

Neo-Neon™
NEO-NEON HOLDINGS LIMITED
真明麗控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1868)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2007**

FINANCIAL REVIEW

The Board of Directors (The “Board”) of Neo-Neon Holdings Limited (the “Company”) presents the interim result and the unaudited condensed consolidated interim financial information of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007 (“Review Period”), together with the comparative figures.

During the Review Period, the Group has recorded a turnover of approximately HK\$505.1 million, representing an increase of 32.4% as compared to approximately HK\$381.6 million in the corresponding period last year. Gross profit margin achieved 34.5%, compared to 37.8% in the corresponding period last year. Net profit of the Group was recorded at approximately HK\$80.3 million, compared to a profit of HK\$61.2 million in the corresponding period last year. Basic earnings per share was HK\$0.11, compared to the basic earnings per share of HK\$0.10 in the corresponding period last year.

These encouraging results in the first half of 2007 were mainly attributable to continued favourable sales of the Group’s LED decorative lighting products. Effective cost and operational expenses control also contributed to the rise in net profit.

TURNOVER

Incandescent-based decorative lighting products

The sales revenue of incandescent-based decorative lighting products increased from HK\$140.7 million for the six months ended 30 June 2006 to HK\$151.8 million for the six months ended 30 June 2007. As the era for replacement of LED-based decorative lighting products has begun, the increase in sales was deviated from our expectation. We believe that we have gained market share in the incandescent decorative lighting market due to many less sizeable manufacturers went out of business in the last twelve months.

LED-based decorative lighting products

The sales revenue of LED-based decorative lighting products grew significantly from HK\$118.6 million for the six months ended 30 June 2006 to HK\$201.7 million for the six months ended 30 June 2007, an increase of 70.1%. The revenue of one of our patented products, the LEDNEON-FLEX, continued to increase in the first half of 2007.

LED-based illumination lighting products

This is the first year that we launched LED-based illumination lighting products. The sales revenue of LED-based illumination lighting products was HK\$7.6 million and was approximately 1.5% of the total revenue in the first half of 2007. During the first half of the year, a lot of our customers ordered samples from us. They spent time on testing the quality of

these new products. The feedbacks from our customers were positive and encouraging. In fact, we began to receive concrete sales orders in July and August and we are confident that there will be more sales coming through for the rest of the year. For those orders that we received recently, a significant portion are LED street lighting products. That indicates governments are taking the initiative to use clean and energy saving products. We expect the increase in sales of LED-based illumination lighting products will mitigate the seasonality effect on decorative lighting products in the longer run. Nevertheless, we foresee that the overall revenue from LED-based illumination lighting products will only contribute a small percentage of our total revenue in 2007. We expect sales in LED-based illumination lighting products will grow significantly next year.

Entertainment lighting products

The sales revenue of entertainment lighting products increased slightly from HK\$114.5 million for the six months ended 30 June 2006 to HK\$114.9 million for the six months ended 30 June 2007, an increase of 0.4%. The sales growth of the entertainment lighting business was not too encouraging in the first half and we expect better growth in the second half of 2007.

COST OF SALES

The Group's total cost of sales increased from HK\$237.3 million for the six months ended 30 June 2006 to HK\$330.7 million for the six months ended 30 June 2007. Cost of sales represented 65.5% of the Group's total turnover for the six months ended 30 June 2007, which increased 3.3% compared to 62.2% for the six months ended 30 June 2006. In 2007, the price of copper, being a major component of our cost, stabilized and which to a certain extent, help to improve our sales performance. The cost of LED chips, being another major component of our cost, declined in 2007 which is a general phenomenon in the industry. However, in view of the increase in demand of LED chips, we expect this cost decreasing trend for the LED chips will reverse beginning in 2008. We further anticipated that there will be a shortage of supply of LED chips in 2009.

GROSS PROFIT AND GROSS PROFIT MARGIN

The Group's gross profit increased by 20.8% from HK\$144.4 million for the six months ended 30 June 2006 to HK\$174.4 million for the six months ended 30 June 2007 as a result of the increase in sales during the year.

The Group's overall gross profit margin decreased 3.3% from 37.8% in 2006 to 34.5% for the six months ended 30 June 2007. The increase in percentage in cost of sales in the first six months of 2007 was mainly due to higher depreciation expenses as a result of our expansion of production facilities and more lower margin products being manufactured in the first half of 2007.

OPERATING EXPENSES

Operating expenses include distribution expenses and administrative expenses. For the six months ended 30 June 2007, the Group's operating expenses were HK\$133.3 million, an increase of 35.7%, compared to HK\$98.2 million in 2006. The increase was mainly attributable to the growth in production volumes, the administrative expenses associated with the listing status, and an increase in professional costs. Operating expenses accounted for 26.4% of the Group's turnover for the period, up 0.7 percentage points as compared with 25.7% for the six months ended 30 June 2006. The change was mainly due to the incurring of apportioned share-based payments of HK\$13.1 million of employee share option related expenses in the first half of 2007. It is expected that the employee share option related expenses will be amounted to approximately HK\$21.8 million for the whole year of 2007.

NET FINANCING COST

For the six months ended 30 June 2007, the Group's financing cost was HK\$1.5 million, a decrease of 63.4% compared with HK\$4.1 million in 2006, which was mainly attributable to repayment of our bank loans drawn beginning of the year.

NET PROFIT

For the six months ended 30 June 2007, the Group's net profit was HK\$80.3 million, an increase of 31.2% compared with HK\$61.2 million in 2006. The increase was mainly attributable to increase in sales and the Group's success in controlling costs and overhead expenses. The net profit margin was 15.9% compared with 16.0% in 2006.

FINANCIAL RESOURCES AND LIQUIDITY

The Company listed on the Stock Exchange on 15 December 2006. A total of 160,000,000 shares of nominal value of HK\$0.1 each were issued at a price of HK\$6.90. The net proceeds from the initial public offering ("IPO") were HK\$1.06 billion.

The Group's major liquidity and capital resources are the cash inflow from operating activities. Net cash used in operating activities during the year was HK\$48.8 million, a decrease of HK\$85.2 million compared to HK\$134.0 million in 2006. Cash and cash equivalents as of 30 June 2007 was HK\$814.6 million.

ASSETS AND LIABILITIES

As of 30 June 2007, the Group's total assets were HK\$2,558.2 million, an increase of HK\$1,067.5 million compared with HK\$1,490.7 million as of 30 June 2006.

The Group's total liabilities as of 30 June 2007 were HK\$425.9 million, a decrease of HK\$244.5 million compared to that as of 30 June 2006. The main reason for the decrease in total liabilities was due to the repayment of bank borrowings at the beginning of 2007.

As of 30 June 2007, the Group's outstanding bank loans was nil, compared with HK\$194.2 million as of 30 June 2006.

The Group's shareholders' equity as of 30 June 2007 was HK\$2,125.1 million, an increase of HK\$1,313.1 million compared with HK\$812.0 million as of 30 June 2006. The increase was mainly due to the net proceeds from the IPO and the net profit for the six months ended 30 June 2007.

The Group's gearing ratio decreased substantially to 0% as of 30 June 2007 compared with 23.7% as of 30 June 2006 as a result of the increase in capital after the listing.

TAXATION

Taxation of the Group for the six months ended 30 June 2007 was HK\$5.4 million. The effective tax rate was 6.3% which was 4.3% for the six months ended 30 June 2007 higher than that of in the first half of 2006. 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

The Group's sales were mainly denominated in United States Dollars, no significant currency risk exposure was expected in this respect. The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

PLEDGE OF ASSETS

As of 30 June 2007, there were no pledge of assets for the Group.

CONTINGENT LIABILITIES

The Group had no contingent liabilities as of 30 June 2007 and 30 June 2006.

INTERIM DIVIDEND

The Board has declared the payment of an interim dividend of HK\$0.027 per ordinary share.

The interim dividend will be paid on or about 13 November 2007 to shareholders whose names appear on the Register of Members of the Company on 7 November 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 1 November 2007 to Wednesday, 7 November 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed interim dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 31 October 2007.

BUSINESS REVIEW

Production Facilities and Production Capacity

In 2007, the Group's LED light bulbs capacity expansion progressed smoothly. Monthly capacity reached 200 million LED light bulbs at the end of August 2007 compared with 30 million LED light bulbs at the end of 2006.

The production capacity of our incandescent light bulb will continue to maintain a moderate utilization rate. The Group will not invest new resources in the incandescent lighting products business in the near future.

The new LED production plant with a gross floor area of 60,000 sq.m. has already commenced production in April 2007. We expect that as a result of our expansion plan, by the end of 2007, our production capacity of LED-based light bulbs will increase to 250 million per month.

In the first half of 2007, the Group continued to expand the LED-based decorative lighting products market of which impressive results were achieved during the year.

Quality Control

Product quality has always been the most important objective for the Group since its establishment. The Group implemented strict quality controls throughout the entire processes of procurement, production, sales and logistics. Our standards and compliance department is responsible for obtaining certifications for our products with certification agencies, some of which are country specific. Our products have to comply with the standards of the country in which our customers conduct business. We ensure full compliance with the required standards in the manufacturing and sales process for our products.

Sales and Distribution

As of 30 June 2007, the Group had a sales team of 565 staff. We believe that the demand for LED-based decorative lighting products will continue to increase and that the LED-based illumination lighting market has shown substantial growth potential. Our sales effort in 2007 was aimed to strengthen our current market position in LED-based decorative lighting and to capture the growth opportunities of the LED-based illumination lighting market.

RESEARCH & DEVELOPMENT

Our research and development capabilities are important in maintaining our position as one of the world's leading manufacturers in the decorative lighting industry. Our research and development efforts focus on product design, new product development and improving production efficiency of our products to reduce overall manufacturing costs while maintaining the quality. In 2007, we allocated significant resources in the research and development of LED-based illumination lighting application technology and products. We believe there is a huge market potential in the LED-based illumination lighting market and that LED-based lighting will replace traditional lighting such as incandescent lighting and fluorescent lighting in the future.

HUMAN RESOURCES

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 IPO.

FUTURE PLANS AND PROSPECTS

In view of promising sales prospects and growing market demand of LED products, Neo-Neon plans to further vertically integrate our production facilities to include LED chips manufacturing in order to satisfy the market demands. A team of our R & D engineers has been assigned to study the feasibility of this project.

We also plan to set up a plant in Vietnam and the first stage of the investment will be effected in the fourth quarter of 2007. In the future, some of the labour intensive works will be transferred to the new factory in Vietnam.

Neo-Neon will continue to pursue new business opportunities in the lighting industry. We will carefully look for acquisition opportunities to enhance our technology in order to maintain our leadership in the industry and maximise returns to our shareholders.

SHARE OPTION SCHEME

A share option scheme was adopted by the Company pursuant to a board resolution passed on 20 November 2006 (the “Scheme”) for the primary purpose of providing incentives to Directors and eligible employees. The Scheme became effective on 15 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 may grant options to any employees of the Company or any of its subsidiaries to subscribe 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 15 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 in 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.

During the six months ended 30 June 2007, 15,110,000 share options were granted to eligible employees of the Group. The option period is 8 years whereas the vesting period is 5 years in which only 3,022,000 shares can be exercised by the employees each year. Details of movement of these options are described in the table below:

Date of grant	Exercise price HK\$	Balance as at 1.1.2007	Number of share options			Balance as at 30.6.2007
			Granted during the period	Exercised during the period	Cancelled during the period	
15.2.2007	8.72	0	15,110,000	626,500	278,000	14,205,500

CORPORATE GOVERNANCE PRACTICES

Good corporate governance is important to safeguarding the interests of the shareholders and enhancing the performance of the Group. The Directors are committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (“Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) for the six months ended 30 June 2007.

The Board will continuously review and enhance the corporate governance practices and standards of the Company throughout the Group and to ensure that business activities and decision making processes are conducted in a proper and prudent manner.

DIRECTORS’ SECURITIES TRANSACTIONS

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 30 June 2007. The Model Code also applies to other specified senior management of the Group.

AUDIT COMMITTEE

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

Mr. WU Tak Lung (*Chairman*)
 Ms. FUNG Siu Wan Stella
 Mr. LAM Yin Ming

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, legal, 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 have not been audited but have been reviewed by the Company's audit committee.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the financial statements for the half year ended 30 June 2007. From 1 January 2007 to 12 September 2007, two Audit Committee meetings were held, with 100% attendance by all committee members.

At the meeting held on 12 September 2007, the Audit Committee reviewed the unaudited financial statements for the half year ended 30 June 2007 together with the interim results announcement, with a recommendation to the Board of directors for approval.

REMUNERATION COMMITTEE

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

Ms. FUNG Siu Wan Stella (*Chairman*)

Ms. Michelle WONG

Mr. WU Tak Lung

Mr. LAM Yin Ming

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. From 1 January 2007 to 12 September 2007, three Remuneration Committee meetings were held, with 100% attendance by all committee members.

NOMINATION COMMITTEE

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

Mr. LAM Yin Ming (*Chairman*)

Ms. FUNG Siu Wan Stella

Ms. Michelle WONG

Mr. WU Tak Lung

The majority of the Nomination Committee members are independent non-executive directors. The Nomination Committee is mainly responsible for reviewing the candidates' qualification and competence, and making recommendations to the Board on appointment of directors, so as to ensure that all nominations are fair and reasonable.

The Nomination Committee meets to discuss the procedures and criteria which should be adopted by them in nominating candidates for directorship and agreed that such criteria should include the candidates' professional background, their experiences and their past track record with other listed companies (if any). From 1 January 2007 to 12 September 2007, three Nomination Committee meetings were held, with 100% attendance by all committee members.

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 30 June, 2007.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF NEO-NEON HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 2 to 14 which comprises the condensed consolidated balance sheet of Neo-Neon Holdings Limited as of 30th June, 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

14th September, 2007

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2007

		1.1.2007 to 30.6.2007 HK\$'000 (unaudited)	1.1.2006 to 30.6.2006 HK\$'000 (audited)
	Notes		
Turnover		505,112	381,634
Cost of goods sold		(330,721)	(237,268)
Gross profit		174,391	144,366
Other income		44,898	17,622
Distribution and selling expenses		(23,437)	(17,556)
Administrative expenses		(109,870)	(80,651)
Finance costs		(1,469)	(4,128)
Share of profits of associates		490	639
Share of profits of a jointly controlled entity		723	2,189
Profit before taxation	5	85,726	62,481
Taxation	6	(5,393)	(1,275)
Profit for the period		80,333	61,206
Attributable to			
– equity holders of the Company		83,327	60,614
– minority interests		(2,994)	592
		80,333	61,206
Dividend recognised as distribution during the period		–	60,000
Proposed interim dividend	7	20,549	–
Earnings per share	8		
– Basic		HK\$0.110	HK\$0.101
– Diluted		HK\$0.109	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2007

	Notes	30.6.2007 HK\$'000 (unaudited)	31.12.2006 HK\$'000 (audited)
Non-current assets			
Investment properties		17,231	17,381
Property, plant and equipment	9	546,961	459,234
Land use rights		13,088	12,871
Intangible assets		12,952	12,583
Interests in associates		17,547	16,803
Interest in a jointly controlled entity		23,505	22,782
Deposits made on acquisition of property, plant and equipment		27,384	4,152
Deferred tax assets		13,017	15,247
		<u>671,685</u>	<u>561,053</u>
Current assets			
Inventories		741,840	495,729
Trade and other receivables	10	311,544	226,435
Investments held for trading		18,470	–
Pledged bank deposits		–	1,985
Bank balances and cash		814,642	1,158,158
		<u>1,886,496</u>	<u>1,882,307</u>
Current liabilities			
Trade and other payables	11	405,139	219,518
Amount due to a director		–	2,126
Taxation		20,789	19,854
Mortgage loan due within one year		–	5,747
Current portion of long-term bank loans		–	18,000
Secured short-term bank loans		–	52,635
		<u>425,928</u>	<u>317,880</u>
Net current assets		<u>1,460,568</u>	<u>1,564,427</u>
Total assets less current liabilities		<u>2,132,253</u>	<u>2,125,480</u>

	<i>Notes</i>	30.6.2007 HK\$'000 (unaudited)	31.12.2006 <i>HK\$'000</i> (audited)
Non-current liabilities			
Mortgage loan due after one year		–	45,999
Long-term bank loans due after one year		–	55,500
		–	101,499
Net assets		<u>2,132,253</u>	<u>2,023,981</u>
Capital and reserves			
Share capital		76,063	76,000
Reserves		<u>2,049,048</u>	<u>1,937,845</u>
Equity attributable to equity holders of the Company		2,125,111	2,013,845
Minority interests		<u>7,142</u>	<u>10,136</u>
Total equity		<u>2,132,253</u>	<u>2,023,981</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2007

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Share compen- sation reserve HK\$'000	Share options reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Attributable to equity holders of the Company HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st January, 2006 (audited)	7,740	70,225	5,891	48,100	-	966	678,296	811,218	603	811,821
Exchange differences arising on translation of foreign operations, recognised directly in equity	-	-	-	-	-	182	-	182	-	182
Profit for the period	-	-	-	-	-	-	60,614	60,614	592	61,206
Total recognised income for the period	-	-	-	-	-	182	60,614	60,796	592	61,388
Capital contributions from minority owners of subsidiaries	-	-	-	-	-	-	-	-	7,083	7,083
Dividend declared	-	-	-	-	-	-	(60,000)	(60,000)	-	(60,000)
At 30th June, 2006 (audited)	<u>7,740</u>	<u>70,225</u>	<u>5,891</u>	<u>48,100</u>	<u>-</u>	<u>1,148</u>	<u>678,910</u>	<u>812,014</u>	<u>8,278</u>	<u>820,292</u>
At 1st January, 2007 (audited)	76,000	1,013,987	53,856	48,100	-	3,641	818,261	2,013,845	10,136	2,023,981
Exchange differences arising on translation of foreign operations and net investments	-	-	-	-	-	8,214	-	8,214	-	8,214
Share of translation reserve of associates	-	-	-	-	-	1,190	-	1,190	-	1,190
Net income recognised directly in equity	76,000	1,013,987	53,856	48,100	-	13,045	818,261	2,023,249	10,136	2,033,385
Profit for the period	-	-	-	-	-	-	83,327	83,327	(2,994)	80,333
Total recognised income for the period	76,000	1,013,987	53,856	48,100	-	13,045	901,588	2,106,576	7,142	2,113,718
Recognition of equity-settled share-based payments	-	-	-	-	13,071	-	-	13,071	-	13,071
Exercise of share options	63	6,911	-	-	(1,510)	-	-	5,464	-	5,464
At 30th June, 2007 (unaudited)	<u>76,063</u>	<u>1,020,898</u>	<u>53,856</u>	<u>48,100</u>	<u>11,561</u>	<u>13,045</u>	<u>901,588</u>	<u>2,125,111</u>	<u>7,142</u>	<u>2,132,253</u>

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.

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

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2007

	1.1.2007 to 30.6.2007 <i>HK\$'000</i> (unaudited)	1.1.2006 to 30.6.2006 <i>HK\$'000</i> (audited)
Net cash used in operating activities	<u>(48,814)</u>	<u>(134,008)</u>
Investing activities		
Purchase of property, plant and equipment	(117,644)	(70,329)
Other investing cash flows	<u>(3,067)</u>	<u>(2,532)</u>
Net cash used in investing activities	<u>(120,711)</u>	<u>(72,861)</u>
Financing activities		
Dividend paid	–	(41,170)
Repayment of mortgage loans	(51,746)	(2,873)
Bank loans raised	–	87,000
Repayment of bank loans	(126,135)	(20,212)
Other financing cash flows	<u>1,869</u>	<u>1,817</u>
Net cash (used in) from financing activities	<u>(176,012)</u>	<u>24,562</u>
Net decrease in cash and cash equivalents	(345,537)	(182,307)
Cash and cash equivalents at 1st January	1,158,158	293,774
Effect of foreign exchange rate changes	<u>2,021</u>	<u>182</u>
Cash and cash equivalents at 30th June	<u><u>814,642</u></u>	<u><u>111,649</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2007

1. GENERAL AND BASIS OF PRESENTATION OF INTERIM FINANCIAL STATEMENTS

The Company was incorporated and registered as an exempted company with limited liability on 11th August, 2006 under the Companies Law of the Cayman Islands and acts as an investment holding company.

Through a group reorganisation to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) in preparation for the listing of the Company’s shares (the “Group Reorganisation”), the Company became the holding company of the Group on 20th November, 2006. Details of the Group Reorganisation are more fully explained in Appendix VII to the prospectus of the Company dated 4th December, 2006. The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the condensed consolidated financial statements for the six months ended 30th June, 2006 have been prepared using the principles of merger accounting. The condensed consolidated income statement, the condensed consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six months ended 30th June, 2006 have been prepared on the basis as if the current group structure had been in existence throughout that period. The condensed consolidated balance sheet of the Group as at 30th June, 2006 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at that date.

The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 15th December, 2006.

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

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention except for investments held for trading which are carried at fair value. The principal accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2006.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current interim period, the Group has applied, for the first time, a new Standard, an Amendment and Interpretations (“INT”s) (new “HKFRS”s) issued by the HKICPA, which are effective for the Group’s financial year beginning 1st January, 2007. The adoption of these new HKFRSs had no material effect on the results or financial position for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

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

HKAS 23 (Revised)	Borrowing costs ¹
HKFRS 8	Operating segments ¹
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions ²
HK(IFRIC) – INT 12	Service concession arrangements ³

¹ Effective for annual periods beginning on or after 1st January, 2009.

² Effective for annual periods beginning on or after 1st March, 2007.

³ Effective for annual periods beginning on or after 1st January, 2008.

4. SEGMENT INFORMATION

Business segment

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

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

Geographical segment

	1.1.2007 to 30.6.2007 HK\$'000 (unaudited)	1.1.2006 to 30.6.2006 HK\$'000 (audited)
Turnover		
America	171,813	116,964
Europe	179,371	150,055
The PRC	53,226	31,963
Asia Pacific, Middle East and Russia (excluding PRC)	98,408	80,820
Others	2,294	1,832
	<u>505,112</u>	<u>381,634</u>
Results		
Profit from operations		
– America	27,968	23,990
– Europe	32,163	31,096
– PRC	2,518	3,123
– Asia Pacific, Middle East and Russia (excluding PRC)	21,866	21,394
– Others	417	401
	<u>84,932</u>	80,004
Unallocated other income	44,898	17,622
Unallocated expenses	(43,848)	(33,845)
Finance costs	(1,469)	(4,128)
Share of profits of associates	490	639
Share of profits of a jointly controlled entity	723	2,189
	<u>85,726</u>	62,481
Profit before taxation	85,726	62,481
Taxation	(5,393)	(1,275)
	<u>80,333</u>	<u>61,206</u>
Profit for the period	<u>80,333</u>	<u>61,206</u>

5. PROFIT BEFORE TAXATION

	1.1.2007 to 30.6.2007 HK\$'000 (unaudited)	1.1.2006 to 30.6.2006 HK\$'000 (audited)
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	40,902	31,212
Less: Depreciation included in research and development costs	(573)	(104)
	<u>40,329</u>	<u>31,108</u>
Amortisation of intangible assets	1,159	1,049
Net exchange loss	–	1,920
and after crediting:		
Change in fair value of investments held for trading	713	2,351
Dividend income from listed investments held for trading	125	659
Gain on disposal of investments held for trading	–	6,589
Interest income	16,838	2,767
Net exchange gain	<u>19,676</u>	<u>–</u>

6. TAXATION

	1.1.2007 to 30.6.2007 HK\$'000 (unaudited)	1.1.2006 to 30.6.2006 HK\$'000 (audited)
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% on the estimated assessable profit for the period	(11)	(2,779)
Overprovision in prior periods	<u>259</u>	<u>92</u>
	<u>248</u>	<u>(2,687)</u>
PRC enterprise income tax	(3,000)	(1,937)
Taxation in other overseas jurisdictions	<u>20</u>	<u>(255)</u>
	<u>(2,980)</u>	<u>(2,192)</u>
Deferred taxation		
– current year	(1,500)	3,604
– attributable to change in tax rate	<u>(1,161)</u>	<u>–</u>
	<u>(2,661)</u>	<u>3,604</u>
	<u><u>(5,393)</u></u>	<u><u>(1,275)</u></u>

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries are entitled to exemption from PRC enterprise income tax for two years commencing from their first profit making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the subsequent three years. This exemption concession will expire in years 2007 and 2008 for most of the relevant PRC subsidiaries.

The PRC enterprise income tax and overseas taxation are calculated at the rates prevailing in the respective jurisdictions.

On 16th March, 2007, the Law of the PRC on Enterprise Income Tax was promulgated which will change the tax rate applicable to the relevant PRC subsidiaries from 27% to 25% commencing on 1st January, 2008. The deferred tax balance has been adjusted to reflect the tax rate that is expected to apply to the respective periods when the asset is realised.

7. DIVIDEND

The proposed interim dividend of HK\$0.027 per share for the six months ended 30th June, 2007 is calculated on the basis of 761,063,500 shares in issue at the date of approval of this report.

8. EARNINGS PER SHARE

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

	1.1.2007 to 30.6.2007 HK\$'000 (unaudited)	1.1.2006 to 30.6.2006 HK\$'000 (audited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	<u>83,327</u>	<u>60,614</u>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	760,137,992	<u>600,000,000</u>
Effect of dilutive potential ordinary shares – share options	<u>2,941,321</u>	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>763,079,313</u>	

The shares in issue in 2006 is based on the assumption that the Group Reorganisation and the capitalisation issue have been effective on 1st January, 2006.

No diluted earnings per share was presented in 2006 as there were no potential shares during that period.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred HK\$117,644,000 (2006: HK\$76,223,000) on additions to property, plant and equipment to expand and upgrade its manufacturing capabilities.

10. TRADE AND OTHER RECEIVABLES

	30.6.2007 HK\$'000 (unaudited)	31.12.2006 HK\$'000 (audited)
Trade receivables		
– related companies in which a family member of a director of the Company has beneficial interests	–	1,042
– associates	–	29,702
– others	144,822	112,106
Bills receivables	61,931	27,868
	<u>206,753</u>	<u>170,718</u>
Deposits paid to suppliers	49,204	18,440
Amounts due from shareholders	–	5,879
Receivable from disposal of a subsidiary	2,086	2,000
Other receivables	53,501	29,398
	<u>311,544</u>	<u>226,435</u>

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 at the balance sheet date:

	30.6.2007 HK\$'000 (unaudited)	31.12.2006 HK\$'000 (audited)
Age		
0 to 60 days	142,063	66,514
61 to 90 days	13,207	16,074
91 to 180 days	14,457	63,897
181 to 360 days	33,320	17,809
Over 1 year	3,706	6,424
	<u>206,753</u>	<u>170,718</u>

11. TRADE AND OTHER PAYABLES

	30.6.2007 HK\$'000 (unaudited)	31.12.2006 HK\$'000 (audited)
Trade payables		
– related companies, in which a family member of a director of the Company has beneficial interests	115	9,181
– associates	1,973	3,333
– others	240,575	87,985
Bills payables	11,775	2,543
	<u>254,438</u>	<u>103,042</u>
Customers' deposits	85,317	54,361
Payroll and welfare payables	27,653	32,226
Other tax payables	4,500	9,237
Other payables	33,231	20,652
	<u>405,139</u>	<u>219,518</u>

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

	30.6.2007 HK\$'000 (unaudited)	31.12.2006 HK\$'000 (audited)
Age		
0 to 30 days	97,783	41,126
31 to 60 days	72,976	21,610
61 to 90 days	33,860	8,801
91 to 120 days	26,506	15,473
121 days to 360 days	23,313	16,032
	<u>254,438</u>	<u>103,042</u>

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
Outstanding at 1st January, 2007	–
Granted during the period	15,110,000
Exercised during the period	(626,500)
Cancelled during the period	(278,000)
	<u>14,205,500</u>
Outstanding at 30th June, 2007	<u>14,205,500</u>

The share options granted have 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, the date when the share options were granted was HK\$8.5 per share. On 15th February, 2007, share options were granted with an estimated fair value of HK\$42,036,000.

During the period, the Group recognised the total expense of HK\$13,071,000 (2006: Nil) in relation to share options granted by the Company.

13. CAPITAL COMMITMENTS

	30.6.2007 HK\$'000 (unaudited)	31.12.2006 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	<u>121,536</u>	<u>10,420</u>

14. RELATED PARTY TRANSACTIONS

During the period, the Group sold goods totalling HK\$29,150,000 (2006: HK\$19,794,000) to its associates.

The emoluments to the Company's directors, who are the Group's key management, are HK\$4,606,000 (2006: HK\$3,936,000).

As at the date of this announcement, the directors of the Company are:

Executive Directors:

Mr. Ben FAN
Ms. Michelle WONG
Mr. FAN Pong Yang
Mr. JANG Jann Huan
Mr. TONG Yee Ming

Independent non-executive Directors:

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

By order of the Board
Ben Fan
Chairman

Hong Kong, 14 September, 2007