly due to an increase in turnover by 7.9% when the management had implemented strict inventory management, control measures and obsolete inventories disposal. Looking ahead, the Group will monitor its inventory management policy so as to give quicker response to customer orders and speed up inventory turnover. A number of internal management measures were also implemented which, as per the Group's expectation, will reap the benefits in the coming fiscal year.

### **Employees and Remuneration Policy**

As at 30th September, 2011, the Group's total number of employees was approximately 6,000 (31st March, 2011: 9,200). 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 provides discretionary bonus based upon the Group's results and the individual performance of the staff.

Attracting and retaining top management and executive talent is the key for sustaining Neo-Neon's future growth. The Group's existing performance-based incentive scheme and employee share-option scheme are helping to achieve this goal. These schemes will also improve overall management quality and business professionalism through on-the-job as well as formal training programmes. This will help develop team spirit and reinforce a sense of unity and belonging between management and 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.

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

### **Future Plans and Prospects**

We are “prudent and optimistic” about LED’s future prospects. In the meantime, we have also noticed that there is a trend of over-investment recently and obviously it is blind. The Group is the only company which has successfully completed vertical integration from the upper stream, middle stream to the lower stream of enterprise supply chain in the LED industry of the world. With respect to sales of products to end-users, we focus on cost reduction and strive to research, develop and produce over ten thousand kinds of prominent products, including LED chips, LED packaging and LED application lighting products. Over so many years, the Group has never used any agent for selection of customers, thereby preventing cumulative price increment from intermediary agents.

National Development and Reform Commission (“NDRC”) published the Route Map for Elimination of Incandescent Lamps in the PRC (Draft for Soliciting Opinions) (《中國淘汰白熾燈路線圖(徵求意見稿)》), which, step by step, prohibits the sale and import of general lighting incandescent lamps. It is anticipated that the prohibition on production and use of incandescent lamps all over the world would stimulate alternative lighting, which is seen to create tremendous market demand for LED lighting products. LED lighting, as an emerging industry for energy conservation and environmental protection, has been drawing significant attention from the state. In order to encourage and promote a healthy yet rapid growth of the industry, the state has so far formulated a complete policy system. With regard to subsidy, the Ministry of Finance, NDRC and other competent departments will provide subsidy for semiconductor lighting products, which is expected to commence in the fourth quarter. Concentration of many favorable policies in the fourth quarter will further benefit LED application lighting industry, and thus the domestic LED industry will remain a stable growth in the coming years.

As regions across the world have launched plans on prohibition of incandescent lamps one after another, and there is a gradual decline in cost of LED lighting, these will facilitate the application and spread of LED lighting, therefore bringing abundant business opportunities to the Group in future.

### **Interim Dividend**

No dividend will be paid for the six months ended 30th September, 2011 (June 2010: HK\$0.028).

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

As at 30th September, 2011, 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 September, 2011
	Personal interests <sup>(1)</sup>	Family interests	Corporate interests	Other interests			
Mr. Ben FAN <sup>(2)</sup>	600,000	26,717,000	336,400,000	-	-	363,717,000	38.593%
Ms. Michelle WONG <sup>(2)</sup>	10,668,000	337,000,000	16,049,000	-	-	363,717,000	38.593%
Mr. FAN Pong Yang <sup>(3)</sup>	1,462,000	-	16,049,000	-	760,000 <sup>(4)</sup>	18,271,000	1.939%
Mr. WENG Shih Yuan	246,500	-	-	-	200,000 <sup>(4)</sup>	446,500	0.047%
Mr. WU Tak Lung	-	-	-	-	250,000 <sup>(4)</sup>	250,000	0.027%
Mr. ZHAO Shan Xiang	-	-	-	-	250,000 <sup>(4)</sup>	250,000	0.027%

## 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 363,717,000 shares of the Company held by Mr. Ben FAN (600,000 shares), Ms. Michelle WONG (10,668,000 shares), Rightmass Agents Limited ("Rightmass") (336,400,000 shares) and Charm Light International Limited ("Charm Light") (16,049,000 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) 16,049,000 shares of the Company were held by Charm Light which was owned as to 35% by Ms. Michelle WONG. Thus, Ms. Michelle WONG was taken to be interested in 16,049,000 shares of the Company;
  - (c) Ms. Michelle WONG is the spouse of Mr. Ben FAN. By virtue of the SFO, Ms. Michelle WONG was deemed to be interested in 600,000 shares of the Company held by Mr. Ben FAN and 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 10,668,000 shares of the Company held by Ms. Michelle WONG and 16,049,000 share of the Company held by Charm Light.
- (3) 16,049,000 shares of the Company were held by Charm Light which was owned as to 35% by Mr. FAN Pong Yang. Thus, Mr. FAN Pong Yang was taken to be interested in 16,049,000 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 September, 2011, 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 September, 2011, the interests and short positions of those persons (other than the Directors) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

### Long positions in shares of the Company

<b>Name</b>	<b>Capacity in which shares were held</b>	<b>Number of ordinary shares held</b>	<b>Percentage of total issued share capital of the Company</b>
Rightmass <sup>(1)</sup>	Beneficial owner	336,400,000	35.695%
China Environment Fund	Investment Manager	96,731,000	10.264%

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 September, 2011, 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 September, 2011 are as below:

Type of participants	Date of grant	Exercisable period <sup>(1)</sup>	Exercise price per share (HK\$)	Number of share options				
				Outstanding at 1st April, 2011	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding at 30th September, 2011
<b>Directors</b>								
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. FAN Pong Yang	22.01.2010	22.01.2010 – 21.01.2017	6.75	760,000	–	–	–	760,000
<b>Employees</b>								
In aggregate	15.02.2007	15.02.2007 – 14.02.2015	8.72	7,288,500	–	–	244,000	7,044,500
	01.02.2008	01.02.2008 – 31.01.2016	5.03	2,706,000	–	–	762,500	2,043,500
	29.02.2008	29.02.2008 – 28.02.2016	5.90	2,257,500	–	–	825,000	1,432,500
	13.07.2009	13.07.2009 – 12.07.2016	2.19	9,356,000	–	–	560,000	8,796,000
	22.01.2010	22.01.2010 – 21.01.2017	6.75	10,452,500	–	–	1,090,000	10,722,500
	23.07.2010	23.07.2010 – 22.07.2017	4.51	6,050,000	–	–	1,900,000	4,150,000
	19.08.2011	19.08.2011 – 18.08.2017	1.95	–	17,000,000	–	–	17,000,000
				39,570,500	17,000,000	–	5,381,500	51,189,000

## SHARE OPTION SCHEME *(Continued)*

The closing prices per share immediately before 13th July, 2009, 22nd January, 2010, 23rd July, 2010 and 19th August, 2011, the dates when the share options were granted was HK\$2.15, HK\$6.75, HK\$4.51 and HK\$1.90 per share respectively.

The options vest in five instalments: (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.

*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 six months ended 1st April, 2011 to 30th September, 2011. 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 ended 1st April, 2011 to 30th September, 2011. At the meeting held on 28th November, 2011, the Audit Committee reviewed the unaudited financial statements for the ended 1st April, 2011 to 30th September, 2011 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 September, 2011, the Group did not have any significant contingent liabilities. As at 30th September, 2011, the Group has pledged one of its investment properties with a fair value of Nil (as at June 2010: HK\$47,502,000), certain of its land and buildings with an aggregate carrying value of HK\$127,766,000 (as at June 2010: HK\$194,842,000) and also bank deposits of aggregate carrying value of HK\$52,440,000 (as at June 2010: HK\$2,282,000) 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 1st April, 2011 to 30th September, 2011.

The six months ended 30th September, 2011 is the interim review for the financial year ended 31st March, 2012 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 September, 2011

	Notes	Six months ended 1.4.2011 to 30.9.2011 HK\$'000 (unaudited)	1.1.2010 to 30.6.2010 HK\$'000 (unaudited)
Turnover	4	<b>788,005</b>	730,146
Cost of goods sold		<b>(679,873)</b>	(488,258)
Gross profit		<b>108,132</b>	241,888
Other income		<b>8,396</b>	8,674
Other gains, losses and expenses	5	<b>1,081</b>	(1,619)
Distribution and selling expenses		<b>(59,771)</b>	(41,120)
Administrative expenses		<b>(150,030)</b>	(103,674)
Finance costs		<b>(6,896)</b>	(2,629)
Share of losses of an associate		<b>(3,967)</b>	(1,648)
Share of results of a jointly controlled entity		<b>1,391</b>	746
(Loss)/Profit before taxation	6	<b>(101,664)</b>	100,618
Taxation	7	<b>(568)</b>	(1,330)
(Loss)/Profit for the period attributable to owners of the Company		<b>(102,232)</b>	99,288
Other comprehensive income – exchange differences arising on translation		<b>89,681</b>	9,258
Total comprehensive income for the period attributable to owners of the Company		<b>(12,551)</b>	108,546
Attributable to – equity holders of the Company		<b>(104,184)</b>	98,794
– non-controlling interests		<b>1,952</b>	494
		<b>(102,232)</b>	99,288
Proposed interim dividend	8	–	25,637
(Loss)/Earnings per share	9		
– Basic		<b>HK\$(0.111)</b>	HK\$0.108
– Diluted		<b>HK\$(0.111)</b>	HK\$0.108



**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

At 30th September, 2011

	<i>Notes</i>	<b>30.9.2011</b> <b>HK\$'000</b> <b>(unaudited)</b>	31.3.2011 <i>HK\$'000</i> (audited)
<hr/>			
Non-current assets			
Investment properties		<b>16,240</b>	68,479
Property, plant and equipment	<i>10</i>	<b>1,653,126</b>	1,702,963
Prepaid lease payments		<b>119,499</b>	117,664
Goodwill		<b>96,116</b>	106,796
Intangible assets		<b>124,251</b>	127,344
Interest in an associate		<b>41,486</b>	14,225
Interest in a jointly controlled entity		<b>26,318</b>	24,928
Deposits made on acquisition of property, plant and equipment		<b>113,652</b>	111,895
		<hr/> <b>2,190,688</b>	<hr/> 2,274,294
Current assets			
Inventories		<b>1,253,831</b>	1,419,674
Trade and other receivables	<i>11</i>	<b>650,944</b>	545,664
Investments held-for-trading		<b>20,244</b>	121,102
Pledged bank deposits		<b>52,440</b>	52,371
Bank balances and cash		<b>399,244</b>	371,432
		<hr/> <b>2,376,703</b>	<hr/> 2,510,243

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION***(Continued)*

At 30th September, 2011

	Notes	<b>30.9.2011</b> <i>HK\$'000</i> <b>(unaudited)</b>	31.3.2011 <i>HK\$'000</i> (audited)
Current liabilities			
Trade and other payables	12	<b>279,073</b>	384,390
Taxation		<b>5,813</b>	7,667
Current portion of long-term bank loans		<b>731,525</b>	778,586
		<b>1,016,411</b>	1,170,643
Net current assets		<b>1,360,292</b>	1,339,600
Total assets less current liabilities		<b>3,550,980</b>	3,613,894
Non-current liabilities			
Long-term bank loans		–	28,078
Government grants		<b>9,363</b>	9,681
Deferred taxation		<b>31,243</b>	31,243
		<b>40,606</b>	69,002
Net assets		<b>3,510,374</b>	3,544,892
Capital and reserves			
Share capital		<b>94,244</b>	94,244
Share premium		<b>1,688,032</b>	1,688,032
Other reserves		<b>458,237</b>	360,365
Retained profits		<b>1,250,966</b>	1,385,308
Equity attributable to equity holders of the Company		<b>3,491,479</b>	3,527,949
Non-controlling interests		<b>18,895</b>	16,943
Total equity		<b>3,510,374</b>	3,544,892

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2011

	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
<b>At 30th June, 2010 (unaudited)</b>	<b>91,559</b>	<b>1,583,267</b>	<b>53,856</b>	<b>48,100</b>	<b>33,043</b>	<b>111,386</b>	<b>1,425,280</b>	<b>3,346,491</b>	<b>6,188</b>	<b>3,352,679</b>

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

For the six months ended 30th September, 2011

	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 April, 2011 (audited)	94,244	1,688,032	53,856	48,100	52,869	205,540	1,385,308	3,527,949	16,943	3,544,892
Exchange differences arising on translation of foreign operations and net investments	-	-	-	-	-	89,681	-	89,681	-	89,681
Net income recognised directly in equity	94,244	1,688,032	53,856	48,100	52,869	295,221	1,385,308	3,617,630	16,943	3,634,573
Profit for the period	-	-	-	-	-	-	(104,184)	(104,184)	1,952	(102,232)
Total recognised income for the period	94,244	1,688,032	53,856	48,100	52,869	295,221	1,281,124	3,513,446	18,895	3,532,341
Recognition of equity-settled share-based payments	-	-	-	-	8,191	-	-	8,191	-	8,191
Exercise of share options	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	(30,158)	(30,158)	-	(30,158)
<b>At 30th September, 2011 (unaudited)</b>	<b>94,244</b>	<b>1,688,032</b>	<b>53,856</b>	<b>48,100</b>	<b>61,060</b>	<b>295,221</b>	<b>1,250,966</b>	<b>3,491,479</b>	<b>18,895</b>	<b>3,510,374</b>

The special reserve represents the differences between the nominal amount of the shares issued by the Company and the Group's former holding company, Neo-Neon Holdings (BVI) Limited ("NNH"), and the aggregate amount of share capital and share premium of the subsidiaries acquired pursuant to a corporate reorganisation in 1996 and a group reorganisation in preparation for the listing of the Company's shares in 2006.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*(Continued)*

For the six months ended 30th September, 2011

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 September, 2011

	<b>Six months ended</b>	
	<b>1.4.2011</b>	1.1.2010
	<b>to 30.9.2011</b>	to 30.6.2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Net cash used in operating activities	<b>158,022</b>	(205,993)
Investing activities		
Interest received	<b>1,384</b>	–
Proceeds from disposal of investment properties	<b>52,239</b>	–
Proceeds from disposal of property, plant and equipment	<b>11,029</b>	–
Purchase of property, plant and equipment	<b>(14,564)</b>	(64,771)
Purchase of prepaid lease payments	–	(15,707)
Investment of an associate	<b>(31,229)</b>	–
Deposits paid for acquisition of property, plant and equipment	<b>(41,447)</b>	(206,424)
Other investing cash flows	<b>(284)</b>	–
Net cash used in investing activities	<b>(22,872)</b>	(286,902)
Financing activities		
Interest paid	<b>(6,896)</b>	–
Dividends paid	<b>(30,158)</b>	–
Proceeds from exercise of share options	–	5,023
Bank loans raised	<b>149,149</b>	21,188
Repayment of bank loans	<b>(223,548)</b>	(50,694)
Other financing cash flows	–	1,354
Net cash from (used in) financing activities	<b>(111,453)</b>	(23,129)
Net increase (decrease) in cash and cash equivalents	<b>23,697</b>	(516,024)
Cash and cash equivalents at 1st January	<b>371,432</b>	903,968
Effect of foreign exchange rate changes	<b>4,115</b>	3,025
Cash and cash equivalents at 30th June	<b>399,244</b>	390,969

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th September, 2011

### 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") and Depository Receipts of Taiwan 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

On 23rd July, 2010, the reporting period end date of the Group and the Company was changed from 31st December to 31st March. Accordingly, the consolidated financial statements for the current period cover the six-month period from 1st April, 2011 to 30th September, 2011. The corresponding comparative amounts shown for the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes cover a six-month period from 1st January 2010 to 30th June 2010 and therefore may not be comparable with amounts shown for the current period.

### 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 March, 2011.

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 April, 2011.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC) – Int 14 (Amendments)	Payments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(Continued)*

For the six months ended 30th September, 2011

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

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.

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

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>4</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>3</sup>
HKAS 19 (Revised 2011)	Employee Benefits <sup>2</sup>
HKAS 27 (2011)	Separate Financial Statements <sup>2</sup>
HKAS 28 (2011)	Investments in Associates and Joint Ventures <sup>2</sup>
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets <sup>1</sup>
HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 10	Consolidated Financial Statements <sup>2</sup>
HKFRS 11	Joint Arrangements <sup>2</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
HKFRS 13	Fair Value Measurement <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2012

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 September, 2011

### 4. TURNOVER AND SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered. Specifically, the Group's reportable segments under HKFRS 8 are as follows:

Light emitting diode ("LED") decorative lighting	–	manufacture and distribution of LED decorative lighting products
LED general illumination lighting	–	manufacture and distribution of LED general illumination lighting products
Incandescent decorative lighting	–	manufacture and distribution of incandescent decorative lighting products
Entertainment lighting	–	manufacture and distribution of entertainment lighting products
All others	–	distribution of lighting product accessories

Turnover represents the fair value of the consideration received and receivable for goods sold by the Group to outside customers during the period.

#### Segment Information

##### Business segment

	<b>Six months ended</b>	
	<b>1.4.2011</b>	1.1.2010
	<b>to 30.9.2011</b>	to 30.6.2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Turnover		
LED Decorative Lighting	<b>415,613</b>	354,477
LED General Illumination Lighting	<b>200,689</b>	165,550
Incandescent Decorative Lighting	<b>92,151</b>	103,662
Entertainment Lighting	<b>62,645</b>	82,980
Others	<b>16,907</b>	23,477
	<b>788,005</b>	730,146
Gross Profit		
LED Decorative Lighting	<b>62,762</b>	135,939
LED General Illumination Lighting	<b>29,843</b>	63,558
Incandescent Decorative Lighting	<b>8,135</b>	22,238
Entertainment Lighting	<b>5,702</b>	17,725
Others	<b>1,690</b>	2,428
	<b>108,132</b>	241,888

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30th September, 2011

### 4. TURNOVER AND SEGMENT INFORMATION (Continued)

**Segment Information** (Continued)

**Business segment** (Continued)

	Six months ended	
	1.4.2011 to 30.9.2011 HK\$'000 (unaudited)	1.1.2010 to 30.6.2010 HK\$'000 (unaudited)
<b>Results</b>		
Profit from operations		
LED Decorative Lighting	(20,153)	82,044
LED General Illumination Lighting	(11,180)	36,104
Incandescent Decorative Lighting	(8,134)	10,487
Entertainment Lighting	(3,490)	10,698
Others	(941)	1,466
	(43,898)	140,799
Unallocated other income	8,396	8,674
Unallocated other gains, losses and expenses	1,081	(1,619)
Unallocated expenses	(57,771)	(43,705)
Finance costs	(6,896)	(2,629)
Share of results of a jointly controlled entity	(2,576)	(902)
	(101,664)	100,618
(Loss)/Profit before taxation		
Taxation	(568)	(1,330)
(Loss)/Profit for the period	(102,232)	99,288

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

For the six months ended 30th September, 2011

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

	<b>Six months ended</b>	
	<b>1.4.2011 to 30.9.2011 HK\$'000 (unaudited)</b>	<b>1.1.2010 to 30.6.2010 HK\$'000 (unaudited)</b>
<b>Turnover</b>		
America	<b>330,050</b>	254,280
Europe	<b>184,487</b>	191,214
The PRC	<b>140,494</b>	154,984
Russia	<b>26,120</b>	26,572
Asia Pacific and Middle East (excluding PRC)	<b>105,152</b>	101,484
Others	<b>1,702</b>	1,612
	<b>788,005</b>	730,146
<b>Gross Profit</b>		
America	<b>48,636</b>	86,506
Europe	<b>25,757</b>	67,567
The PRC	<b>12,054</b>	39,986
Russia	<b>4,095</b>	9,623
Asia Pacific and Middle East (excluding PRC)	<b>17,337</b>	37,613
Others	<b>253</b>	593
	<b>108,132</b>	241,888

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30th September, 2011

### 4. TURNOVER AND SEGMENT INFORMATION (Continued)

**Segment Information** (Continued)

**Geographical segment** (Continued)

	Six months ended	
	1.4.2011 to 30.9.2011 HK\$'000 (unaudited)	1.1.2010 to 30.6.2010 HK\$'000 (unaudited)
<b>Results</b>		
Profit from operations		
– America	(34,271)	52,209
– Europe	(5,838)	37,845
– The PRC	(1,354)	21,877
– Russia	(458)	5,786
– Asia Pacific and Middle East (excluding PRC)	(1,949)	22,723
– Others	(28)	359
	<b>(43,898)</b>	140,799
Unallocated other income	8,396	8,674
Unallocated other gains, losses and expenses	1,081	(1,619)
Unallocated expenses	(57,771)	(43,705)
Finance costs	(6,896)	(2,629)
Share of results of a jointly controlled entity	(2,576)	(902)
(Loss)/Profit before taxation	<b>(101,664)</b>	100,618
Taxation	<b>(568)</b>	(1,330)
(Loss)/Profit for the period	<b>(102,232)</b>	99,288

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

For the six months ended 30th September, 2011

**5. OTHER GAINS, LOSSES AND EXPENSES**

	<b>Six months ended</b>	
	<b>1.4.2011</b>	1.1.2010
	<b>to 30.9.2011</b>	to 30.6.2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Compromise and legal fee relating to a settled litigation	–	(10,412)
Gain (loss) on disposal of property, plant and equipment	<b>35,688</b>	(1,828)
Net allowance for bad and doubtful debts	<b>(14,459)</b>	(5,701)
Research and development costs	<b>(9,960)</b>	(4,279)
Increase in fair value of investments held-for-trading	<b>(4,050)</b>	(20,702)
Government grants	–	43,101
Net exchange loss	<b>(6,138)</b>	(1,798)
	<b>1,081</b>	(1,619)

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

For the six months ended 30th September, 2011

**6. (LOSS)/PROFIT BEFORE TAXATION**

	<b>Six months ended</b>	
	<b>1.4.2011</b>	1.1.2010
	<b>to 30.9.2011</b>	to 30.6.2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	<b>98,801</b>	70,632
Less: Depreciation included in research and development costs	<b>(1,085)</b>	(1,334)
	<b>97,716</b>	69,298
Amortisation of intangible assets	<b>3,099</b>	1,229
Research and developments costs	<b>5,620</b>	4,279
Operating lease rentals in respect of		
– prepaid lease payments	<b>1,328</b>	784
– rented premises	<b>3,176</b>	1,943
and after crediting:		
Dividend income from listed investments held-for-trading	<b>407</b>	3,528
Interest income	<b>1,384</b>	3,785

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

For the six months ended 30th September, 2011

**7. TAXATION**

	<b>Six months ended</b>	
	<b>1.4.2011</b>	1.1.2010
	<b>to 30.9.2011</b>	to 30.6.2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
The charge comprises:		
PRC Enterprise Income Tax ("EIT")	<b>(482)</b>	(457)
Taxation in other overseas jurisdictions	<b>(86)</b>	(873)
	<b>(568)</b>	(1,330)

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% (HY2010: 16.5%) on the estimated assessable profit for the period.

**8. DIVIDEND**

No dividend will be paid for the six months ended 30th September 2011 (June 2010: HK\$0.028).

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

For the six months ended 30th September, 2011

**9. (LOSS)/EARNINGS PER SHARE**

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

	<b>Six months ended</b>	
	<b>1.4.2011 to 30.9.2011</b>	1.1.2010 to 30.6.2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
<b>(Loss)/Earnings</b>		
(Loss)/Profit attributable to equity holders of the Company	<b>(104,184)</b>	98,794
<b>Number of shares</b>		
Weighted average number of ordinary shares in issue	<b>942,440,694</b>	915,287,750
Basic (loss)/earning per share	<b>HK\$(0.111)</b>	HK\$0.108
Weighted average number of ordinary shares for diluted (loss)/earnings per share	<b>942,440,694</b>	915,287,750
Diluted (loss)/earning per share	<b>HK\$(0.111)</b>	HK\$0.108



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

For the six months ended 30th September, 2011

**10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group incurred HK\$54,300,000 (six months ended 30th June, 2010: HK\$205,000,000) on additions to property, plant and equipment to expand and upgrade its manufacturing capabilities, of which buildings nil (six months ended 30th June, 2010: HK\$95,600,000), leasehold improvement HK\$16,600,000 (six months ended 30th June, 2010: HK\$12,800,000), furniture, fixture and equipment HK\$1,400,000 (six months ended 30th June, 2010: HK\$2,900,000), motor vehicles HK\$1,400,000 (six months ended 30th June, 2010: nil), plant and machinery HK\$7,200,000 (six months ended 30th June, 2010: HK\$43,000,000), mould HK\$2,300,000 (six months ended 30th June, 2010: HK\$6,000,000), construction in progress HK\$25,400,000 (six months ended 30th June, 2010: HK\$29,000,000), land use right nil (six months ended 30th June, 2010: 15,700,000).

**11. TRADE AND OTHER RECEIVABLES**

	<b>30.9.2011</b> <i>HK\$'000</i> <b>(unaudited)</b>	31.3.2011 <i>HK\$'000</i> (audited)
Trade receivables		
– jointly controlled entity	<b>1,341</b>	1,014
– others	<b>467,013</b>	367,263
Bills receivables	<b>67,924</b>	56,364
Less: Allowance for bad and doubtful debts	<b>(35,727)</b>	(35,587)
	<b>500,551</b>	389,054
Deposits paid to suppliers	<b>26,113</b>	39,952
Value added tax refundable on export sales	<b>68,127</b>	77,211
Value added tax recoverable	<b>33,754</b>	13,842
Other receivables	<b>22,399</b>	25,605
	<b>650,944</b>	545,664

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

For the six months ended 30th September, 2011

**11. 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:

	<b>30.9.2011</b> <i>HK\$'000</i> <b>(unaudited)</b>	31.3.2011 <i>HK\$'000</i> (audited)
Age		
0 to 60 days	<b>245,753</b>	194,315
61 to 90 days	<b>34,392</b>	33,087
91 to 180 days	<b>28,261</b>	78,769
181 to 360 days	<b>110,600</b>	73,958
Over 1 year	<b>81,545</b>	8,925
	<b>500,551</b>	389,054

**12. TRADE AND OTHER PAYABLES**

	<b>30.9.2011</b> <i>HK\$'000</i> <b>(unaudited)</b>	31.3.2011 <i>HK\$'000</i> (audited)
Trade payables		
– associates	<b>858</b>	631
– others	<b>113,500</b>	197,826
Bills payables	<b>24,926</b>	40,321
	<b>139,284</b>	238,778
Customers' deposits	<b>31,563</b>	38,911
Payroll and welfare payables	<b>23,743</b>	26,908
Payables for acquisition of property, plant and equipment	<b>16,433</b>	20,870
Other tax payables	<b>8,203</b>	11,444
Other payables	<b>59,847</b>	47,479
	<b>279,073</b>	384,390

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

For the six months ended 30th September, 2011

**12. 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:

	<b>30.9.2011</b> <b>HK\$'000</b> <b>(unaudited)</b>	31.3.2011 <b>HK\$'000</b> (audited)
Age		
0 to 30 days	<b>47,425</b>	121,304
31 to 60 days	<b>20,853</b>	25,646
61 to 90 days	<b>12,634</b>	32,152
91 to 120 days	<b>34,032</b>	38,428
121 to 360 days	<b>24,340</b>	21,248
	<b>139,284</b>	238,778

**13. SHARE OPTIONS**

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

	<b>Number of share options</b> <b>30.9.2011</b> <b>(unaudited)</b>	31.3.2011 (audited)
Outstanding at the beginning	<b>39,570,500</b>	27,161,500
Granted during the period/year	<b>17,000,000</b>	21,850,000
Exercised during the period/year	–	(2,262,500)
Forfeited during the period/year	<b>(5,381,500)</b>	(7,178,500)
	<b>51,189,000</b>	39,570,500

The share options granted in 2011 have an exercise price of HK\$1.95 with various vesting periods between August 2011 and August 2015.

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

For the six months ended 30th September, 2011

**13. SHARE OPTIONS** *(Continued)*

The share options granted in 2010 have an exercise price of HK\$6.75 and HK\$4.51 with various vesting periods between January 2010 and July 2014.

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 closing price of the Company's shares immediately before 13th July, 2009, 22nd January, 2010, 23rd July, 2010 and 19th August, 2011, the dates when the share options were granted was HK\$2.15, HK\$6.75, 4.51 and 1.90 per share respectively.

The options granted on 22nd January, 2010 and 23rd July, 2010 with an aggregate estimated fair values of HK\$37,503,000 and HK\$12,600,000 respectively. These fair values were calculated using the Binomial option pricing model.

**14. CAPITAL COMMITMENTS**

	<b>30.9.2011</b> <i>HK\$'000</i> <b>(unaudited)</b>	31.3.2011 <i>HK\$'000</i> (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
acquisition of property, plant and equipment	<b>124,948</b>	169,321

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(Continued)*

For the six months ended 30th September, 2011

### 15. RELATED PARTY TRANSACTIONS

During the period, the Group sold goods totalling HK\$1,869,000 (1st January, 2010 to 31st March, 2011: HK\$2,569,000) to its associates and jointly controlled entity.

The emoluments to the Company's directors, who are the Group's key management, are HK\$711,000 (June, 2010: HK\$783,000). 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.

### 16. SUBSEQUENT EVENT

On 27 November 2011, Heshan Yingyu Illumination Co., Ltd (鶴山市銀雨照明有限公司), a wholly-owned subsidiary of the Company, entered into a strategic cooperation framework agreement with 中國中聯行國際投資有限公司(China Zhong Lian Hang International Investment Limited) pursuant to which the Group is responsible for the supply of LED lighting and the provision of technical and after-sale services for all gasoline stations of China Petroleum & Chemical Corporation Limited (中國石油化工股份有限公司) for a term of two years. On 28 November 2011, the parties further entered into a LED lighting purchase contract pursuant to which the Group has agreed to supply LED lighting for 1,360 gasoline stations in Shanxi Province as the first stage of the Project in an aggregate sum of approximately RMB76.54 million.

On 28 November 2011, Heshan Yingyu entered into strategic cooperation framework agreements with 北京中關村開發建設股份有限公司(Beijing Zhong Guan Cun Development Construction Limited) and 城鄉小康發展促進中心 (Cheng Xiang Xiao Kang Development Promotion Centre) respectively for the LED lighting upgrading projects of all branch offices of Zhong Guan Cun Development and Cheng Xiang Xiao Kang throughout China for a term of two years.