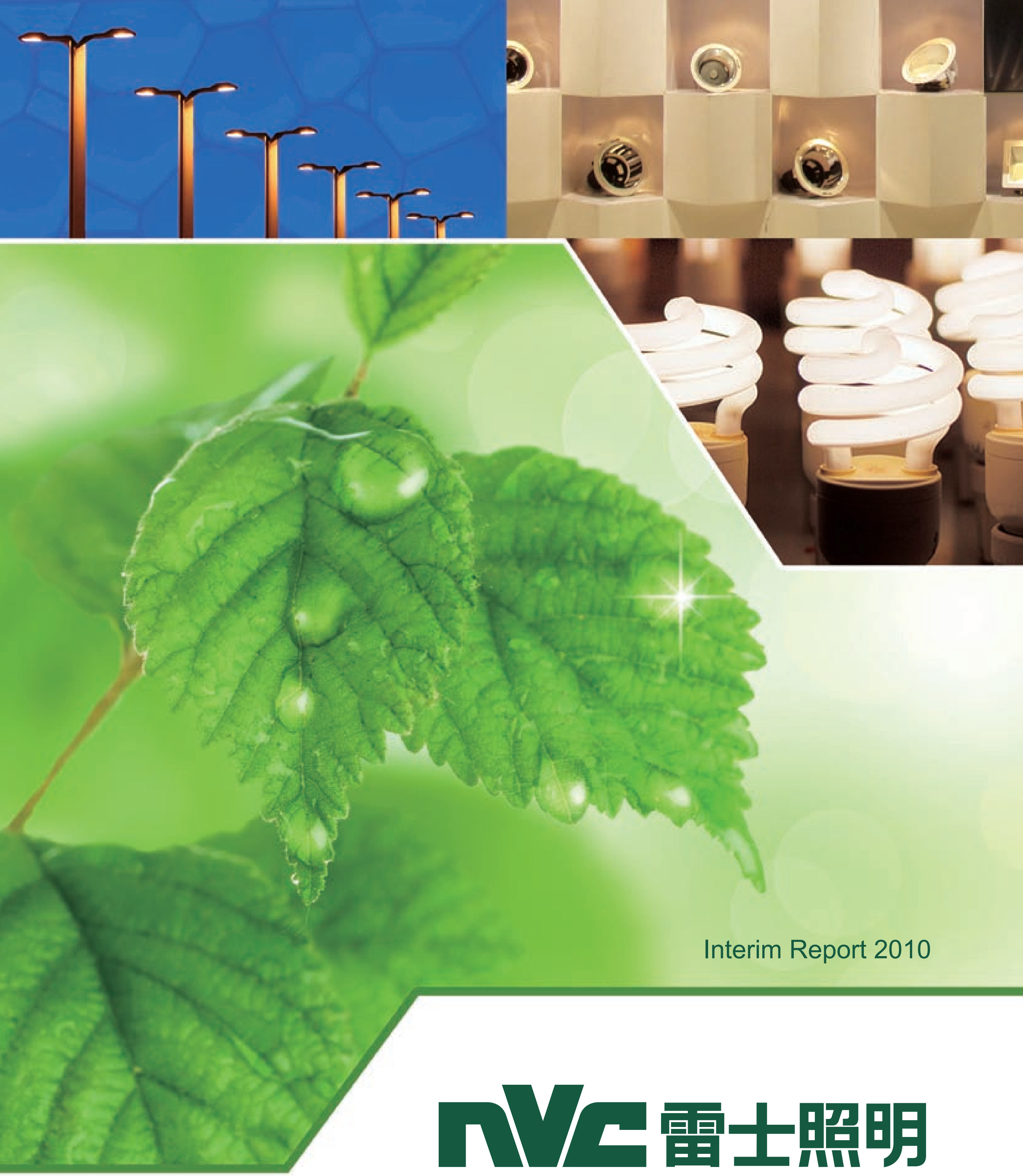

Interim Report 2010

雷士照明

NVC LIGHTING HOLDING LIMITED
雷士照明控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2222

Contents

Corporate Information

Executive Directors	WU Changjiang WU Jiannong MU Yu
Non-executive Directors	XIA Lei YAN Andrew Y LIN Ho-Ping HUI Ming Yunn, Stephanie
Independent non-executive Directors	Alan Russell POWRIE Karel Robert DEN DAAS WANG Jinsui
Joint Company Secretaries	LO Yee Har, Susan KAM Mei Ha, Wendy
Authorized Representations	Wu Changjiang Lo Yee Har, Susan
Registered Office	Cricket Square, Hutchins Drive PO Box 2681, Grand Cayman, KYI-1111 Cayman Islands
Headquarters	NVC Industrial Park Ruhu Town, Huizhou City Guangdong Province PRC
Principal Place of Business in Hong Kong	Level 28, Three Pacific Place 1 Queen's Road East Hong Kong
Corporate Website	www.nvc-lighting.com.cn
Investor Relations	E-mail: nvc@pordafinance.com.hk

Corporate Information

Principal Share Registrar and Transfer Office	Butterfield Fulcrum Group (Cayman) Limited Butterfield House, 68 Fort Street P.O.Box 609, Grand Cayman, KYI-1107 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Compliance Advisor	Shenyin Wanguo Capital (H.K.) Limited
Principal Legal Advisors as to Hong Kong Laws	Freshfields Bruckhaus Deringer
Auditors	Ernst & Young *(Certified Public Accountants)*
Principal Bankers	China Construction Bank, Huizhou Branch China Construction Bank, Quzhou Branch Bank of China, Quzhou Branch
Investor and Media Relations Consultant	Porda International (Finance) P.R. Group

Financial Highlights

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
	(Audited)	(Unaudited)
Revenue	**204,034**	109,780
Gross profit	**55,377**	27,869
Profit/(loss) before income tax	**30,097**	(6,706)
Profit/(loss) for the period *(Note 1)*	**27,095**	(8,201)
Profit/(loss) for the period attributable to		
Owners of the Company	**25,934**	(8,590)
Non-controlling interests	**1,161**	389
Earnings/(loss) per share attributable to ordinary equity holders of the Company		
Basic	**1.1 US cents**	(0.4) US cents
Diluted	**1.0 US cent**	(0.4) US cents

Note 1: Profit/(loss) for the period was before net off profit for the period attributable to non-controlling interests.

	30 June	31 December
	2010	2009
	US$'000	US$'000
	(Audited)	(Audited)
Non-current assets	**175,868**	168,368
Current assets	**404,362**	187,346
Current liabilities	**106,850**	105,934
Net current assets	**297,512**	81,412
Total assets less current liabilities	**473,380**	249,780
Non-current liabilities	**28,145**	82,062
Total equity	**445,235**	167,718
Including:		
Equity attributable to owners of the Company	**442,733**	164,192
Non-controlling interests	**2,502**	3,526

Definitions

In this report, unless the context otherwise requires, the following words and expressions shall have the following meanings.

"Board"	the board of directors of the Company.
"Champion Alliance"	the first pan-home industry alliance in China which consists of the six largest brands in domestic home industry, namely, Optima Kitchen, Dongpeng Ceramic, Nature Flooring, NVC Lighting, Red Apple Furniture and Midea Central Air Conditioning, for the purpose of promoting the cross-industry upgrading of the home industry.
"China" or "PRC"	the People's Republic of China, but for the purpose of this report and for geographical reference only and except where the context requires, references in this report to "China" and the "PRC" do not apply to Taiwan, the Macau Special Administrative Region and Hong Kong Special Administrative Region.
"Chongqing NVC"	Chongqing NVC Lighting Co., Ltd.* (重慶雷士照明有限公司), a wholly foreign-owned enterprise with limited liability incorporated in the PRC on 1 December 2006 and our direct wholly-owned subsidiary.
"Code"	the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.
"Company" or "our Company"	NVC Lighting Holding Limited (雷士照明控股有限公司), a company incorporated in the BVI on 2 March 2006 and subsequently redomiciled to the Cayman Islands on 30 March 2010 as an exempted company with limited liability under the laws of the Cayman Islands.
"Corresponding Period"	means six months ended 30 June 2009 or six months ended 30 June 2010 (as the context may require).
"Director(s)"	the director(s) of the Company.
"Group"	our Company and its subsidiaries.
"Huizhou NVC"	NVC Lighting Technology Co., Ltd.* (惠州雷士光電科技有限公司), a wholly foreign-owned enterprise with limited liability incorporated in the PRC on 29 April 2006 and our direct wholly-owned subsidiary.

Definitions

"ISO 9001"	a family of standards set by ISO for quality management systems where an organisation needs to demonstrate its ability to provide products that fulfil customers and applicable regulatory requirements and aim to enhance customer's satisfaction. ISO 9001 is a member of that family and ISO 9001:2008 is the current applicable version of ISO 9001.
"Jiangshan Phoebus"	Jiangshan Phoebus Lighting Electron Co., Ltd.* (江山菲普斯照明有限公司), a limited liability company incorporated in the PRC on 8 March 2006 and our indirect wholly-owned subsidiary.
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange.
"Mianyang Leici"	Mianyang Leici Electronic Technology Co., Ltd.* (綿陽雷磁電子科技有限公司), a limited liability company incorporated in the PRC, 35% of its equity interest being held by Huizhou NVC and its remaining equity interest being held by China Electronics Technology Group Corporation No. 9 Academy* (中國電子科技集團第九研究所) (as to 36%), Wen Jiatao (文家濤) (as to 15%) and Zhao Qiyi (趙七一) (as to 14%).
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.
"ODM"	original design manufacturing, a type of manufacturing under which the manufacturer is responsible for the design and production of the products and the products are marketed and sold under the customer's brand name.
"OEM"	original equipment manufacturing whereby products are manufactured in accordance with the customer design and specification and are marketed under the customer's brand name.
"Period under Review"	the six months ended 30 June 2010.
"Professional Engineering Customers"	Professional Engineering Customers mainly represent professional engineering projects in connection with railways, highways, airports, subways, tunnels, bridges, municipal lighting, energy-efficiency remodification and reconstruction and construction of urban infrastructures.
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Definitions

"Shanghai Arcata"	Shanghai Arcata Electronics Co., Ltd.* (上海阿卡得電子有限公司), a limited liability company incorporated in the PRC on 22 September 2005 and our indirect wholly-owned subsidiary.
"Share(s)"	common share(s) with nominal value of US$0.0000001 each in the share capital of our Company.
"Stock Exchange"	The Stock Exchange of Hong Kong Limited.
"Sunny"	Zhejiang Jiangshan Sunny Electron Co., Ltd.* (浙江江山三友電子有限公司), a limited liability company incorporated in the PRC on 2 July 1994 and our indirect wholly-owned subsidiary.
"UK NVC"	NVC (Manufacturing) Limited, a private company incorporated in England and Wales on 31 May 2007, 80% of its equity interest held by the Company and its remaining issued share capital being held by two independent third parties, namely, Mr. Henry Hangmin Sun (as to 10%) and Mr. Steven Mark Jacobs (as to 10%).
"US$" or "US Dollar"	United States dollars, the lawful currency of the United States.
"we", "us" or "our"	our Company or our Group (as the context may require).
"World Through"	World Through Investments Limited (世通投資有限公司), a limited liability company incorporated in the BVI on 5 August 2005 and our wholly-owned subsidiary.
"Zhangpu Phoebus"	Zhangpu Phoebus Lighting Co., Ltd.* (漳浦菲普斯照明有限公司), a limited liability company incorporated in the PRC on 9 May 2004 and our indirect wholly-owned subsidiary.
"Zhejiang NVC"	Zhejiang NVC Lamps Co., Ltd.* (浙江雷士燈具有限公司), a limited liability company incorporated in the PRC on 28 September 2007, a 51% equity interest of which is held by Huizhou NVC and the remaining 49% equity interest of which is held by Zhejiang Tonking Investment Co., Ltd.

* *Denotes English translation of the name of a Chinese company or entity, or vice versa, and is provided for identification purposes only.*

Management Discussion and Analysis

Overall Business Review

During the Period under Review, the Group achieved revenue of US$204,034,000, representing an increase of 85.9% from US$109,780,000 for the corresponding period of 2009, and recorded gross profit of US$55,377,000, representing an increase of 98.7% from US$27,869,000 for the corresponding period of 2009. The Group's profit before income tax was US$30,097,000 while it was the loss of US$6,706,000 for the corresponding period of 2009. And the profit attributable to the owners of the Company during the Period under Review was US$25,934,000 while it was the loss of US$8,590,000 for the corresponding period of 2009.

Market Review

In the first half of 2010, the Chinese economy maintained its rapid growth momentum with an increase of 11.1% in the gross domestic production as compared with the corresponding period of the previous year. Despite decelerating economic growth in the second quarter, the healthy growth momentum was in general maintained. In the first half of the year, the total domestic retail consumption maintained a relatively high growth rate of 18.2%.

This was reflected in the development of the real estate industry, which is closely related to the lighting industry. In the first half of this year, investment in property development recorded an increase of 38.1% as compared with the corresponding period of the previous year, of which, the investment in the development of commercial residential buildings increased by 34.4% as compared with the corresponding period of the previous year, and the investment in the development of commercial property (including office buildings) increased by over 47% as compared with the corresponding period of the previous year. Total floor area of completed properties was 244,000,000 m^2, representing an increase of 18.2% as compared with the corresponding period of the previous year, of which, total floor area of completed residential buildings increased by 15.5% to 196,000,000 m^2, and total floor area of completed commercial property (including office buildings) increased by 30% to 48,000,000 m^2 as compared with the corresponding period of the previous year.

In the first half of 2010, the lighting industry showed certain signs of growth along with the recovery of the macro-economy. Large enterprises with an annual turnover of RMB5 million or above from their main businesses completed in aggregate industrial gross output of RMB114.779 billion, representing an increase of 29.6% as compared with the corresponding period of the previous year. In the first half of the year, manufacturers in the lighting industry produced an aggregate of 9,023,000,000 units of lamp products, representing an increase of 32.23% as compared with the corresponding period of the previous year, and 1,010,000,000 units of luminaire products and lighting products, representing an increase of 25.32% as compared with the corresponding period of the previous year. In the first half of 2010, the total export value of lighting products in China was US$8,017 million, representing an increase of 34.56% as compared with the corresponding period of the previous year. Of exports, the total export value of lamp products reached US$2,682 million, representing an increase of 42.48% as compared with the corresponding period of the previous year; the total export value of luminaire products amounted to US$4,038 million, representing an increase of 30.5% as compared with the corresponding period of the previous year and the total export value of the lighting electronic products reached US$465 million, representing an increase of 33.74% as compared with the corresponding period of the previous year. (Source: China Association of Lighting Industry)

Management Discussion and Analysis

In 2010, China has been or will be hosting two international events, namely, the Shanghai World Expo and the Guangzhou Asian Games. Holding these two major events in the midst of the gradual recovery of the global economy after the financial crisis is significant to China. They offer a good opportunity for China to showcase its strength and economic achievements, and the resultant economic benefits for domestic enterprises will be immeasurable. For example, the venue, stadiums and ancillary facilities built for these two events have directly brought a large quantity of orders and opportunities for product demonstration for China's lighting industry.

Energy-saving and emission reduction is an international trend, and also a consistent policy of Chinese government. Pursuing energy-saving can not only generate significant economic benefits, but also meet better environmental protection obligations and social responsibilities. Energy-saving fluorescent lamps have replaced incandescent lamps to become the most widely used lamps in China. In 2009, China's output of fluorescent lamps was more than double of incandescent lamps. The Chinese government has made great efforts to encourage the use of energy-saving lighting products, especially energy-saving lamps and fluorescent lamps. The Chinese government subsidized the total use of 180,000,000 units of energy-saving lighting products in 2008 and 2009 and planned to promote the use of more than 150,000,000 units of energy-saving lighting products in 2010.

(The above analysis and data are derived from the National Development and Reform Commission, the Ministry of Finance of China, the National Bureau of Statistics of China, China Association of Lighting Industry and China Illuminating Engineering Society, respectively.)

Business Review

During the Period under Review, benefiting from the favourable environment with the recovery of the economy, the Group fully took the market opportunities with effective business strategies such as promoting NVC brand profile and furthering its sales, production and product research and development efforts, with a view to maintaining the Group's leading position in the lighting industry and delivering outstanding results which were better than the industrial average. The Group was successfully listed on the Main Board of the Stock Exchange on 20 May 2010, symbolizing a new milestone for the Group's further development, and the proceeds from which allowed us to accelerate the pace of corporate development, enhance our core competitiveness and profile and consolidate our leading position in the industry.

Management Discussion and Analysis

Sales and distribution

In terms of NVC brand sales in the PRC market, the Group furthered its efforts to strengthen control over its exclusive regional distributors and NVC outlets during the Period under Review. During the first half of 2010, the Group maintained the original 36 exclusive regional distributors and has strengthened its control and guidance over their implementation of the Company's policies. Meanwhile, it has also endeavored to raise the price-to-performance ratio of its products by perfecting the price management system and maintaining competitive products in its sales channels and sales outlets through optimizing the product portfolio. The Group has also established additional outlets and a total of 405 NVC outlets were established in the first half of the year. After taking into account the 216 NVC outlets closed down or re-organized, the net increase in the number of NVC outlets was 189, among which 51 were in the provincial capital cities, 20 were in the municipal cities and 118 were in the counties. As at 30 June, 2010, the Group had a total of 2,650 NVC outlets. We have enlarged the shop area of the NVC outlets and increased turnover in single NVC outlet to greatly increase domestic sales, and the Group has also committed to developing new products, increasing sales volume of new products and develop large Professional Engineering Customers and key accounts (the Professional Engineering Customers and key accounts are operated by exclusive regional distributors) including large-scale government invested projects such as the Shanghai World Expo 2010 and Guangzhou 2010 Asian Games. During the Period under Review, the Group has developed 18 new large Professional Engineering Customers with transaction value exceeding RMB1 million each (with total transaction value reached US$14.8 million) and 46 key accounts (such as Kappa fashion chain store and ERKE chain store, with total transaction value of US$24.05 million). The sales to Professional Engineering Customers and key accounts grew by 120.4% as compared with the corresponding period of 2009. Furthermore, in bidding for 2010 government subsidized energy-saving lighting products, NVC lighting, as one of the finalists for the first time, won a bid to supply 8,000,000 units of energy-saving lighting products.

In terms of non-NVC brand sales in the PRC market, the Group mainly provides energy-saving lamp tubes and accessories to energy-saving lighting manufacturers. With the recovery of the global economy and the implementation of "low-carbon economies, energy-saving and emission reduction" policies promulgated by various governments, the Group, to grasp such opportunities, has expedited its pace of work on improving technologies, extended its scale of investment, strengthened its effort in the establishment of sales outlets and continued to develop new customers.

In terms of NVC brand sales in the international market, the Group continued to develop new customers and strengthen the development of its sales channels. With respect to emerging markets such as Asian and African countries/regions, the Group has followed its China model to develop new distributors. With respect to the markets with well-established channels such as European and American countries/regions, the Group has expedited its pace of work on brand building and cooperated with experienced channel operators. For example, UK NVC has gradually switched to the wholesale of NVC brand products from the sole OEM sales model and had successful cooperation with a number of well-known local electrical appliances chain stores, whereby NVC brand products gained access to the mainstream channels.

Management Discussion and Analysis

In terms of the non-NVC brand sales in the international market, the Group continued to develop new customers and new products. With the gradual recovery of the global economy, the orders of the Group's pre-existing ODM clients have increased rapidly.

It is expected that we will achieve better results in the future with the gradual market recovery accompanied by the Group's efforts to promote the NVC brand and in the expansion of its sales network.

Production capacity

The Group has five production bases, including Huizhou in Guangdong Province, Wanzhou District in Chongqing, Jiangshan City in Zhejiang Province and Qingpu District in Shanghai, with an aggregate floor area of approximately 266,165 square meters and a total of 156 production lines. During the first half of the year, the Group had increased a total of 7 production lines for energy-saving lamps and one production line for lighting electronic products. The breakdown of the production capacity of each production base is as follows:

	Luminaire production facilities		Lamp production facilities		Lighting electronic production facilities
Location	Huizhou City, Guangdong Province	Wanzhou District, Chongqing	Jiangshan City, Zhejiang Province[1]	Jiangshan City, Zhejiang Province[2]	Qingpu District, Shanghai
Date of commencement of production	November 1998	December 2006	September 1994	September 2007	March 2006
Production lines as at 30 June 2010	35	37	61	19	4
Designed capacity (units) as at 30 June 2010	30,000,000	25,000,000	93,469,000	38,532,000	4,500,000
Actual capacity (units) as at 30 June 2010	26,877,698	21,831,171	95,755,698	30,467,168	3,385,389
Average utilization rate as at 30 June 2010	89.6%	87.3%	102.4%	79.1%	75.2%
Standardized hours of operation	8 hours	8 hours	12 hours	8 hours	8 hours
Newly-added production line as compared with the beginning of the year (number)	–	–	1	6	1
Increase in design capacity as compared with the Corresponding Period	20.0%	19.0%	6.1%	42.5%	33.3%
Increase in actual capacity as compared with the Corresponding Period	62.1%	52.9%	53.3%	71.6%	82.0%

Management Discussion and Analysis

In addition, the Group has also established a production base for energy-saving light tubes in Zhangpu, Fujian Province. The design capacity and actual capacity for the first half of 2010, calculated on the basis of 24 hours per day, were 27.24 million and 23.86 million units, respectively, and the average utilization rate was 87.6%.

Notes:

(1) Mainly for production of light tubes for energy-saving lamps.

(2) Mainly for production of energy-saving lamps.

Research and development

The Group has two research and development centers, with one in Huizhou, Guangdong Province (mainly focusing on the research and development of new product design for luminaire products) and the other one in Shanghai (mainly focusing on the research and development of energy-saving technology for lamps and the research and development of lighting electronic products).

During the Period under Review, the Group invested a total of US$3,135,000 in research and development, representing 1.5% of the Group's total revenue. During the first half of 2010, the Group developed a total of more than 30 products, including various LED, HID and lighting electronic products.

As at 30 June 2010, the Group had a workforce in research and development of 248, of which 80 are based in Huizhou research and development center, 61 are based in Shanghai research and development center and the others are based in various production bases.

Quality control

We have developed a comprehensive and effective quality management system, which is evidenced by our obtaining the ISO 9001:2000 quality management system certificate from the Quality Assurance Centre of China Association for Quality (中質協質量保證中心) in 2005. We have also obtained a number of international product quality and safety certificates such as CSA (Canada) and UL (US).

To enhance our quality management system, we have established a laboratory in our production base in Huizhou with advanced equipment and stringent testing standards for lighting products that exceed quality control standards imposed at national level. In the first half of 2010, Huizhou production base has passed the inspection and review on laboratory undertaken by China National Accreditation Service for Conforming Assessment (中國合格評定國家認可委員會) and the certificate was awarded in August 2010.

Management Discussion and Analysis

Our quality control process starts early at the research and development stage where we consider the functionality and qualities of materials to be used for production and increase automation in the production process to stabilise product quality. At the raw material purchasing stage, we employ strict criteria in selecting our suppliers and conduct tests on substantially all of the raw materials and other components by appearance and characteristics inspections as well as testing equipment to ensure that they meet our quality standards. At each stage of our production process, we arrange for our quality control staff members to conduct on-site inspections of substantially all semi-finished components at our production facilities. After the assembly stage, our quality control staff members conduct sample tests on some of the finished products manufactured at our own production facilities to assess their functionality and quality. We also conduct detailed analyses of failing samples in order to improve production performance. As at 30 June 2010, we have a workforce of approximately 684 on quality control.

Brand promotion

In terms of the PRC market, the Group has been placing strong emphasis on brand promotion. During the Period under Review, the Group furthered its effort to raise the brand profile and to market and promote the NVC brand. The Group actively participated in industry seminars, such as "China Sustainable Building Forum" (中國可持續建築國際大會) and the "5th China International Construction and Interior Design Festival" (第五屆中國國際建築及室內設計節), attended the award ceremony of "Star of China Zero-Carbon Construction Materials (Products)" (中國零碳建材（產品）之星) besides attending the activities organized under the "9th Hotel Procurement of China Hotel Alliance – China Trip" (中國酒店聯盟第九期"酒店採購 – 中華行"), the "2nd China Hotel Engineering Renovation Seminar" (第二屆中國酒店工程改造論壇) and the "2010 China Hotel Lighting Renovation Seminar" (2010中國酒店照明改造論壇). Such initiatives have helped establish the image of the Company and promote the NVC brand name.

In terms of the international brand market, product demand increased persistently with the economic recovery of various countries. During the Period under Review, in order to raise the public awareness of NVC products, the Group has participated in various overseas promotional activities, such as the Middle East Power Exhibition in February, the Building Materials Exhibition in Brazil in March, the Frankfurt Construction Lighting Exhibition in April and the Building Materials Exhibition in Israel in May.

Prospects

The Group is part of a fast growing industry that has great potential for growth. The demand in the Chinese lighting market is enormous with strong growth prospects. The Group, therefore, is optimistic about the prospects of the industry.

In future, we will implement the following strategies to achieve the goal of "Becoming a world famous brand and the best player in the industry".

Management Discussion and Analysis

We will continue to secure our leading position in the industry through technological transformation, introduction of advanced production facilities, enrichment of our product portfolio, and expansion of our market share in both domestic and overseas markets. We will also keep on increasing our production capacity, especially that of energy-saving lamps including the phase II project of our Zhejiang production base that is currently under construction. Meanwhile, we will further enhance our expertise in production automation and professional technology so as to improve production efficiency.

We will also exert our best efforts in brand building, strengthening the market position of our brand, focusing on producing energy-saving lighting products and consolidating our image as a green brand. In addition, we will increase our investment in product research and development, improve production efficiency and the features of existing products, and keep abreast of state-of-the-art, internationally advanced technologies (such as LED), so as to maintain our technologically advanced position.

Additionally, we will enhance our distribution channels, further expand the coverage of our distribution network, penetrate deeper into existing markets and explore new distribution models. We will also keep an eye on target enterprises that have developed new products and technologies, or those engaged in the upstream or downstream businesses in the industry chain, and continue to perfect our product mix and market system through merger and acquisition activities.

Financial Review

Revenue

Revenue represents the invoiced value of the goods sold, net of sales returns and allowances. For the six months ended 30 June 2010, the Group recorded revenue of US$204,034,000, representing an increase of 85.9% as compared with US$109,780,000 recorded in the corresponding period last year. In particular, revenue of NVC brand products in the PRC market rose by 85.6% as compared to the corresponding period of the previous year, primarily attributable to our continuous improvement and perfection of our distribution channels with a net increase of 189 outlets, the expansion of unit outlet area, and the increase of unit outlet sales. In addition, we also continued to develop new Professional Engineering Customers and key accounts, who together contributed an aggregate of US$38,850,000 in sales revenue, representing an increase of 120.4% as compared to the corresponding period in 2009. Sales of NVC brand products in the international market amounted to US$12,510,000, representing a growth of 269.0 % as compared to the corresponding period in 2009, which was mainly attributable to the global economic recovery.

Management Discussion and Analysis

Revenue by product segment

The following table sets forth the revenue by product segment (luminaire, lamp and lighting electronics) for the periods indicated.

	Six months ended 30 June		
	2010	2009	
	US$'000	US$'000	Growth rate
Luminaire products	**99,073**	52,673	88.1%
Lamp products	**78,030**	44,014	77.3%
Lighting electronics products	**26,931**	13,093	105.7%
Total	**204,034**	109,780	85.9%

During the Period under Review, the sales of luminaire products increased by 88.1%, which was mainly attributable to our improvement of our distribution channels and increased number of outlets, meanwhile, we also continued to develop new Professional Engineering Customers and key accounts. The sales of lamp products increased by 77.3%, of which non-NVC brand lamp products increased by 76.2%, which was mainly attributable to the global economic recovery; while the sales of NVC brand lamp products increased by 80.2%, which was mainly benefited from the energy-saving and emission reduction policy of China and increased promotion of energy-saving lamp products by the Company. The sales of lighting electronics products increased by 105.7%, which was mainly benefited from the increase in combined sales with luminaire products and lamp products.

Revenue by NVC brand sales and non-NVC brand sales

The following table sets forth the revenue for NVC brand products and non-NVC brand products sales for the periods indicated. Our non-NVC brand products primarily consist of ODM products.

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
NVC brand		
Luminaire products	**93,423**	47,103
Lamp products	**21,887**	12,143
Lighting electronic products	**11,273**	5,621
Subtotal	**126,583**	64,867
Non-NVC brand		
Luminaire products	**5,650**	5,570
Lamp products	**56,143**	31,871
Lighting electronic products	**15,658**	7,472
Subtotal	**77,451**	44,913
Total	**204,034**	109,780

Management Discussion and Analysis

Revenue by geography

The table below sets forth the Group's revenue from PRC and international sales for the periods as indicated.

	Six months ended 30 June		
	2010	2009	
	US$'000	US$'000	Growth rate
Revenue from PRC sales			
Luminaire products	**83,415**	44,440	87.7%
Lamp products	**57,304**	35,688	60.6%
Lighting electronics products	**11,992**	5,629	113.0%
Subtotal	**152,711**	85,757	78.1%
Revenue from international sales			
Luminaire products	**15,658**	8,233	90.2%
Lamp products	**20,726**	8,326	148.9%
Lighting electronics products	**14,939**	7,464	100.1%
Subtotal	**51,323**	24,023	113.6%
Total	**204,034**	109,780	85.9%

During the six months ended 30 June 2010, the Group achieved high revenue growth in both PRC sales and international sales compared with the corresponding period of 2009, while international sales had a higher growth rate over PRC sales. Revenue from PRC sales increased by 78.1%, which was mainly contributed by the NVC brand products' revenue which increased by 85.6% to US$114,073,000 in the first half of 2010 from US$61,477,000 for the corresponding period of 2009, and the non-NVC brand products' revenue increased by 59.1% to US$38,638,000 in the first half of 2010 from US$24,280,000 for the corresponding period of 2009. Revenue from international sales increased by 113.6%, which was mainly contributed by the NVC brand products' revenue which increased by 269.0% to US$12,510,000 in the first half of 2010 from US$3,390,000 for the corresponding period of 2009, and the non-NVC brand products' revenue increased by 88.1% to US$38,813,000 in the first half of 2010 from US$20,633,000 for the corresponding period of 2009.

Management Discussion and Analysis

Revenue by energy-saving lighting products and non-energy-saving lighting products

The table below sets forth our revenue by energy-saving lighting products and non-energy-saving lighting products for the periods as indicated.

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
Energy-saving lighting products	**123,966**	68,507
Non-energy-saving lighting products	**80,068**	41,273
Total	**204,034**	109,780

Cost of sales

Cost of sales mainly consists of the cost of raw materials, outsourced manufacturing costs, direct and indirect labour costs and overhead. Major raw materials of the Group include iron, aluminium and alloys, fluorescent powder and glass tubes and electronics components. Outsourced manufacturing costs primarily include the cost of purchased semi-finished products and finished products produced by other manufacturers and used in the production of our products. Overhead costs primarily include water, electricity, depreciation and amortisation and others. The table below sets forth the composition of our cost of sales:

	Six months ended 30 June			
	2010		2009	
	US$'000	**% of Revenue**	US$'000	% of Revenue
Raw materials	**103,974**	**51.0%**	53,743	49.0%
Outsourced manufacturing costs	**18,136**	**8.9%**	10,809	9.8%
Labour costs	**16,071**	**7.9%**	10,555	9.6%
Overhead	**10,476**	**5.1%**	6,804	6.2%
Total cost of sales	**148,657**	**72.9%**	81,911	74.6%

Management Discussion and Analysis

During the Period under Review, the cost of sales increased by 81.5% to US$148,657,000 in the first half of 2010 from US$81,911,000 for the corresponding period of 2009. Such increase primarily reflected the increase in sales volume. The Group's cost of sales as a percentage of revenue decreased to 72.9% in the first half of 2010 from 74.6% for the corresponding period of 2009, resulting in an increase in gross profit margin from 25.4% to 27.1%. This reflected our efforts to improve our manufacturing efficiency and enhance the vertical integration of products and the scale of the economies.

Gross profit and gross profit margin

Gross profit is calculated by revenue less cost of sales.

For the six months ended 30 June 2010, gross profit increased by US$27,508,000 or 98.7% to US$55,377,000 from US$27,869,000 for the corresponding period of 2009, primarily reflecting the increase in sales volume and gross profit margin. The Group's gross profit and gross profit margin by segment are as follows:

(i) The table below shows the gross profit and gross profit margin by product segments (luminaire, lamp and lighting electronic) during the periods as indicated:

	Six months ended 30 June			
	2010		2009	
	US$'000	**%**	US$'000	%
Luminaire products	**29,873**	**30.2%**	14,084	26.7%
Lamp products	**20,415**	**26.2%**	10,935	24.8%
Lighting electronics products	**5,089**	**18.9%**	2,850	21.8%
Total	**55,377**	**27.1%**	27,869	25.4%

During the Period under Review, gross profit from luminaire products increased by 112.1% to US$29,873,000 in the first half of 2010 from US$14,084,000 for the corresponding period of 2009. Gross profit margin for luminaire products increased to 30.2% in the first half of 2010 from 26.7% for the corresponding period of 2009. This increase in gross profit margin for luminaire products was mainly attributable to the technological innovation in late 2009 and the rapid rise in the gross profit margin of fast-moving battens products.

Management Discussion and Analysis

During the Period under Review, gross profit from lamp products increased by 86.7% to US$20,415,000 in the first half of 2010 from US$10,935,000 for the corresponding period of 2009. Gross profit margin for lamp products increased to 26.2% in the first half of 2010 from 24.8% for the corresponding period of 2009. This increase mainly reflected the strengthened vertical integration of our lamp products.

During the Period under Review, gross profit from lighting electronics products increased by 78.6% to US$5,089,000 in the first half of 2010 from US$2,850,000 for the corresponding period of 2009. Gross profit margin for lighting electronics products decreased to 18.9% in the first half of 2010 from 21.8% for the corresponding period of 2009, mainly due to two general price reductions made on lighting electronics products under the NVC brand in April and September 2009 as a part of our efforts in expanding sales and gaining market share.

(ii) The table below shows the gross profit and gross profit margin by our NVC brand products and non-NVC brand products during the period as indicated:

	Six months ended 30 June			
	2010		2009	
	US$'000	**%**	US$'000	%
NVC brand	**39,199**	**31.0%**	18,740	28.9%
Non-NVC brand	**16,178**	**20.9%**	9,129	20.3%
Total	**55,377**	**27.1%**	27,869	25.4%

During the Period under Review, NVC brand products made a gross profit of US$39,199,000, representing an increase of US$20,459,000 or 109.2% from US$18,740,000 for the corresponding period of 2009; non-NVC brand products made a gross profit of US$16,178,000, representing an increase of US$7,049,000 or 77.2% from US$9,129,000 for the corresponding period of 2009.

Management Discussion and Analysis

(iii) Gross profit and gross profit margin by PRC sales and international sales

	Six months ended 30 June			
	2010		2009	
	US$'000	**%**	US$'000	%
Gross profit from PRC sales:				
Luminaire products	**26,300**	**31.5%**	12,097	27.2%
Lamp products	**16,103**	**28.1%**	9,314	26.1%
Lighting electronics products	**2,862**	**23.9%**	1,468	26.1%
Subtotal	**45,265**	**29.6%**	22,879	26.7%
Gross profit from international sales:				
Luminaire products	**3,573**	**22.8%**	1,987	24.1%
Lamp products	**4,312**	**20.8%**	1,621	19.5%
Lighting electronics products	**2,227**	**14.9%**	1,382	18.5%
Subtotal	**10,112**	**19.7%**	4,990	20.8%
Total	**55,377**	**27.1%**	27,869	25.4%

During the Period under Review, PRC sales made a gross profit of US$45,265,000, representing an increase of US$22,386,000 or 97.8% from US$22,879,000 for the corresponding period of 2009. In particular, NVC brand products made a gross profit of US$36,529,000, representing an increase of US$18,844,000 or 106.6% from US$17,685,000 for the corresponding period of 2009; non-NVC brand products made a gross profit of US$8,736,000, representing an increase of US$3,542,000 or 68.2% from US$5,194,000 for the corresponding period of 2009.

During the Period under Review, international sales made a gross profit of US$10,112,000, representing an increase of US$5,122,000 or 102.6% from US$4,990,000 for the corresponding period of 2009. In particular, NVC brand products made a gross profit of US$2,670,000, representing an increase of US$1,615,000 or 153.1% from US$1,055,000 for the corresponding period of 2009; non-NVC brand products made a gross profit of US$7,442,000, representing an increase of US$3,507,000 or 89.1% from US$3,935,000 for the corresponding period of 2009.

Management Discussion and Analysis

(iv) *Gross profits and gross profit margins by our energy-saving lighting products and non-energy saving lighting products*

The table below sets forth a breakdown of the gross profit and gross profit margins of our energy-saving lighting products and non-energy-saving lighting products:

	Six months ended 30 June			
	2010		2009	
	US$'000	**%**	US$'000	%
Energy-saving lighting products	**33,032**	**26.6%**	16,774	24.5%
Light tubes for CFL	**9,253**	**23.5%**	5,303	22.6%
T4/T5 battens	**11,133**	**36.5%**	5,069	28.8%
Compact fluorescent lamp (CFL)	**7,662**	**26.0%**	4,034	27.1%
Electronic ballast	**2,394**	**14.8%**	1,419	16.4%
HID lamp	**1,137**	**43.8%**	516	35.2%
Fluorescent lamp	**610**	**27.6%**	328	23.2%
LED products	**740**	**23.8%**	55	8.0%
HID street lighting	**103**	**21.1%**	50	16.6%
Non-energy-saving lighting products	**22,345**	**27.9%**	11,095	26.9%
Total gross profit	**55,377**	**27.1%**	27,869	25.4%

The Group recorded a gross profit margin of 27.1% for the six months ended 30 June 2010 compared with that of 25.4% for the corresponding period of 2009. This was mainly due to: (1) the strengthening of the vertical integration of lamp products and improving gross margin of lamp products; (2) higher fixed cost per unit due to low capacity utilisation rate in the corresponding period of 2009; (3) technological innovation on luminaire products generating higher gross profit margin.

Management Discussion and Analysis

Other income and gains

Other income and gains mainly consist of trademark licence fees, distribution commission, rental income, sales of materials and government grants. We received various types of government grants as an incentive for export sales, technology research and development and recruitment of local workers, as well as financial support for our expansion of production capacity for energy saving lamp products. Government grants are provided by relevant authorities at their discretion, but may not necessarily be recurring in nature. We licensed our trademark to some of the lighting product manufacturers in the PRC and we received three percent of the licensees' annual turnover as trademark license fees. In addition, we received distribution commission of six to eight percent from these licensees on revenue generated when products were sold through our distribution network. The table below shows a breakdown of our other income and gains:

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
Government grants	**840**	1,126
Trademark licence fees	**1,254**	771
Distribution commission	**2,567**	712
Rental income	**181**	220
Exchange gain	**–**	45
Others	**694**	468
Total	**5,536**	3,342

Selling and distribution costs

Selling and distribution costs mainly consist of freight costs, advertising and promotion expenses, staff costs and others. Others include travelling expenses, depreciation and amortisation, consulting fees and other miscellaneous costs.

Selling and distribution costs in the first half of 2010 were US$14,480,000, representing an increase of US$7,555,000 or 109.1% as compared with US$6,925,000 in the corresponding period of 2009, accounting for 7.1% (2009: 6.3%) of the Company's revenue. The increase in selling and distribution costs was primarily attributable to (1) increased advertising costs which increased approximately US$4,007,000 in the first half of 2010 as compared with the corresponding period of 2009; and (2) the increase of US$1,673,000 in freight costs reflecting increased sales volume as compared with the corresponding period of 2009.

Administrative expenses

Administrative expenses mainly consist of staff costs, amortisation and depreciation, research and development expenses, bad debt provision, professional fees related to the global offering, share-based compensation costs and others. Others include taxes, office expenses, audit fees, other professional fees and other miscellaneous items. These taxes mainly include land use tax and stamp duty in connection with our administrative functions.

Administrative expenses in the first half of 2010 were US$13,909,000, representing an increase of 32.0% or US$3,375,000 from US$10,534,000 for the corresponding period of 2009. This increase was primarily attributable to an increase of US$595,000 in research and development expenses, as well as an increase of US$1,844,000 in professional fees which was mainly in connection with the global offering of the Company's shares. The proportion of administrative costs to revenue decreased to 6.8 % in the first half of 2010 from 9.6% in the corresponding period of 2009.

Other expenses

Other expenses mainly consist of loss on disposal of items of property, plant and equipment, scrap materials, net foreign exchange loss and donations.

Other expenses in the first half of 2010 were US$728,000 compared to US$65,000 for the corresponding period of 2009. Other expenses mainly represent the loss on disposal of assets and exchange losses in the first half of 2010.

Finance income

Finance income mainly consists of interest income from bank deposits and loans, discounts from payables paid in advance and other interest income.

Finance costs

Finance costs represent interest expense accrued on convertible redeemable preference shares, interest on bank loans and interest on discounted bills. The host liability instrument of the convertible redeemable preference shares are carried as a liability at amortised cost calculated using the effective interest rate method. Finance costs accrued due to the interest expense on the convertible redeemable preference shares in first half of 2010 were US$1,315,000 as compared to US$3,881,000 for the corresponding period of 2009. As at 31 December 2009, holders of our preference shares signed a waiver letter to waive the excess of the redemption price over the initial issue price of such preference shares, which led to a decrease in the accrued interest expense calculated using the effective interest rate method. As a result of the Company's global offering, these convertible redeemable preference shares were entirely converted into ordinary shares and the accrual of interest is no longer required after the listing date.

Management Discussion and Analysis

Net fair value loss on convertible redeemable preference shares

According to the terms of preference shares, preference shares will be automatically converted into ordinary shares on the date of the successful listing of the Company's shares. Before conversion into ordinary shares, net fair value loss of US$16,540,000 from the derivatives of preference shares was recorded for the six months ended 30 June 2009. As at 31 December 2009, holders of our preference shares agreed to waive their respective rights to adjust the conversion price applicable to our preference shares, which resulted in the preference shares being accounted for as equity instead of derivatives starting from 31 December 2009. Therefore, there is no adjustment to the fair value of the derivatives of preference shares from 1 January 2010 onwards.

Share of profit of an associate

This item represents the Group's share of the current net profit of an associate, Mianyang Leici, in the first half of 2010.

Income tax expense

Income tax expense represents our current income tax and deferred income tax. The member companies of the Group are subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies are domiciled or operated. The member companies of the Group located in PRC are subject to enterprise income tax ("EIT") at the rate of 25% since 2008. Pursuant to the effective PRC income tax laws and regulations when these members were established, some companies were eligible to enjoy a two-year EIT exemption followed by a three-year 50% EIT reduction holiday and other preferential tax policies (for example, the tax incentives for high-tech enterprises). The table below sets out the applicable tax rates for the Group's PRC subsidiaries in 2010:

	2010	2009
Huizhou NVC	**12.5%**	12.5%
Chongqing NVC	**7.5%**	7.5%
Zhejiang NVC	**25.0%**	25.0%
Jiangshan Phoebus	**12.5%**	12.5%
Zhangpu Phoebus	**12.5%**	12.5%
Sunny	**15.0%**	15.0%
Shanghai Arcata	**12.5%**	EIT exemption

The table below sets out income tax expense in the Period under Review (all of which are PRC income tax expense).

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
Current	**3,598**	1,859
Deferred	**(596)**	(364)
	3,002	1,495

Income tax charged for the Group was US$3,002,000 in the first half of 2010, representing an increase of 100.8% from US$1,495,000 for the corresponding period of 2009. The increase of income tax charge was partly due to more profit derived from the higher sales revenue made by subsidiaries in the first half of 2010, and partly due to the expiry of the full EIT exemptions for Shanghai Arcata.

Profit/(loss) for the period (before net off profit/(loss) attributable to non-controlling interests)

Due to the factors mentioned above, our profit (before net off profit attributable to non-controlling interests) for the period was US$27,095,000 in the first half of 2010 while a loss for the corresponding period of 2009 was US$8,201,000.

Exchange differences on translating foreign operations

Our exchange differences on translating foreign operations increased to US$1,319,000 in the first half of 2010 from US$549,000 for the corresponding period of 2009. This difference primarily arose from the translation of the financial statements of the PRC subsidiaries which were denominated in RMB.

Profit/(loss) attributable to owners of the Company for the period

Due to the factors mentioned above, we recorded a profit attributable to owners of the Company of US$25,934,000 in the first half of 2010, representing a turnaround from a loss of US$8,590,000 for the corresponding period of 2009.

Profit attributable to non-controlling interests for the period

Profit attributable to non-controlling interests increased to US$1,161,000 for the first half of 2010 from US$389,000 for the corresponding period of 2009.

Management Discussion and Analysis

Cash Flow and Liquidity

Cash flows

The Group meets its working capital and other capital requirements principally with the following: (i) cash generated from our operations, (ii) short-term bank borrowings, and (iii) proceeds from the global offering. The table below sets out selected cash flow data from our consolidated statements of cash flows.

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
Net cash flows from operating activities	**8,999**	21,628
Net cash flows used in investing activities	**(87,526)**	(7,314)
Net cash flows from financing activities	**201,318**	6,038
Net increase in cash and cash equivalents	**122,791**	20,352
Cash and cash equivalents at beginning of the period	**44,034**	22,085
Effect of foreign exchange rate changes, net	**510**	347
Cash and cash equivalents at the end of the period	**167,335**	42,784

Net cash flows from operating activities

We derive our cash flows from operating activities principally from the receipt of payments for the sale of our products. Our cash used in operating activities is mainly used to pay for goods purchased and costs and expenses relating to operating activities.

Our net cash flows from operating activities were US$8,999,000 in the first half of 2010, while our operating cash inflows before changes in working capital were US$41,243,000. The changes in working capital included (i) an increase of US$11,742,000 in inventories; (ii) an increase of US$20,463,000 in trade receivables, other receivables and prepayments; (iii) income tax paid amounting to US$4,379,000; and (iv) an increase of US$4,340,000 in trade and bills payables, as well as other payables and accruals.

Management Discussion and Analysis

Our net cash flows from operating activities were US$21,628,000 in the first half of 2009, while our operating cash inflows before changes in working capital were US$19,283,000. The changes in working capital included (i) an increase of US$19,482,000 in inventories; (ii) a decrease of US$10,757,000 in trade receivables, other receivables and prepayments; (iii) income tax paid amounting to US$3,491,000; and (iv) an increase of US$14,561,000 in trade and bills payable as well as other payables and accruals.

Net cash flows used in investing activities

Our cash flows used in investing activities mainly consist of purchases of property, plant and equipment, acquisitions of subsidiaries and other businesses net of cash acquired, and investment in time deposit. In the first half of 2010, our net cash flows used in investing activities amounted to US$87,526,000. The net cash outflows were mainly due to (i) payment of US$12,481,000 for the purchase of machinery, equipment and related auxiliary facilities; (ii) balance payment of US$7,736,000 for the acquisition of World Through; and (iii) an increase of US$67,759,000 in term deposits.

During the corresponding period in 2009, our net cash flows used in investing activities amounted to US$7,314,000. The net cash outflows mainly represented our payment of US$3,363,000 for the purchase of machinery, equipment and related auxiliary facilities, our payment of US$16,079,000 for acquisition of subsidiaries and other business and a decrease of US$7,024,000 in term deposits.

Net cash flows from financing activities

Our cash inflows from financing activities mainly consist of the proceeds from the global offering and proceeds from new bank borrowings. Our cash flows used in financing activities consist of repayment of borrowings, bank loan interest payment, the costs relating to the issuance of ordinary shares and professional fees paid for the global offering.

In the six months ended 30 June 2010, our net cash inflows from financing activities amounted to US$201,318,000. Such cash inflows were mainly from (i) the proceeds of US$201,238,000 from the issuance of new shares; (ii) the proceeds of US$17,932,000 from new bank borrowings; and (iii) the receipt of government grants of US$5,286,000. The cash inflows were partly offset by US$11,289,000 for the repayment of bank borrowings, US$2,223,000 for the payment of dividends to non-controlling shareholder in a subsidiary and payment of professional fees of US$9,002,000 for the Company's global offering.

During the corresponding period in 2009, our net cash inflows from financing activities amounted to US$6,038,000. Such cash inflows were mainly from the proceeds of US$18,292,000 from new bank borrowings and the receipts of government grants of US$985,000. The cash inflows were partly offset by US$12,809,000 for repayment of the bank borrowings.

Management Discussion and Analysis

Liquidity

Net current assets and working capital sufficiency

The table below sets out our current assets, current liabilities and net current assets as at the balance sheet date.

	30 June 2010 US$'000	31 December 2009 US$'000
CURRENT ASSETS		
Inventories	**57,562**	47,567
Trade and other receivables	**104,192**	85,795
Prepayments	**4,256**	6,692
Cash and short-term deposits	**238,352**	47,292
Subtotal of current assets	**404,362**	187,346
CURRENT LIABILITIES		
Trade and bills payables	**62,288**	54,769
Other payables and accruals	**29,060**	41,864
Interest-bearing loans	**13,060**	6,093
Income tax payable	**2,442**	3,208
Subtotal of current liabilities	**106,850**	105,934
NET CURRENT ASSETS	**297,512**	81,412

As at 30 June 2010 and 31 December 2009, net current assets of the Group totalled US$297,512,000 and US$81,412,000, respectively, and our current ratio was 3.78 and 1.77, respectively. Liquidity was better than that as at 31 December 2009, mainly attributable to the proceeds from the global offering available to us. In light of our current liquidity position, and the net proceeds available to the Company from the global offering, banking facilities available and our projected cash inflow generated from operations, the Directors believe that we have sufficient working capital for our present requirements and for the next 12 months.

Management Discussion and Analysis

Capital management

The following table presents our gearing ratios as at the balance sheet dates indicated.

	30 June 2010 US$'000	31 December 2009 US$'000
Interest-bearing loans	13,060	6,386
Convertible redeemable preference shares	–	57,932
Total debt	13,060	64,318
Less: cash and short-term deposits	238,352	47,292
Net debt	(225,292)	17,026
Total equity attributable to owners of the Company	442,733	164,192
Gearing ratio	0.0%	10.4%

Note: Interest-bearing loans included (1) RMB-denominated loans of RMB40 million at 4.779% per annum, RMB20 million at 5.045% per annum and RMB20 million at 4.617% per annum; and (2) GBP-denominated loans of GBP850,585 at London Inter-bank Offered Rate ("LIBOR") plus 1.6%

The primary objective of our capital management is to maintain our stability and growth. We regularly review and manage our capital structure and make corresponding adjustments, taking into consideration changes in economic conditions, our future capital requirements, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities. We manage our capital through monitoring our gearing ratio (which is calculated as net debt divided by the total equity attributable to the owners of the Company). Net debt includes the balance of interest-bearing loans and convertible redeemable preference shares, less cash and short-term deposits.

As at 30 June 2010, gearing ratio of the Group was nil, which was attributable to the conversion of the convertible redeemable preference shares of the Company into ordinary shares on the listing date, and the large amount of proceeds from the global offering, resulting in that cash and short-term deposits were significantly higher than the total amount of debt. As at 31 December 2009, our gearing ratio was 10.4%, mainly indicating the potential liability effect of the convertible redeemable preference shares of the Company.

Management Discussion and Analysis

Inventories analysis

The balance of inventories represented our balance of stock of raw materials, work in progress and finished goods as at the end of the period. We monitor our inventories on a regular basis. The following table sets out a summary of our inventories balance as at the respective balance sheet dates, as well as the turnover days of average inventories for the periods indicated.

	30 June 2010 US$'000	31 December 2009 US$'000
Raw materials	**16,104**	13,707
Work in progress	**2,950**	1,297
Finished goods	**38,508**	32,563
Total	**57,562**	47,567
Turnover of average inventories (in days)[1]	**63.6**	57.0

(1) Average inventories equal to the inventories at the beginning of the period plus inventories at the end of the period (after provision for impairment of inventories), divided by two. Turnover of average inventories (in days) equals to the average inventories divided by the cost of sales and then multiplied by 180.

In the six months ended 30 June 2010, the amount of the write-down of inventories recognized as an expense was US$1,727,000.

In the six months ended 30 June 2010 and the year 2009, our inventory turnover days were 63.6 days and 57 days, respectively. The increase in inventory turnover days in the first half of 2010 was primarily attributable to the build-up of relevant inventories for the peak sales season in the second half of 2010 by the Group.

Management Discussion and Analysis

Trade and other receivables

The balance of trade and bills receivables represented the outstanding amounts receivable by us from customers who have been granted with credit periods. The following table sets forth our total trade and other receivables at the balance sheet date and trade and bills receivables turnover days for the periods indicated.

	30 June 2010 US$'000	31 December 2009 US$'000
Trade and bills receivables	**92,919**	67,186
Provision	**(1,820)**	(1,858)
	91,099	65,328
Other receivables	**13,339**	20,859
Provision	**(246)**	(392)
	13,093	20,467
Total	**104,192**	85,795
Turnover of average trade and bills receivables (in days)[1]	**70.6**	74.4

(1) Average trade and bills receivables equal to the trade and bills receivables (before impairment) at the beginning of the period plus trade and bills receivables at the end of the period, divided by two. Turnover of average trade and bills receivables (in days) equals to the average trade and bills receivables divided by revenue and then multiplied by 180.

Trade and bills receivables represent proceeds receivable from the sale of goods. Our trading terms with our customers are mainly on credit, except for new customers where payment in advance is normally required. We have been purchasing certain one-year credit insurances to insure up to 85% from PRC and 90% from international of any uncollectible amount derived from our sales, provided that the aggregate compensation does not exceed RMB25.2 million for PRC sales and US$10 million for international sales. Since 1 January 2009, we have extended credit terms to range from 90 to 120 days. We seek to maintain strict control over our outstanding receivables and to establish a credit control management system. Overdue balances are reviewed regularly by senior management. Trade receivables are free of interest.

Our trade receivables increased from US$65,328,000 as at 31 December 2009 to US$91,099,000 as at 30 June 2010. The increase mainly indicated the increase in sales during the period and thus releasing the credit limit.

Management Discussion and Analysis

Capital expenditures

We have funded our capital expenditures from cash generated from operations, bank loans and advances from related parties. Our capital expenditures primarily related to expenditures on plant, machinery and equipment, construction in progress and prepaid land lease payments, goodwill, intangible assets (other than goodwill), investments in associates and long-term deferred expenditures. In the first half of 2010, the investment in fixed assets by the Group amounted to US$13,353,000, of which US$4,543,000 was invested in machinery and equipment mainly for the expansion of production lines, and US$6,199,000 on construction in progress was mainly for relocation and construction of the new Sunny industrial complex.

Trade and bills payables

The following table sets forth the total amounts of our trade and bills payables as at the balance sheet dates indicated, and our average trade and bills payables turnover days for the periods indicated.

	30 June 2010 US$'000	31 December 2009 US$'000
Trade and bills payables to third parties	**57,595**	48,527
Trade payables to related parties	**4,693**	6,242
Total	**62,288**	54,769
Turnover of average trade and bills payables (in days)(1)	**70.9**	70.9

(1) Average trade and bills payables equal to the trade and bills payables at the beginning of the period plus trade and bills payables at the end of the period, divided by two. Turnover of average trade and bills payables (in days) equals average trade and bills payables divided by cost of sales and then multiplied by 180.

Turnover days of trade and bills payables were 70.9 days and 70.9 days, respectively, as at 30 June 2010 and 31 December 2009, and trade and bills payables was US$7,519,000 higher than that as at 31 December 2009 mainly due to the build-up of inventories by the Group in preparation for the peak season in the second half of the year, thus resulting in an increase in trade payables.

Management Discussion and Analysis

Interest-bearing loans

As at 30 June 2010, our total interest-bearing loans amounted to US$13,060,000. On the same date, we had bank facilities of approximately RMB630,000,000, of which approximately RMB620,000,000 was yet to be utilized.

	30 June 2010 US$'000	31 December 2009 US$'000
Current portion		
Bank loans – unsecured	**1,473**	–
Bank loans – secured	**11,587**	6,093
Subtotal of current portion	**13,060**	6,093
Non-current portion		
Loans (unsecured) – Jiangshan municipal government	**–**	293
Subtotal of non-current portion	**–**	293
Total	**13,060**	6,386

Note: Interest-bearing loans included (1) RMB-denominated loans of RMB40 million at 4.779% per annum, RMB20 million at 5.045% per annum and RMB20 million at 4.617% per annum; and (2) GBP-denominated loans of GBP850,585 at LIBOR plus 1.6%. These interest-bearing loans will be repaid before 31 December 2010.

Our total bank borrowings were US$13,060,000 as at 30 June 2010, representing an increase of US$6,674,000 as compared to US$6,386,000 as at 31 December 2009.

Certain of our bank borrowings were secured as follows:

Certain of our buildings with an aggregate carrying amount of approximately US$10,597,000 and US$10,717,000 as at 30 June 2010 and 31 December 2009, respectively.

Certain of our land use rights with an aggregate carrying amount of approximately US$1,480,000 and US$1,489,000 as at 30 June 2010 and 31 December 2009, respectively.

Certain of our trade receivables with an aggregate carrying amount of approximately US$5,253,000 and US$293,000 as at 30 June 2010 and 31 December 2009, respectively.

Management Discussion and Analysis

Convertible redeemable preference shares

The Company issued the convertible redeemable preference shares to investors on 1 August 2006 and 29 August 2008, respectively. Pursuant to the preference share purchase agreement, the holders of the preference shares may convert their preference shares into ordinary shares or have them redeemed at a specified price when certain conditions are met. Given the nature of the preference shares and the requirements of the International Financial Reporting Standards, the Company accounted for these preference shares as liabilities before they were converted or redeemed providing for the corresponding interest incurred, and recognized the movement in fair value in accordance with their nature and terms. According to the terms set out in the preference share purchase agreement, the preference shares shall be converted into ordinary shares on the basis of one preference share for one ordinary share immediately after the completion of the global offering by the Company, and the Company shall reclassify the preference shares from liabilities to equity after the listing of the Company's shares. There were outstanding convertible redeemable preference shares with an amount of US$57,932,000 as at 31 December 2009, which were reduced to be nil as at 30 June 2010 after conversion into ordinary shares (being reclassified to be equity).

Off-balance Sheet Arrangement

We did not have any outstanding derivative financial instruments or off-balance sheet guarantees for outstanding loans. We did not engage in trading activities involving non-exchange traded contracts.

Contingent Liabilities

As at 30 June 2010, the Group had no significant contingent liabilities.

Pledging of Assets

As at 30 June 2010, the Group's certain buildings with book value amounting to approximately US$10,597,000 (as at 31 December 2009: US$10,717,000), land use rights with book value amounting to approximately US$1,480,000 (as at 31 December 2009: US$1,489,000) and certain trade receivables with book value amounting to approximately US$5,253,000 (as at 31 December 2009: US$293,000) had been pledged as security for bank borrowings.

Capital Commitments

As at 30 June 2010, we had capital commitments of US$39,000,000 for the construction of fixed assets which were used for the construction of plant, office buildings and dormitories. In addition to the operating lease commitments which are set forth below, we had the following commitments as at the dates indicated.

	30 June 2010 US$'000	31 December 2009 US$'000
Contracted but not provided for		
Acquisition of fixed assets	**9,511**	8,981
Authorised but not contracted for		
Acquisition of fixed assets	**28,997**	33,181
Acquisition of land use rights	**492**	489
Total	**39,000**	42,651

Operating Leases Commitments

As at 30 June 2010, we leased a number of properties under non-cancellable operating leases. The table below sets forth our future minimum rental payments under non-cancellable operating leases as at the dates indicated.

	30 June 2010 US$'000	31 December 2009 US$'000
Within one year	**740**	642
After one year but not more than five years	**1,220**	1,304
More than five years	**320**	418
Total	**2,280**	2,364

Management Discussion and Analysis

As a lessor, we lease plants and office under operating lease arrangements with lease terms ranging from ten months to four years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rental adjustments according to the then prevailing market conditions. As at the respective balance sheet dates, we had total future minimum rental receivables under the non-cancellable operating leases as follows:

	30 June 2010 US$'000	31 December 2009 US$'000
Within one year	**488**	381
After one year but not more than five years	**660**	798
More than five years	**–**	550
Total	**1,148**	1,729

Continuing Connected Transactions

Continuing connected transactions of the Group for the six months ended 30 June 2010 were within the annual caps set out in the prospectus of the Company dated 7 May 2010.

Merger and Acquisition

For the six months ended 30 June 2010, no acquisition or disposal of subsidiaries or associates was made by the Group.

Use of Proceeds from the Global Offering

We do not propose to use the proceeds from the global offering in a manner different from that provided in the prospectus of the Company dated 7 May 2010.

Significant Investments

As at 30 June 2010, the Group had no significant investment. Save as disclosed in the prospectus of the Company dated 7 May 2010, the Group did not have any plan for significant investment as at 30 June 2010.

Relocation of Sunny (including Jiangshan Phoebus and Zhejiang NVC)

The construction of Plant 5 for the relocation of Sunny (including Jiangshan Phoebus and Zhejiang NVC) has been substantially completed, while the construction of the other plants are under construction and are expected to be completed for inspection by the end of 2010. The relocation of Sunny (including Jiangshan Phoebus and Zhejiang NVC) is scheduled to commence in March 2011 and fully complete in September 2011 for a period of six months.

Employees

As at 30 June 2010, the Group has approximately 10,876 employees (31 December 2009: 10,375). Relevant staff cost was US$21,980,000 (including share option expense of US$255,000), while our staff cost was US$15,362,000 (including share option expense of US$37,000) for the corresponding period of 2009. The Group will regularly review remuneration and benefits of its employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including social insurance contribution, employee provident fund schemes, discretionary incentive and share option schemes.

Market Risks

We are exposed to various market risks in the ordinary course of business. Our risk management strategy aims to minimize the adverse effects of these risks on our financial results.

Foreign currency risk

We have transactional currency exposure. Such exposure mainly arises from sales by an operating unit in currencies other than its functional currency. Sales of products by our PRC entities to overseas customers are predominantly conducted in US dollars. As a result, we are exposed to fluctuations in the exchange rate between the US dollar and the RMB. We have conducted a sensitivity analysis to determine our exposure to the changes in foreign currency exchange rates. If RMB appreciates or depreciates against U.S. dollar by 5% in this respect, while other variables remain unchanged, our profit before tax would decrease or increase by about US$960,000, respectively, due to changes in the fair value of monetary assets and liabilities.

Commodity price risk

We are exposed to fluctuations in the prices of raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect our financial performance. We have not entered into any commodity derivative instruments to hedge the potential commodity price changes.

Liquidity risk

We monitor our risk of having a shortage of funds by considering the maturity of our financial instruments, financial assets and liabilities and projected cash flows from operations. Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing borrowings. Our directors have reviewed our working capital and capital expenditure requirements and determined that we have no significant liquidity risk.

Credit risk

The major concentration of credit risk arises from our exposure to a substantial number of trade receivables and other receivables from debtors. We have policies in place to ensure that the sales of products are made to customers with an appropriate credit limit, and we have strict control over credit limits of trade and other receivables. Our cash and short-term deposits are mainly deposited with registered banks in China. We also have policies that limit our credit exposure to any financial institutions. The carrying amounts of trade and other receivables, cash and short-term deposits included in the consolidated balance sheet represent our maximum exposure to credit risk in relation to our financial assets. We have no other financial assets which carry significant exposure to credit risk. In 2009, we entered into a number of insurance contracts with China Export & Credit Insurance Corporation to insure up to 85% from PRC and 90% from international of any uncollectible amount derived from our sales between the period from 1 November 2009 to 31 October 2010 subject to a maximum uncollectible amount of RMB25.2 million for PRC sales and US$10 million for international sales. We purchased such insurance in order to minimize our exposure to credit risk as we expand our business. We plan to renew such insurance contracts as they become due.

Disclosure of Interests

Interests and Short Positions of Substantial Shareholders in the Shares and Underlying Shares

As at 30 June 2010, so far as the Directors and chief executives are aware, the following shareholders (other than Directors or chief executives of the Company) had 5% or more beneficial interests or short positions in the issued Shares and underlying shares of the Company which were recorded in the register required to be maintained by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Class of Shares	Number of Shares	Percentage of the total shares issued
SB Asia Investment Fund II L.P.	Ordinary shares	681,152,000 (L) *(Note 1)*	22.98%
NVC Inc.	Ordinary shares	650,000,000 (L)	21.93%
Signkey Group Limited	Ordinary shares	326,930,000 (L)	11.03%
GS Direct, L.L.C.	Ordinary shares	208,157,000 (L) *(Note 3)*	7.02%
	Share options *(Note 2)*	500,000 (L) *(Note 3)*	0.017%
The Goldman Sachs Group, Inc.	Ordinary shares	208,157,000 (L) *(Note 3)*	7.02%
	Share options *(Note 2)*	500,000 (L) *(Note 3)*	0.017%

Notes:

1. (L) represents long position.

2. Details of the interest in Pre-IPO Share Option Scheme are set out below in the paragraph headed "Pre-IPO Share Option Scheme" and the prospectus of the Company dated 7 May 2010.

3. These shares/options are held by GS Direct, L.L.C. As GS Direct, L.L.C is a wholly-owned subsidiary of The Goldman Sachs Group, Inc., GS Direct, L.L.C. and The Goldman Sachs Group, Inc. are deemed to be interested in these shares/options.

Save as disclosed above, as at 30 June 2010, so far as the Directors are aware that no other persons (except the Directors and chief executives) or corporations had 5% or more interests or short positions in the Shares and underlying shares of the Company which were recorded in the register required to be maintained by the Company pursuant to Section 336 of the SFO.

Disclosure of Interests

Interests and Short Positions of Directors and Chief Executives in the Shares, Underlying Shares and Debentures

As at 30 June 2010, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or recorded in the register required to be maintained pursuant to Section 352 of Part XV of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the provisions of the Model Code were as follows:

a. Long positions in the Shares of the Company

Name of Director	Class of Shares	Nature of Interests	Number	Percentage of the total shares issued
Wu Changjiang	Share options *(Note 1)*	Beneficial owner	30,476,000 (L) *(Note 2)*	1.03%
	Share options *(Note 1)*	Deemed interests	139,450,000 (L) *(Note 3)*	4.71%
	Ordinary shares	Interest of a controlled corporation	650,000,000 (L) *(Note 4)*	21.93%
Wu Jiannong	Share options *(Note 1)*	Beneficial owner	375,000 (L)	0.013%
	Ordinary shares	Interest of a controlled corporation	326,930,000 (L) *(Note 5)*	11.03%
Mu Yu	Share options *(Note 1)*	Beneficial owner	97,000 (L)	0.0033%
	Share options *(Note 1)*	Deemed interests	139,450,000 (L) *(Note 6)*	4.71%
Xia Lei	Share options *(Note 1)*	Beneficial owner	533,000 (L)	0.018%
Yan Andrew Y	Share options *(Note 1)*	Beneficial owner	26,749,000 (L)	0.90%
Lin Ho-Ping	Share options *(Note 1)*	Beneficial owner	26,749,000 (L)	0.90%

Disclosure of Interests

Notes:

1. Details of the interest in Pre-IPO Share Option Scheme are set out below in the paragraph headed "Pre-IPO Share Option Scheme" and the prospectus of the Company dated 7 May 2010.

2. (L) represents long position.

3. These share options are held by Eastern Galaxy Trust, a discretionary trust which Mr. Wu Changjiang is one of the beneficiaries, and therefore he is deemed to be interested in the entire share options held by the trust. But in fact, pursuant to the Pre-IPO Share Option Scheme as approved on 15 October 2006 and revised on 23 December 2009 and 24 March 2010, respectively, by the Board of the Company, only 52,434,000 out of these 139,450,000 share options were actually allocated to Mr. Wu Changjiang.

4. These shares are held by NVC Inc. which is 100% beneficially owned by Mr. Wu Changjiang, therefore, Mr. Wu Changjiang is deemed to be interested in the number of shares held by NVC Inc..

5. These shares are held by Signkey Group Limited which is 85% beneficially owned by Mr. Wu Jiannong, therefore, Mr. Wu Jiannong is deemed to be interested in the number of shares held by Signkey Group Limited.

6. These share options are held by Eastern Galaxy Trust, a discretionary trust which Mr. Mu Yu is one of the beneficiaries, and therefore he is deemed to be interested in the entire share options held by the trust. But in fact, pursuant to the Pre-IPO Share Option Scheme as approved on 15 October 2006 and revised on 23 December 2009 and 24 March 2010, respectively, by the Board of the Company, only 10,000,000 out of these 139,450,000 share options were actually allocated to Mr. Mu Yu.

b. Long positions in shares of our associated corporations

Name of Director	Nature of Interests	Name of associated corporation	Registered capital of the associated corporation	Interest in the registered capital of the associated corporation	Percentage of Interests in the registered capital of the associated corporation
Wu Jiannong	Interest of a controlled corporation *(Note 1)*	Zhejiang NVC *(Note 2)*	RMB20,000,000 *(Note 3)*	RMB9,800,000	49%

Notes:

1. Mr. Wu Jiannong holds 86% equity interests in Zhejiang Tonking Investment Co., Ltd., and therefore Mr. Wu Jiannong is deemed to be interested in the entire 49% equity interests in Zhejiang NVC held by Zhejiang Tonking Investment Co., Ltd..

2. Zhejiang NVC is the Company's subsidiary of which 51% equity interests are held by Huizhou NVC, a wholly-owned subsidiary of the Company.

3. Zhejiang NVC is a company incorporated in the PRC with limited liability, the registered capital of which is RMB20,000,000.

Disclosure of Interests

Save as disclosed above, as at 30 June 2010, none of the Directors or chief executives of the Company have or are deemed to have interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notifiable to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or recorded in the register required to be maintained by the Company pursuant to Section 352 of the SFO, or which were notifiable to the Company and the Stock Exchange pursuant to the provisions of the Model Code.

Pledging of Shares by Controlling Shareholders

As at 30 June 2010, the Company did not have any controlling shareholder.

Share Option Scheme

A share option scheme (the"Share Option Scheme") was conditionally approved and adopted at an extraordinary general meeting held on 27 April 2010. The purpose of the Share Option Scheme is to provide the Company with a means of incentivising and retaining employees, and to encourage employees to work towards enhancing the value of the Company and promoting the long-term growth of the Company. This scheme will link the value of the Company with the interests of the participants, enabling participants and the Company to develop together and promoting the Company's corporate culture. The Directors may, at their discretion, invite any Directors (including executive Directors, non-executive Directors and independent non-executive Directors), employees and advisors, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners and service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group to participate in the Share Option Scheme. The period within which the options must be exercised shall be determined by the Directors at the time of grant and such period must expire no later than 10 years from the date when the Board resolves to make the offer of options to the grantees. All outstanding options shall lapse when the grantee is dead or retired,the employment of the grantee ceases or where the grantee is no longer an employee of the Group.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme or any other share option schemes adopted by the Company shall not exceed 10% (the Company may refresh the 10% limit in certain conditions) of the aggregate of the shares in issue on the listing date or 30% of the shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted to each participant under the Share Option Scheme or any other share option scheme adopted by the Company in any 12-month period must not exceed 1% of the shares in issue. Any further grant of options which would result in the number of shares issued as aforesaid exceeding the said 1% limit requires shareholders' prior approval with the relevant participant and his associates abstaining from voting.

For the six months ended 30 June 2010, no option has been granted under the Share Option Scheme.

Disclosure of Interests

Pre-IPO Share Option Scheme

The Company adopted the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") approved by the Board on 15 October 2006 and amended on 23 December 2009 and 24 March 2010. The purpose of the Pre-IPO Share Option Scheme is to assist the Company in attracting, retaining and motivating key employees, Directors, consultants and strategic suppliers. The aggregate number of shares subject to the Pre-IPO Share Option Scheme is 240,429,000 shares, representing 8.11% of the issued share capital of the Company as at 30 June 2010.

Options have been granted under the Pre-IPO Share Option Scheme and shall expire no later than 10 years from the date the Board resolves to make the offer of options to the grantees. Options granted to grantees under the Pre-IPO Share Option Scheme shall vest immediately to the grantees, or vest to the grantees at a rate not more than 25% of each such grant for each year commencing from the date when the grantees can exercise such options granted to them.

As at 30 June 2010, details of outstanding options granted under the Pre-IPO Share Option Scheme are as follows:

Name of the grantee	Class of shares	Relationship with the Group	Number of shares to be issued under the Pre-IPO Share Option Scheme	Exercise price (HK$ per share)	Date of grant	Percentage of total shares issued
Wu Changjiang	Share options	Director	52,434,000 *(Note 1)*	0.31	15 October 2006	1.77%
			30,476,000	2.1	24 March 2010	1.03%
Wu Jiannong	Share options	Director	375,000	0.4	24 March 2010	0.013%
Mu Yu	Share options	Director	10,000,000 *(Note 2)*	0.4	1 January 2007	0.34%
			97,000	2.1	24 March 2010	0.0033%
Xia Lei	Share options	Director	533,000	2.1	24 March 2010	0.018%
Yan Andrew Y	Share options	Director	26,217,000	0.31	15 October 2006	0.88%
			532,000	2.1	24 March 2010	0.018%
Lin Ho-Ping	Share options	Director	26,217,000	0.31	15 October 2006	0.88%
			532,000	2.1	24 March 2010	0.018%
GS Direct L.L.C.	Share options	Shareholder	500,000	2.1	24 March 2010	0.017%
Others (including senior management)	Share options	Employees and others	12,000,000	0.75	15 January 2007	0.40%
			10,591,000	0.75	1 March 2007	0.36%
			54,425,000	0.4	1 January 2007	1.84%
			15,500,000	2.1	24 March 2010	0.52%
Total			240,429,000			8.11%

Disclosure of Interests

Notes:

1. These share options are held by Eastern Galaxy Trust, which is a discretionary trust, and one of its beneficiaries is Mr. Wu Changjiang.

2. These share options are held by Eastern Galaxy Trust, which is a discretionary trust, and one of its beneficiaries is Mr. Mu Yu.

For the six months ended 30 June 2010, the fair value of new share options granted under the Pre-IPO Share Option Scheme (totaling 48,545,000 shares) was US$1,965,000. For further details, please refer to note 28 to the audited consolidated financial statements for the six months ended 30 June 2010 below and the prospectus of the Company dated 7 May 2010.

For the six months ended 30 June 2010, no share option granted under the Pre-IPO Share Option Scheme was exercised, cancelled or lapsed.

Corporate Governance and Other Information

Corporate Governance

The Directors are of the opinion that, as at 30 June 2010, the Company has complied with the Code, except for the code provision A.2.1 which requires that the role of chairman and chief executive officer should be separated and should not be performed by the same individual.

Under the code provision A.2.1, the role of chairman and chief executive officer should be separated and should not be performed by the same individual. As the duties of chairman of the Company and chief executive officer of the Company are performed by Mr. Wu Changjiang, the Company has deviated from the Code. Mr. Wu Changjiang is the chairman and chief executive officer of the Company and the founder of the Group. The Board believes that it is necessary to vest the roles of chairman and chief executive officer in the same person due to its unique role, Mr. Wu Changjiang's experience and established market reputation in the PRC lighting industry, and the importance of Mr. Wu Changjiang in the strategic development of the Company. The dual role arrangement helps provide strong and consistent market leadership and is critical for efficient business planning and decision making of the Company. As all major decisions are made in consultation with members of the Board and relevant Board committees, and there are three independent non-executive directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the Code and maintaining a high standard of corporate governance practices of the Company.

Model Code for Securities Transactions

The Company has adopted the Model Code as its code of conduct regarding Directors' securities transactions. Specific enquiry has been made to all Directors, and the Directors have confirmed that they have complied with all relevant requirements as set out in the Model Code during the six months ended 30 June 2010.

Audit Committee

The Company established an audit committee on 27 April 2010 with written terms of reference in compliance with the Code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee has three members who are all independent non-executive directors. Mr. Alan Russell Powrie has been appointed as the chairman of the audit committee. The audit committee has reviewed and discussed the interim report for the six months ended 30 June 2010.

Remuneration Committee

The Company established a remuneration committee on 27 April 2010 with the primary duties of establishing and reviewing the policy and structure of remuneration for the directors and senior management. The remuneration committee has three members, namely Mr. Yan Andrew Y, Mr. Alan Russell Powrie and Mr. Karel Robert Den Daas. Mr. Yan Andrew Y has been appointed as the chairman of the remuneration committee.

Corporate Governance and Other Information

Change in Directors' Information

Under the Rule 13.51B(1) of the Listing Rules, the Company would like to disclose that Mr. YAN Andrew Y (being a non-executive director of the Company) has been appointed as a non-executive director of China Hui Yuan Juice Group Limited since 28 July 2010.

Purchase, Sale or Redemption of Listed Securities

For the six months ended 30 June 2010, except for the Company's global offering, neither the Company nor its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

Interim Dividend

The Board of Directors has resolved to declare an interim dividend of HK2 cents per share for the six months ended 30 June 2010 payable to the shareholders whose names appear on the register of members of the Company on Friday, 24 September 2010. Based on the 2,963,654,000 issued shares as at 30 June 2010, it is expected that the interim dividend payable will amount to HK$59,273,080 (equivalent to approximately US$7,614,537) (before tax).

Closure of Register of Members

The Register of Members will be closed from 21 September 2010, Tuesday to 24 September 2010, Friday (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer of shares accompanied by share certificates and transfer forms must be lodged with the Company's Branch Share Registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on 20 September 2010, Monday.

Independent Auditors' Report

ERNST & YOUNG
安 永

To the board of directors of NVC Lighting Holding Limited
(Incorporated in the British Virgin Islands and Redomiciled to the Cayman Islands with Limited Liability)

We have audited the consolidated financial statements of NVC Lighting Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheet as at 30 June 2010 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report *(continued)*

To the board of directors of NVC Lighting Holding Limited
(Incorporated in the British Virgin Islands and Redomiciled to the Cayman Islands with Limited Liability)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2010 and of the Group's profit and cash flows for the six months then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other Matter

We draw attention to the fact that the comparative amounts set out in the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes for the six months ended 30 June 2009 have not been audited.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong
31 August 2010

Consolidated Income Statement

Six months ended 30 June 2010

		Six months ended 30 June	
		2010	2009
	Notes	**US$'000**	US$'000
			(Unaudited)
REVENUE	*6*	**204,034**	109,780
Cost of sales		**(148,657)**	(81,911)
GROSS PROFIT		**55,377**	27,869
Other income and gains	*7.2*	**5,536**	3,342
Selling and distribution costs		**(14,480)**	(6,925)
Administrative expenses		**(13,909)**	(10,534)
Other expenses	*7.3*	**(728)**	(65)
Finance income	*7.4*	**238**	442
Finance costs	*7.5*	**(1,939)**	(4,311)
Net fair value loss on convertible redeemable preference shares	*7.6*	**–**	(16,540)
Share of profit of associates	*15*	**2**	16
PROFIT/(LOSS) BEFORE INCOME TAX		**30,097**	(6,706)
Income tax expense	*8*	**(3,002)**	(1,495)
PROFIT/(LOSS) FOR THE PERIOD		**27,095**	(8,201)
Profit/(loss) for the period attributable to:			
Owners of the Company		**25,934**	(8,590)
Non-controlling interests		**1,161**	389
		27,095	(8,201)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	*9*	**1.1 US cents**	(0.4) US cents
Diluted	*9*	**1.0 US cent**	(0.4) US cents

Consolidated Statement of Comprehensive Income

Six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
		(Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	**27,095**	(8,201)
OTHER COMPREHENSIVE INCOME		
Exchange differences on translating foreign operations	**1,319**	549
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**28,414**	(7,652)
Total comprehensive income attributable to:		
Owners of the Company	**27,215**	(8,041)
Non-controlling interests	**1,199**	389
	28,414	(7,652)

Consolidated Balance Sheet

30 June 2010

	Notes	30 June 2010 US$'000	31 December 2009 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**76,678**	67,824
Prepaid land lease payments	12	**11,427**	11,570
Goodwill	13	**33,928**	33,896
Intangible assets	14	**51,585**	52,916
Investment in an associate	15	**542**	540
Deferred tax assets	8	**1,641**	1,329
Long-term deferred expenditure		**67**	72
Other non-current financial assets		**–**	221
Total non-current assets		**175,868**	168,368
CURRENT ASSETS			
Inventories	17	**57,562**	47,567
Trade and other receivables	18	**104,192**	85,795
Prepayments	19	**4,256**	6,692
Cash and short-term deposits	20	**238,352**	47,292
Total current assets		**404,362**	187,346
CURRENT LIABILITIES			
Trade and bills payables	21	**62,288**	54,769
Other payables and accruals	22	**29,060**	41,864
Interest-bearing loans	23	**13,060**	6,093
Income tax payable		**2,442**	3,208
Total current liabilities		**106,850**	105,934
NET CURRENT ASSETS		**297,512**	81,412
TOTAL ASSETS LESS CURRENT LIABILITIES		**473,380**	249,780

Continued/...

Consolidated Balance Sheet

30 June 2010

	Notes	**30 June 2010 US$'000**	31 December 2009 US$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*8*	**14,952**	15,157
Convertible redeemable preference shares	*24*	**–**	57,932
Government grants	*25*	**13,193**	8,680
Interest-bearing loans	*23*	**–**	293
Total non-current liabilities		**28,145**	82,062
Net assets		**445,235**	167,718
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*26*	**–**	–
Share premium	*27(a)*	**329,108**	23,556
Equity component of convertible preference shares	*27(b)*	**–**	54,481
Shareholders' contribution	*27(c)*	**879**	879
Statutory reserve	*27(d)*	**8,145**	7,157
Employee equity benefit reserve	*27(e)*	**2,427**	2,172
Foreign currency translation reserve	*27(f)*	**10,908**	9,627
Retained earnings		**91,266**	66,320
		442,733	164,192
Non-controlling interests		**2,502**	3,526
Total equity		**445,235**	167,718

WU Changjiang
Director

MU Yu
Director

Consolidated Statement of Changes in Equity

Six months ended 30 June 2010

	Attributable to owners of the Company										
	Issued capital *(note 26)* US$'000	Share premium *(note 27(a))* US$'000	Equity component of convertible preference shares *(note 27(b))* US$'000	Shareholders' contribution *(note 27(c))* US$'000	Statutory reserve *(note 27(d))* US$'000	Employee equity benefit reserve *(note 27(e))* US$'000	Foreign currency translation reserve *(note 27(f))* US$'000	Retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2010	–	23,556	54,481	879	7,157	2,172	9,627	66,320	164,192	3,526	167,718
Profit for the period	–	–	–	–	–	–	–	25,934	25,934	1,161	27,095
Other comprehensive income:											
Exchange differences arising on translating foreign operations	–	–	–	–	–	–	1,281	–	1,281	38	1,319
Total comprehensive income for the period	–	–	–	–	–	–	1,281	25,934	27,215	1,199	28,414
Transfer to statutory reserve	–	–	–	–	988	–	–	(988)	–	–	–
Issuance of new shares, net of share issue expenses *(note 26)*	–	191,824	–	–	–	–	–	–	191,824	–	191,824
Conversion of preference shares to ordinary shares *(note 26)*	–	113,728	(54,481)	–	–	–	–	–	59,247	–	59,247
Dividends distributed by a subsidiary to the non-controlling shareholder	–	–	–	–	–	–	–	–	–	(2,223)	(2,223)
Employee share option arrangements *(note 28)*	–	–	–	–	–	255	–	–	255	–	255
At 30 June 2010	–	329,108	–	879	8,145	2,427	10,908	91,266	442,733	2,502	445,235

Continued/...

Consolidated Statement of Changes in Equity

Six months ended 30 June 2010

	Attributable to owners of the Company										
	Issued capital US$'000	Share premium US$'000	Equity component of convertible preference shares US$'000	Shareholders' contribution US$'000	Statutory reserve US$'000	Employee equity benefit reserve US$'000	Foreign currency translation reserve US$'000	Retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2009	–	23,556	6,988	879	5,525	2,098	9,499	55,109	103,654	1,679	105,333
Loss for the period	–	–	–	–	–	–	–	(8,590)	(8,590)	389	(8,201)
Other comprehensive income:											
Exchange differences arising on translating foreign operations	–	–	–	–	–	–	549	–	549	–	549
Total comprehensive income for the period	–	–	–	–	–	–	549	(8,590)	(8,041)	389	(7,652)
Transfer to statutory reserve	–	–	–	–	776	–	–	(776)	–	–	–
Employee share option arrangements	–	–	–	–	–	37	–	–	37	–	37
At 30 June 2009 (Unaudited)	–	23,556	6,988	879	6,301	2,135	10,048	45,743	95,650	2,068	97,718

Consolidated Cash Flow Statement

Six months ended 30 June 2010

	Notes	Six months ended 30 June 2010 US$'000	2009 US$'000 (Unaudited)
Operating activities			
Profit/(loss) before tax		**30,097**	(6,706)
Adjustments for:			
Depreciation of property, plant and equipment	*7.1*	**4,147**	3,094
Amortisation of prepaid land lease payments	*7.1*	**194**	168
Amortisation of intangible assets	*7.1*	**1,648**	1,535
Amortisation of long-term deferred expenses	*7.1*	**5**	5
Loss on disposal of property, plant and equipment	*7.3*	**418**	22
Equity-settled share option expense	*7.7*	**255**	37
Fair value loss of derivatives	*7.6*	**–**	16,540
Finance income	*7.4*	**(238)**	(442)
Finance costs	*7.5*	**1,939**	4,311
Share of profit of associates	*15*	**(2)**	(16)
(Reversal of bad debt provision)/ bad debt provision for trade and other receivables	*7.1*	**(181)**	907
Inventory provision	*7.1*	**1,727**	999
Government grants	*7.2*	**(840)**	(1,126)
Listing expenses	*7.1*	**1,844**	–
Exchange loss/(gain), net	*7.2/7.3*	**230**	(45)
		41,243	19,283
(Increase)/decrease in trade receivables, other receivables and prepayments		**(20,463)**	10,757
Increase in inventories		**(11,742)**	(19,482)
Increase in trade and bills payables, other payables and accruals		**4,340**	14,561
Income tax paid		**(4,379)**	(3,491)
Net cash flows from operating activities		**8,999**	21,628

Continued/...

Consolidated Cash Flow Statement

Six months ended 30 June 2010

	Notes	Six months ended 30 June 2010 US$'000	2009 US$'000 (Unaudited)
Investing activities			
Proceeds from sale of property, plant and equipment		**279**	214
Proceeds from sale of other financial assets		**–**	4,932
Purchases of property, plant and equipment		**(12,481)**	(3,363)
Purchases of intangible assets		**(67)**	(38)
Payment for acquisition of subsidiaries and other businesses, net of cash acquired	*22/29*	**(7,736)**	(16,079)
Interest received	*7.4*	**238**	303
(Increase)/decrease in time deposits with original maturity of over three months when acquired	*20*	**(67,759)**	7,024
Payment for the acquisition of an associate	*29*	**–**	(307)
Net cash flows used in investing activities		**(87,526)**	(7,314)
Financing activities			
Proceeds from issuance of new shares	*26*	**201,238**	–
Payment of listing expenses including share issue costs		**(9,002)**	–
Receipt of government grants	*7.2/25*	**5,286**	985
Proceeds from new bank borrowings		**17,932**	18,292
Repayment of bank borrowings		**(11,289)**	(12,809)
Dividend paid to the non-controlling shareholder of a subsidiary		**(2,223)**	–
Bank loan interest paid	*7.5*	**(624)**	(430)
Net cash flows from financing activities		**201,318**	6,038
Net increase in cash and cash equivalents		**122,791**	20,352
Cash and cash equivalents at beginning of the period		**44,034**	22,085
Effect of foreign exchange rate changes, net		**510**	347
Cash and cash equivalents at end of the period		**167,335**	42,784
Analysis of balances of cash and cash equivalents			
Cash and bank balances	*20*	**141,524**	37,599
Non-pledged time deposits with original maturity of less than three months when acquired	*20*	**25,693**	146
Pledged time deposits for banking facilities with original maturity of less than three months when acquired		**118**	5,039
Cash and cash equivalents at end of the period		**167,335**	42,784

Notes to Consolidated Financial Statements

30 June 2010

1. Corporate Information

NVC Lighting Holding Limited (the "Company") was incorporated in the territory of the British Virgin Islands (the "BVI") as a limited liability company on 2 March 2006 and was redomiciled to the Cayman Islands on 30 March 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's registered office address is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KYI-1111, Cayman Islands. The Company is an investment holding company.

On 20 May 2010, the Company completed an initial public offering (the "IPO") of its ordinary shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The Company's substantial shareholders included NVC Inc., a company incorporated in the BVI and wholly owned by Mr. Wu Changjiang, SB Asia Investment Fund II L.P. ("SAIF"), an exempted limited partnership registered in the Cayman Islands and Signkey Group Limited ("Signkey"), a company incorporated in the BVI who owned 21.93%, 22.98% and 11.03% equity interests in the Company, respectively as at 30 June 2010.

The Company has subsidiaries established in the People's Republic of China (the "PRC"), the BVI and the United Kingdom (the "UK"). The particulars of the Company's major subsidiaries are set out below:

Company name	Place and date of establishment/ incorporation and operations	Registered capital	Percentage of ownership interest attributable to the Company Direct	Indirect	Principal activities
NVC Lighting Technology Co., Ltd. ("Huizhou NVC")	the PRC 29 April 2006/ Mainland China*	US$13,250,000	100%	–	Manufacture and sale of lamps, luminaires, lamp transformers, lighting electronic products and other appliances
Chongqing NVC Lighting Co., Ltd. ("Chongqing NVC")	the PRC 1 December 2006/ Mainland China	US$4,000,000	100%	–	Manufacture and sale of lamps, luminaires and other lighting electronic appliances
Zhejiang NVC Lamps Co., Ltd. ("Zhejiang NVC")	the PRC 28 September 2007/ Mainland China	RMB20,000,000 (equivalent to US$2,740,702)	–	51%	Manufacture and sale of lamps and related products
Zhejiang Jiangshan Sunny Electron Co., Ltd. ("Sunny")#	the PRC 2 July 1994/ Mainland China	RMB10,000,000 (equivalent to US$1,369,000)	–	100%	Manufacture and sale of light tubes for energy-saving lamps and related products
Jiangshan Phoebus Lighting Electron Co., Ltd. ("Jiangshan Phoebus")#	the PRC 8 March 2006/ Mainland China	US$7,000,000	–	100%	Manufacture and sale of light tubes for energy-saving lamps and related products

1. Corporate Information *(continued)*

Company name	Place and date of establishment/ incorporation and operations	Registered capital	Percentage of ownership interest attributable to the Company Direct	Indirect	Principal activities
Zhangpu Phoebus Lighting Co., Ltd. ("Zhangpu Phoebus")#	the PRC 9 May 2004/ Mainland China	US$1,000,000	–	100%	Manufacture and sale of light tubes for energy-saving lamps and related products
Shanghai Arcata Electronics Co., Ltd. ("Shanghai Arcata")	the PRC 22 September 2005/ Mainland China	US$1,000,000	–	100%	Manufacture and sale of lamp transformers and other lighting electronic products
World Through Investments Limited ("World Through")#	the BVI 5 August 2005/ Mainland China	US$50,000	100%	–	Investment holding
NVC (Manufacturing) Limited ("UK NVC")	England and Wales 31 May 2007 the UK	GBP500,000 (equivalent to US$991,650)	80%	–	Trading of lamps, luminaires and other lighting products
Hong Kong TYU Technology Co., Ltd. ("Hong Kong TYU").	Hong Kong 17 July 2007 Hong Kong	HK$200,000 (equivalent to US$25,643)	100%	–	Trading of lamps, luminaires and other lighting products
Hong Kong Max Rich Holdings Limited ("Max Rich")	Hong Kong 18 September 2008 Hong Kong	HK$1	–	100%	Investment holding

* *Mainland China refers to the PRC excluding Hong Kong and Macau*

\# *World Through, Sunny, Jiangshan Phoebus and Zhangpu Phoebus are collectively referred to as the "WIL Subgroup", which was acquired by the Company on 29 August 2008.*

2.1 Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value. The consolidated financial statements are presented in United States dollars ("US$") and all values are rounded to the nearest thousand ('000) unless otherwise indicated.

The comparative amounts for the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement in respect of the six months ended 30 June 2009 and related notes disclosed in the consolidated interim financial statements have not been audited.

Notes to Consolidated Financial Statements

30 June 2010

2.1 Basis of Preparation *(continued)*

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2010. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

As further mentioned in note 2.2 and note 3 below, the Group has adopted IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Revised) from 1 January 2010. The change in accounting policy resulting from the adoption of IFRS 3 (Revised) and IAS 27 (Revised) was applied prospectively and did not have any material impact on the Group's financial statements for the current period or the corresponding period of the prior year.

2.2 Impact of New and Revised IFRSs

The Group has adopted the following new and revised IFRSs for the first time for the current period's financial statements. The adoption of these new and revised IFRSs has had no significant effect on these financial statements of the current period or the corresponding period of the prior year.

- IFRS 1 (Revised) — First-time Adoption of International Financial Reporting Standards
- IFRS 1 Amendments — Additional Exemptions for First-time Adopters
- IFRS 2 Amendments — Group Cash-settled Share-based Payment Transactions
- IFRS 3 (Revised) — Business Combinations
- IAS 27 (Revised) — Consolidated and Separate Financial Statements
- IAS 39 Amendment — Eligible Hedged Items
- IFRS 5 Amendments (included in Improvements to IFRSs 2008) — Plan to sell the controlling interest in a subsidiary
- IFRIC 17 — Distributions of Non-cash Assets to Owners
- IFRSs Amendments# — Improvements to IFRSs 2009

\# *The IASB has issued Improvements to IFRSs 2009 which includes amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IFRS 5, IFRS 8, IFRIC 9, IFRIC 16, IAS 1, IAS 7, IAS 17, IAS 36, IAS 38 and IAS 39 have been adopted by the Group for the first time in 2010.*

2.3 Impact of Issued but not yet Effective IFRSs

The Group has not applied the following new and revised IFRSs and IFRIC interpretations that have been issued but are not yet effective in these financial statements:

•	IFRS 1 Amendment	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[2]
•	IFRS 9	Financial Instruments[4]
•	IAS 24 (Revised)	Related Party Disclosures[3]
•	IAS 32 Amendment	Classification of Rights Issues[1]
•	IFRIC 14 Amendments	Prepayments of a Minimum Funding Requirement [3]
•	IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments [2]

1 *Effective for annual periods beginning on or after 1 February 2010*
2 *Effective for annual periods beginning on or after 1 July 2010*
3 *Effective for annual periods beginning on or after 1 January 2011*
4 *Effective for annual periods beginning on or after 1 January 2013*

Apart from the above, the IASB has issued Improvements to IFRSs 2010 which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010 while the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard and interpretation.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs and IFRIC interpretations upon initial application. So far the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. Summary of Significant Accounting Policies

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value at the acquisition date, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the fair value of the acquirer's previously held equity interest in the acquiree at the acquisition date is remeasured to fair value as at the acquisition date through profit and loss.

Notes to Consolidated Financial Statements

30 June 2010

3. Summary of Significant Accounting Policies *(continued)*

Business combinations and goodwill *(continued)*

Business combinations from 1 January 2010 (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred, plus any non-controlling interest in the acquiree, and if in a business combination achieved in stages, the fair value of the acquirer's previously held equity interest in the acquiree at the acquisition date, less the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

The Group did not have any business combination during the six months ended 30 June 2010.

Business combinations prior to 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

3. Summary of Significant Accounting Policies *(continued)*

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

From 1 January 2010, the Group has applied IAS 27 Consolidated and Separate Financial Statements (Revised) and the following accounting policy related to subsidiaries was adopted:

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it:

– Derecognises the assets (including goodwill) and liabilities of the subsidiary
– Derecognises the carrying amount of any non-controlling interest
– Derecognises the cumulative translation differences, recorded in equity
– Recognises the fair value of the consideration received
– Recognises the fair value of any investment retained
– Recognises any surplus or deficit in profit or loss
– Reclassifies the Company's share of components previously recognised in other comprehensive income to profit or loss

Accounting policy related to subsidiaries prior to 1 January 2010

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

Non-controlling interests represented the portion of profit or loss and net assets that were not held by the Group and were presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the parent shareholders' equity. Acquisitions of non-controlling interests were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired was recognised in goodwill.

Losses incurred by the Group were attributed to the non-controlling interests until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interests had a binding obligation to cover these.

Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

There was no change in the ownership interest in the subsidiaries of the Company during the current period or the prior period. The Group did not lose control of any subsidiary during the current period or the prior period.

Notes to Consolidated Financial Statements

30 June 2010

3. Summary of Significant Accounting Policies *(continued)*

Investments in associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheets at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statements and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates and is not individually tested for impairment.

The financial statements of the associates are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Notes to Consolidated Financial Statements

30 June 2010

3. Summary of Significant Accounting Policies *(continued)*

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over the following estimated useful lives:

Buildings	20 to 30 years
Leasehold improvements	3 years
Plant, machinery and equipment	3 to 10 years
Furniture and fixtures	5 years
Motor vehicles	5 to 8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset. The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at least at each financial year end.

Construction in progress representing properties under construction is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction.

These properties are reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets other than goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition.The useful lives of intangible assets are assessed to be either finite or indefinite.

Notes to Consolidated Financial Statements

30 June 2010

3. Summary of Significant Accounting Policies *(continued)*

Intangible assets other than goodwill *(continued)*

Intangible assets with finite lives are subsequently amortised over the useful economic life on the straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment at least annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life ranging from one to five years.

Customer relationships

Contractual customer relationships are stated at cost and are amortised on the straight-line basis over their estimated useful lives ranging from six months to five years.

Trademarks

Trademarks are accounted for as intangible assets with indefinite useful lives and are not amortised. They are stated at cost less any impairment provision.

Patents

The patents were granted for period of 10 years by the relevant government agency with the option of renewal at the end of this period. Patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of five to seven years.

3. Summary of Significant Accounting Policies *(continued)*

Intangible assets other than goodwill *(continued)*

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the project; and
- the ability to measure reliably the expenditure during development.

Product development expenditure which does not meet these criteria is expensed when incurred.

Following initial recognition of the development expenditure as an asset, the cost model requires the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit of five years.

In-process research and development projects ("IPR&D projects")

IPR&D projects acquired from a business combination are initially recognised at fair value. Subsequent to the initial recognition, any subsequent expenditure incurred after the acquisition of the projects is accounted for as follows:

- Recognised as an expense when incurred if it is research expenditure;
- Recognised as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as a development cost as described above;
- Added to the carrying amount of the acquired IPR&D projects if it is development expenditure that satisfies the recognition criteria for recognition as a development cost as described above.

Prepaid land lease payments

Prepaid land lease payments represent prepayments for acquiring rights to use land in Mainland China for 43-50 years. Land use rights granted are recognised initially at acquisition cost. Land use rights of the Group are held for own use. They are stated at cost, less accumulated amortisation and any impairment losses. Amortisation is charged to the income statement on the straight-line basis over the period of the land use rights.

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3. Summary of Significant Accounting Policies *(continued)*

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables.

3. Summary of Significant Accounting Policies *(continued)*

Other financial assets *(continued)*

Subsequent measurement

The subsequent measurement of financial assets depends on the classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the consolidated balance sheet at fair value with changes in fair value recognised in the income statement.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

The Group has no available-for-sale financial investments in the six months ended 30 June 2010 and 2009.

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3. Summary of Significant Accounting Policies *(continued)*

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the impairment loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

3. Summary of Significant Accounting Policies *(continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities including trade and other payables and interest-bearing bank loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

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30 June 2010

3. Summary of Significant Accounting Policies *(continued)*

Convertible redeemable preference shares

Convertible redeemable preference shares with embedded derivative features are split into liability and derivative components according to their fair values for measurement purposes. On issuance of the preference shares, the fair value of embedded derivative is determined based on a valuation, and the amount is carried as a current liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The embedded derivative is remeasured at each balance sheet date and any gains or losses arising from change in fair value are recognised in the income statement.

Transaction costs are apportioned between the fair value of the host liability instrument and embedded derivative of the convertible redeemable preference shares based on the allocation of proceeds to the liability and derivative components when the instruments are initial recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. Summary of Significant Accounting Policies *(continued)*

Derecognition of financial assets and liabilities *(continued)*

Financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts recognised in the income statement.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost is determined on weighted average basis and, in case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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30 June 2010

3. Summary of Significant Accounting Policies *(continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated balance sheet, cash and short-term deposits comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount is recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "finance costs" in the income statement.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date: whether fulfilment of the arrangement is dependent on the issue of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. The Group had no financial leases during the current period or the prior period.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

3. Summary of Significant Accounting Policies *(continued)*

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales tax or duties. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been passed to the buyer, usually on despatch of the goods, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Interest income

Interest income is recognised on an accrual basis using the effective interest rate method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Rental income

Rental income arising from operating leases is recognised on the straight-line basis over the lease terms.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

Notes to Consolidated Financial Statements

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3. Summary of Significant Accounting Policies *(continued)*

Share-based payment transactions *(continued)*

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair values of share options are determined by management using the Black-Scholes valuation model (the "BS" model), or Binomial option pricing model, where appropriate, with further details disclosed in note 28 to the consolidated financial statements.

The cost of equity-settled transactions with employees is recognised, together with a corresponding increase in equity, presented as the employee equity benefit reserve, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in note 9).

Other employee benefits

Defined contribution plan for the PRC employees

Pursuant to the relevant PRC laws and regulations, each of the PRC subsidiaries of the Group is required to participate in a defined contribution plan organised by the local municipal government whereby the Group is required to contribute a certain percentage of the salaries of its employees to the defined contribution plan. The only obligation of the Group with respect to the retirement benefit scheme is to pay the ongoing required contributions. Contributions made to the defined contribution plan are charged to the income statement as incurred.

3. Summary of Significant Accounting Policies *(continued)*

Taxes

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred income tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

(a) where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

(a) where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Notes to Consolidated Financial Statements

30 June 2010

3. Summary of Significant Accounting Policies *(continued)*

Taxes *(continued)*

Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

(a) where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

(b) receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated balance sheet.

Dividends

Final dividends proposed are classified as a separate allocation of retained earnings within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting and declared by the board of directors.

Interim dividends are simultaneously proposed and declared. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

No dividends were declared by the Company during the six months ended 30 June 2010 and 2009.

Foreign currency translation

These financial statements are presented in US$, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3. Summary of Significant Accounting Policies *(continued)*

Foreign currency translation *(continued)*

The functional currency of the subsidiaries incorporated in the PRC (except for Hong Kong) is Renminbi ("RMB"), and those of the subsidiaries incorporated in Hong Kong and UK are Hong Kong Dollar and sterling, respectively (the subsidiaries with a functional currency other than US$ are collectively referred to as the "Foreign Subsidiaries"). As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into US$ at the weighted average exchange rates for the period. The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve, a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated cash flow statement, the cash flows of Foreign Subsidiaries are translated into US$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of Foreign Subsidiaries which arise throughout the period are translated into US$ at the weighted average exchange rates for the period.

4. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Corporate income taxes

Significant management judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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4. Significant Accounting Judgements and Estimates *(continued)*

Estimation uncertainty *(continued)*

Recognition of a deferred tax liability for withholding taxes

The PRC New Corporate Income Tax Law, which became effective on 1 January 2008, states that the distribution of dividends by a foreign-invested enterprise established in Mainland China to its foreign investors, from its earnings after 31 December 2007, shall be subject to withholding corporate income taxes at a rate of 10%. The Group carefully evaluates the necessity of dividend distribution of its PRC subsidiaries out of profit earned after 31 December 2007 and makes decisions on such dividend distribution based on the senior management's judgement. Details are set out in note 8 to the consolidated financial statements.

Development costs

Development costs are capitalised in accordance with IAS 38. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets and the expected period of benefits.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of non-financial assets other than goodwill

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing (i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (iii) the appropriate key assumption to be applied in preparing cash flow projection including whether these cash flow injections are discounted using appropriate rates. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test significantly.

Impairment provision of trade and other receivables

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Recognition of share-based compensation costs

As further disclosed in note 28, the Company has granted share options to its employees. The directors have used the BS Model or Binomial option pricing model, where appropriate, to determine the total fair value of the options granted, which is expensed over the vesting period. Significant estimates, such as the risk-free rate, dividend yield, expected volatility and expected life of options, are required to be made by the directors as the parameters for applying the option pricing model. The Company engaged Jones Lang LaSalle Sallmanns ("Sallmanns"), an independent appraiser, to perform an appraisal of the fair value of the Company's share options granted during the six months ended 30 June 2010.

4. Significant Accounting Judgements and Estimates *(continued)*

Estimation uncertainty *(continued)*

Recognition of share-based compensation costs (continued)

The grant of equity instruments might be conditional upon satisfying specified vesting conditions, mainly including the service period. Significant management judgement is required to take into account the vesting conditions and adjust the number of equity instruments included in the measurement of share-based compensation costs. Determining the number of equity instruments that eventually vest requires management to make assumptions regarding the profit forecast and likelihood of successful initial public offering, and hence they are subject to uncertainty.

Useful lives of intangible assets

The Group determines the estimated useful lives for its intangible assets based on their best estimate on the expected future cash flows from the assets. The useful lives of the Group's trademarks were estimated to be indefinite. Intangible assets with indefinite useful lives are tested for impairment at least annually and at other times when such an indication exists. For details, please refer to notes 14 and 16.

5. Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) Lamp products segment produces a range of light bulbs and tubes for compact fluorescent lamps, high density discharge ("HID") lamps, fluorescent lamps, halogen lamps and light emitting diode ("LED") lamps;

(b) Luminaire products segment produces complete lighting units each of which consists of a lighting fixture, a lamp, an outer shell for lamp alignment and protection, and a lighting electronic appliance; and

(c) Lighting electronic products segment produces transformers, electronic and inductive ballasts for fluorescent and HID lamps, and HID ballast boxes.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on gross profit of reportable segments, which is a measure of normal gross profit without adjustments.

Segment assets exclude the Group's investment in an associate, deferred tax assets, cash and short-term deposits and other unallocated head office and corporate assets as these assets are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments, goodwill, intangible assets (other than goodwill), an investment in an associate and long-term deferred expenditure.

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5. Operating Segment Information *(continued)*

	Six months ended 30 June 2010				
	Lamp products US$'000	Luminaire products US$'000	Lighting electronic products US$'000	Eliminations US$'000	Consolidated US$'000
Revenue:					
Revenue from external customers	78,030	99,073	26,931	–	204,034
Intersegment	3,020	–	1,078	(4,098)	–
Total revenue	81,050	99,073	28,009	(4,098)	204,034
Results	21,033	29,873	5,142	–	56,048
Elimination of intersegment profit	(618)	–	(53)	–	(671)
Results derived from external customers	20,415	29,873	5,089	–	55,377
Interest income					238
Unallocated income:					
Government grants					840
Trademark licence fees					1,254
Distribution commission					2,567
Rental income					181
Others					694
					5,536
Unallocated expenses:					
Advertising and promotion expenses					(6,296)
Freight					(3,828)
Loss on disposal of property, plant and equipment					(418)
Donations					(75)
Exchange loss, net					(230)
Research and development expense					(2,174)
Staff costs					(5,654)
Listing expenses					(1,844)
Amortisation and depreciation					(2,585)
Equity-settled share option expense					(255)
Other unallocated head office and corporate expenses					(5,758)
					(29,117)
Finance costs					(1,939)
Share of profit of an associate					2
Profit before tax					30,097
Income tax expense					(3,002)
Profit for the period					27,095

5. Operating Segment Information *(continued)*

	Six months ended 30 June 2010				
	Lamp products US$'000	Luminaire products US$'000	Lighting electronic products US$'000	Eliminations US$'000	Consolidated US$'000
Assets	174,192	123,372	35,004	(27,460)	305,108
Unallocated assets:					
Investment in an associate					542
Deferred tax assets					1,641
Other receivables					13,093
Cash and short-term deposits					238,352
Other corporate assets including property, plant and equipment and intangible assets					21,494
Total assets					580,230
Capital expenditure	6,559	3,686	455	–	10,700
Unallocated capital expenditure associated with head office and corporate assets					2,720
Total expenditure					13,420
Bad debt provision/(reversal of bad debt provision)	397	(110)	(321)	–	(34)
Unallocated reversal of bad debt provision associated with head office and corporate assets					(147)
Total bad debt provision					(181)
Inventory provision	461	987	279	–	1,727
Depreciation and amortisation	1,621	1,590	205	–	3,416
Unallocated depreciation and amortisation associated with head office and corporate assets					2,627
Total depreciation and amortisation					6,043

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5. Operating Segment Information *(continued)*

	Six months ended 30 June 2009 (Unaudited)				
	Lamp products US$'000	Luminaire products US$'000	Lighting electronic products US$'000	Eliminations US$'000	Consolidated US$'000
Revenue:					
Revenue from external customers	44,014	52,673	13,093	–	109,780
Intersegment	920	–	400	(1,320)	–
Total revenue	44,934	52,673	13,493	(1,320)	109,780
Results	11,180	14,084	2,854	–	28,118
Elimination of intersegment profit	(245)	–	(4)	–	(249)
Results derived from external customers	10,935	14,084	2,850	–	27,869
Interest income					442
Unallocated income:					
Government grants					1,126
Trademark licence fees					771
Distribution commission					712
Rental income					220
Exchange gain, net					45
Others					468
					3,342
Unallocated expenses:					
Advertising and promotion expenses					(2,289)
Freight					(2,217)
Fair value loss of derivative component of preference shares					(16,540)
Loss on disposal of property, plant and equipment					(22)
Donations					(31)
Research and development expense					(1,579)
Staff costs					(4,770)
Amortisation and depreciation					(2,444)
Equity-settled share option expense					(37)
Other unallocated head office and corporate expenses					(4,135)
					(34,064)
Finance costs					(4,311)
Share of profit of associates					16
Loss before tax					(6,706)
Income tax expense					(1,495)
Loss for the period					(8,201)

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5. Operating Segment Information *(continued)*

	Six months ended 30 June 2009 (Unaudited)				
	Lamp products US$'000	Luminaire products US$'000	Lighting electronic products US$'000	Eliminations US$'000	Consolidated US$'000
Capital expenditure	985	7,054	2,559	–	10,598
Unallocated capital expenditure associated with head office and corporate assets					2,554
Total expenditure					13,152
Bad debt provision	46	278	369	–	693
Unallocated bad debt provision associated with head office and corporate assets					214
Total bad debt provision					907
Inventory provision	202	633	164	–	999
Depreciation and amortisation	1,387	800	180	–	2,367
Unallocated depreciation and amortisation associated with head office and corporate assets					2,454
Total depreciation and amortisation					4,821

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5. Operating Segment Information *(continued)*

	31 December 2009				
	Lamp products US$'000	Luminaire products US$'000	Lighting electronic products US$'000	Eliminations US$'000	Consolidated US$'000
Assets	125,300	145,825	23,530	(13,301)	281,354
Unallocated assets:					
Investment in an associate					540
Deferred tax assets					1,329
Other receivables					6,858
Cash and short-term deposits					47,292
Other corporate assets including property, plant and equipment and intangible assets					18,341
Total assets					355,714

Geographical information

	Mainland China US$'000	**Overseas** US$'000	**Consolidated** US$'000
Revenue:			
Revenue for the six months ended 30 June 2010			
– Sales to external customers	152,711	51,323	204,034
Revenue for the six months ended 30 June 2009			
– Sales to external customers (Unaudited)	85,757	24,023	109,780
Non-current assets*:			
Non-current assets as at 30 June 2010	173,978	249	174,227
Non-current assets as at 31 December 2009	166,550	268	166,818

* *Non-current assets for this purpose consist of property, plant and equipment, prepaid land lease payments, goodwill, intangible assets (other than goodwill), an investment in an associate and long-term deferred expenditure.*

Information about major customers

There was no single customer to whom the Group's sales amounted to 10% or more of the Group's revenue for the six months ended 30 June 2010 and 2009.

6. Revenue

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

7. Other Income and Expenses

7.1 The following items were included in the consolidated income statement:

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
		(Unaudited)
Cost of inventories recognised as an expense	**122,110**	64,552
Depreciation*	**4,147**	3,094
Amortisation of intangible assets*	**1,648**	1,535
Inventory provision	**1,727**	999
Minimum lease payments*	**864**	674
Amortisation of prepaid land lease payments	**194**	168
Amortisation of long-term deferred expenses	**5**	5
Auditors' remuneration	**298**	37
(Reversal of bad debt provision)/bad debt provision for trade and other receivables	**(181)**	907
Listing expenses	**1,844**	–
*Included in cost of sales:		
Depreciation	**2,743**	1,792
Amortisation of intangible assets	**418**	335
Minimum lease payments	**342**	170

Notes to Consolidated Financial Statements

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7. Other Income and Expenses *(continued)*

7.2 Other income and gains

		Six months ended 30 June	
		2010	2009
	Notes	**US$'000**	US$'000
			(Unaudited)
Government grants	*(a)*	**840**	1,126
Trademark licence fees	*(b)*	**1,254**	771
Distribution commission	*(b)*	**2,567**	712
Rental income		**181**	220
Exchange gain, net		**–**	45
Others		**694**	468
		5,536	3,342

Notes:

(a) The amount mainly represented subsidies granted to the Group's PRC subsidiaries by local governments as incentives for sales, technology research and development and recruitment of local workers, as well as financial support for the expansion of production capacity of energy-saving lamps, and a subsidy for the acquisition of land use rights in connection with plant relocation. Government grants associated with asset acquisitions are recognised as deferred income in the balance sheet and amortised over the estimated useful lives of the associated assets (note 25).

(b) The Group licensed the "NVC" trademark to its related companies at the consideration of 3% of the related companies' sales and charged the related companies distribution commission for their products sold through the Group's distribution network at the consideration of 6% to 8% of the relevant sales. Details of the related party transactions are set out in note 31.

7. Other Income and Expenses *(continued)*

7.3 Other expenses

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
		(Unaudited)
Loss on disposal of property, plant and equipment	**418**	22
Donation	**75**	31
Exchange loss, net	**230**	–
Others	**5**	12
	728	65

7.4 Finance income

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
		(Unaudited)
Interest income from bank deposits	**168**	294
Interest income on loans and receivables	**–**	139
Other interest income	**70**	9
	238	442

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7. Other Income and Expenses *(continued)*

7.5 Finance costs

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
		(Unaudited)
Interest expense on convertible redeemable preference shares	**1,315**	3,881
Bank loan interest	**624**	430
	1,939	4,311

7.6 Net fair value loss on convertible redeemable preference shares

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
		(Unaudited)
Fair value loss of embedded derivatives of Series A-1/Series B preference shares, net	**–**	16,540

The amount for the six months ended 30 June 2009 represented the fair value loss arising from embedded derivatives of Series A-1/Series B preference shares (note 24). The fair value as at 30 June 2009 was determined by Sallmanns.

On 31 December 2009, the terms of the preference shares were modified, and the conversion features previously recognised as derivatives were accounted for as equity as at 31 December 2009. Accordingly, no derivative existed as at 30 June 2010. As further disclosed in notes 24 and 26, the Series A-1/Series B preference shares were converted into ordinary shares on 20 May 2010.

7. Other Income and Expenses *(continued)*

7.7 Employee benefit expenses (including directors' remuneration)

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
		(Unaudited)
Wages and salaries	**18,951**	12,925
Social insurance and welfare expenses	**2,774**	2,400
Equity-settled share option expense	**255**	37
	21,980	15,362

7.8 Research and development costs

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
		(Unaudited)
Deferred expenditure amortised*	**961**	875
Current period expenditure	**2,174**	1,579
	3,135	2,454

* *The amortisation was included in the amortisation of patents (note 14), and was resulted from the Group's research and development activities.*

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8. Income Tax Expense

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
		(Unaudited)
Current income tax:		
– PRC enterprise income tax	**3,598**	1,859
Deferred income tax:		
– Relating to origination and reversal of temporary differences	**(596)**	(364)
	3,002	1,495

The Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies within the Group are domiciled and operate. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the six months ended 30 June 2010 (six months ended 30 June 2009: Nil (Unaudited)). No provision for the UK corporation income tax has been made as UK NVC suffered tax losses during the six months ended 30 June 2010 and 2009.

The Company's subsidiaries located in Mainland China are subject to enterprise income tax ("EIT") at the statutory tax rate of 25%.

Pursuant to the then effective PRC income tax laws and regulations, foreign-invested enterprises that were engaged in manufacturing activities with an operation period of over 10 years were eligible to apply for a two-year EIT exemption followed by a three-year 50% EIT reduction holiday. In accordance with the approval from the relevant tax authorities, the Group's PRC subsidiaries including Huizhou NVC, Chongqing NVC, Jiangshan Phoebus, Zhangpu Phoebus and Shanghai Arcata enjoyed the above tax holiday starting from 2006, 2007, 2007, 2007 and 2008, respectively. In addition, Chongqing NVC, a subsidiary located in the west of China, was recognised as a western development enterprise and enjoyed a lower tax rate of 7.5% in 2009 and 2010 according to the approval issued by the local tax authority in 2009. Sunny, another PRC subsidiary was recognised as a high-tech enterprise by the PRC tax authority in 2008 with an effective period of three years from 2008 to 2010 and was entitled to a 15% enterprise income tax rate for the six months ended 30 June 2009 and 2010. A summary of the applicable tax rates for the Group's PRC subsidiaries is set out below:

	2010	2009
Huizhou NVC	**12.5%**	12.5%
Chongqing NVC	**7.5%**	7.5%
Zhejiang NVC	**25%**	25%
Jiangshan Phoebus	**12.5%**	12.5%
Zhangpu Phoebus	**12.5%**	12.5%
Sunny	**15%**	15%
Shanghai Arcata	**12.5%**	EIT exemption

8. Income Tax Expense *(continued)*

The reconciliation between tax expense and the product of accounting profit/(loss) multiplied by the Group's applicable tax rates is as follows:

Six months ended 30 June 2010

	Mainland China US$'000	Others US$'000	Total US$'000
Accounting profit/(loss) before income tax	**34,631**	**(4,534)**	**30,097**
At the statutory income tax rate (Mainland China: 25%; the UK: 28%)	**8,658**	**(142)**	**8,516**
Lower tax rates enacted by local authority	**(3,579)**	**–**	**(3,579)**
Tax exemption	**(1,991)**	**–**	**(1,991)**
Income not subject to tax	**(51)**	**–**	**(51)**
Expenses not deductible for tax	**120**	**–**	**120**
Tax losses not recognised	**–**	**142**	**142**
Others	**(155)**	**–**	**(155)**
Income tax expense for the period	**3,002**	**–**	**3,002**

Six months ended 30 June 2009
(Unaudited)

	Mainland China US$'000	Others US$'000	Total US$'000
Accounting profit/(loss) before income tax	14,600	(21,306)	(6,706)
At the statutory income tax rate (Mainland China: 25%; the UK: 28%)	3,650	(207)	3,443
Lower tax rates enacted by local authority	(1,765)	–	(1,765)
Tax exemption	(526)	–	(526)
Expenses not deductible for tax	109	–	109
Tax losses not recognised	27	207	234
Income tax expense for the period	1,495	–	1,495

The balance of unused tax losses for which no deferred tax assets were recognised was US$3,178,000 as at 30 June 2010 (31 December 2009: US$2,672,000).

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30 June 2010

8. Income Tax Expense *(continued)*

Deferred tax assets

Movements in deferred tax assets are as follows:

	Inventory and doubtful debt provision US$'000	Fair value adjustments arising from business combinations US$'000	Government grants US$'000	Depreciation US$'000	Others US$'000	Total US$'000
At 1 January 2010	455	549	187	137	1	1,329
Deferred tax credited/ (charged) to the income statement during the period	239	(58)	20	77	24	302
Exchange realignment	4	4	1	1	–	10
Deferred tax assets at 30 June 2010	698	495	208	215	25	1,641
Deferred tax assets at 31 December 2009	455	549	187	137	1	1,329

	Inventory and doubtful debt provision US$'000	Fair value adjustments arising from business combinations US$'000	Government grants US$'000	Depreciation US$'000	Others US$'000	Total US$'000
At 1 January 2009	253	–	208	82	–	543
From a business combination *(note 29)*	–	537	–	–	–	537
Deferred tax credited/ (charged) to the income statement during the period	155	(40)	(11)	(12)	–	92
Deferred tax assets at 30 June 2009 (Unaudited)	408	497	197	70	–	1,172

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8. Income Tax Expense *(continued)*

Deferred tax liabilities

Movements in deferred tax liabilities are as follows:

	Fair value adjustments arising from business combinations US$'000	Total US$'000
At 1 January 2010	15,157	15,157
Deferred tax credited to the income statement during the period	(294)	(294)
Exchange realignment	89	89
Deferred tax liabilities at 30 June 2010	14,952	14,952
Deferred tax liabilities at 31 December 2009	15,157	15,157

	Fair value adjustments arising from business combinations US$'000	Total US$'000
At 1 January 2009	15,230	15,230
From a business combination *(note 29)*	471	471
Deferred tax credited to the income statement during the period	(272)	(272)
Exchange realignment	6	6
Deferred tax liabilities at 30 June 2009 (Unaudited)	15,435	15,435

The PRC New Corporate Income Tax Law, which became effective on 1 January 2008, states that the distribution of dividends by a foreign-invested enterprise established in Mainland China to its foreign investors, from earnings generated in 2008 or thereafter, shall be subject to withholding enterprise income tax at a rate of 10%.

At 30 June 2010, there were no recognised deferred tax liabilities (31 December 2009: Nil) for taxes that would be payable on the undistributed earnings of the Group's subsidiaries located in Mainland China, as the Group estimated that the undistributed profit of its subsidiaries located in Mainland China earned from 1 January 2008 to 30 June 2010 will not be distributed in the foreseeable future. The cumulative temporary differences for which a deferred tax liability has not been recognised amounted to US$93,968,000 as at 30 June 2010 (31 December 2009: US$66,616,000), and the maximum potential cumulative tax impact as at 30 June 2010 was US$9,317,000 (31 December 2009: US$6,625,000), should the Company's subsidiaries located in Mainland China distribute all earnings generated after 31 December 2007 to the foreign investors.

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9. Earnings/(Loss) Per Share Attributable to Ordinary Equity Holders of the Company

The calculation of the basic earnings/(loss) per share amount is based on the profit/(loss) attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the six months ended 30 June 2010 and 2009. The profit/(loss) attributable to ordinary equity holders of the Company is the profit/(loss) attributable to owners of the Company less the profit/(loss) attributable to holders of preference shares of the Company, as each holder of preference shares was entitled to any dividends paid by the Company pro rata (on an as-converted basis) with the ordinary shares, as further disclosed in note 24 (c).

On 20 May 2010, the Company subdivided each ordinary share into 1,000 ordinary shares (note 26 (a)). The sub-division was retrospectively applied to the comparative shares existing as at 1 January 2009.

The calculation of diluted earnings/(loss) per share is based on the profit/(loss) attributable to ordinary equity holders of the Company, adjusted to reflect the interest expense on the Series A-1/Series B preference shares, fair value gain or loss of embedded derivatives of the Series A-1/Series B preference shares, and the profit/(loss) attributable to the holders of the Series A-1/Series A-2/Series B preference shares of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the six months ended 30 June 2010 and 2009, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of share options or conversion of all dilutive potential ordinary shares into ordinary shares.

	Six months ended 30 June	
	2010	2009
	US cents	US cents
		(Unaudited)
Earnings/(loss) per share		
– Basic	**1.1**	(0.4)
– Diluted	**1.0**	(0.4)*

* *No adjustment has been made to the basic loss per share amount presented for the six months ended 30 June 2009 in respect of a dilution as the impact of the share options and convertible preference shares outstanding had an anti-dilutive effect on the basic loss per share amount presented.*

9. Earnings/(Loss) Per Share Attributable to Ordinary Equity Holders of the Company *(continued)*

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
		(Unaudited)
Profit/(loss) attributable to owners of the Company	**25,934**	(8,590)
Less: profit/(loss) attributable to holders of Series A-1/Series A-2/Series B preference share	**7,504**	(3,447)
Profit/(loss) attributable to ordinary equity holders of the Company used in the basic earnings/(loss) per share calculation	**18,430**	(5,143)

	Six months ended 30 June	
	2010	2009
	'000	'000
		(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	**1,689,403**	1,326,930
Effect of dilution – weighted average number of ordinary shares:		
Share options	**159,550**	–
	1,848,953	1,326,930

Because the diluted earnings per share amount is increased or the diluted loss per share amount is decreased when taking Series A-1/Series A-2/Series B convertible preference shares into account, the convertible preference shares had an anti-dilutive effect on the basic earnings per share for the six months ended 30 June 2010 and the basic loss per share for the six months ended 30 June 2009. Hence, the Series A-1/Series A-2/Series B convertible preference shares were ignored in the calculation of diluted earnings per share for the six months ended 30 June 2010 or diluted loss per share for the six months ended 30 June 2009.

In addition, because the diluted loss per share amount is decreased when taking the share options into account, the outstanding share options had an anti-dilutive effect on the basic loss per share for the six months ended 30 June 2009. Hence, the share options were ignored in the calculation of diluted loss per share for the six months ended 30 June 2009.

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10. Dividend

No dividend was proposed or declared for the six months ended 30 June 2010 (2009: Nil).

On 24 August 2010, the board of directors passed a resolution to declare an interim dividend of 2 HK cents (equivalent to 0.257 US cents) per share for the six months ended 30 June 2010 which is payable to members whose names appear on the Register of Members as at 24 September 2010.

11. Property, Plant and Equipment

	Buildings US$'000	Leasehold improvements US$'000	Plant, machinery and equipment US$'000	Furniture and fixtures US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
Cost:							
At 1 January 2010	35,166	3,749	32,397	4,785	1,487	669	78,253
Additions	1,316	42	4,543	179	1,074	6,199	13,353
Transfers in/(out)	–	–	607	–	–	(607)	–
Disposals	–	–	(840)	(169)	(8)	–	(1,017)
Exchange realignment	255	21	105	25	28	28	462
At 30 June 2010	36,737	3,812	36,812	4,820	2,581	6,289	91,051
Accumulated depreciation:							
At 1 January 2010	2,877	389	5,149	1,665	349	–	10,429
Depreciation charge for the period	749	417	2,539	229	262	–	4,196
Disposals	–	–	(274)	(44)	(2)	–	(320)
Exchange realignment	16	5	33	11	3	–	68
At 30 June 2010	3,642	811	7,447	1,861	612	–	14,373
Net book value:							
At 30 June 2010	33,095	3,001	29,365	2,959	1,969	6,289	76,678

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11. Property, Plant and Equipment *(continued)*

	Buildings US$'000	Leasehold improvements US$'000	Plant, machinery and equipment US$'000	Furniture and fixtures US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
Cost:							
At 1 January 2009	34,804	384	21,193	1,982	1,171	717	60,251
From a business combination *(note 29)*	7	312	3,247	1,566	25	14	5,171
Additions	25	58	2,112	308	195	694	3,392
Transfers in/(out)	18	–	435	9	–	(462)	–
Disposals	–	–	(371)	(5)	(110)	–	(486)
Exchange realignment	140	–	113	–	1	–	254
At 30 June 2009 (Unaudited)	34,994	754	26,729	3,860	1,282	963	68,582
Accumulated depreciation:							
At 1 January 2009	1,398	42	1,908	531	214	–	4,093
Depreciation charge for the period	780	114	1,859	229	131	–	3,113
Disposals	–	–	(150)	–	(100)	–	(250)
Exchange realignment	2	–	2	(1)	(1)	–	2
At 30 June 2009 (Unaudited)	2,180	156	3,619	759	244	–	6,958
Net book value:							
At 30 June 2009 (Unaudited)	32,814	598	23,110	3,101	1,038	963	61,624

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11. Property, Plant and Equipment *(continued)*

	Buildings US$'000	Leasehold improvements US$'000	Plant, machinery and equipment US$'000	Furniture and fixtures US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
At 30 June 2010							
Cost	**36,737**	**3,812**	**36,812**	**4,820**	**2,581**	**6,289**	**91,051**
Accumulated depreciation	**3,642**	**811**	**7,447**	**1,861**	**612**	**–**	**14,373**
Net book value	**33,095**	**3,001**	**29,365**	**2,959**	**1,969**	**6,289**	**76,678**
At 31 December 2009							
Cost	35,166	3,749	32,397	4,785	1,487	669	78,253
Accumulated depreciation	2,877	389	5,149	1,665	349	–	10,429
Net book value	32,289	3,360	27,248	3,120	1,138	669	67,824

At 30 June 2010, certain buildings with an aggregate carrying amount of US$10,597,000 are pledged to secure general banking facilities granted to the Company's subsidiaries (31 December 2009: US$10,717,000).

Due to changes in urban planning and design, the Group has been required to relocate its production centre in Jiangshan City to another site in Jiangshan City designated by the local government (the "Relocation"). The Group entered into relocation and compensation agreements with the local government in September 2009, pursuant to which the local government agreed to pay the Group a total amount of RMB123 million (equivalent to US$18 million) to compensate for the Relocation. Such compensation was calculated based on a local independent land and property valuation report and local policies in Jiangshan City. The Relocation shall be completed by 30 September 2010, as agreed by the Group and the local government. Upon the completion of the Relocation, the existing land use rights and buildings of the Group's production centre in Jiangshan City shall be transferred to the local government. At 30 June 2010, the carrying amounts of the relevant land use rights and buildings were US$2,675,000 (note 12) and US$9,640,000, respectively.

12. Prepaid Land Lease Payments

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
		(Unaudited)
Carrying amount at 1 January	**11,570**	9,112
Amortisation recognised as expense during the period	**(194)**	(168)
Exchange realignment	**51**	43
Carrying amount at 30 June	**11,427**	8,987

The balance represented the prepayments for the user rights of land leased from the PRC government with lease terms ranging from 43 to 50 years and land use right certificates with expiry dates ranging from 2049 to 2060. The lease terms of certain land use rights are longer than the operating periods as approved in the business licences of the subsidiaries of the Company which had the land use rights with expiry dates ranging from 2026 to 2054. The Company intends to extend the operating periods of these subsidiaries to at least the expiry dates of related land use right certificates upon expiration of their existing business licences. Therefore, the prepaid land lease payments were amortised over the lease terms as stated on the land use right certificates.

At 30 June 2010, land use rights with an aggregate carrying amount of US$1,480,000 are pledged to secure general banking facilities granted to the Group (31 December 2009: US$1,489,000).

As mentioned in note 11 above, the land use rights with a carrying amount of US$2,675,000 shall be transferred to the local government of Jiangshan City upon the completion of the Relocation.

13. Goodwill

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
		(Unaudited)
At 1 January	**33,896**	30,799
From the business combination with Shanghai Arcata *(note 29 (a))*	**–**	1,074
From the business combination with Chongqing Lianxin Lighting Co., Ltd. ("Chongqing Lianxin") *(note 29 (b))*	**–**	1,610
From the business combination with Huizhou Huixin Hardware Co., Ltd. ("Huizhou Huixin") *(note 29 (c))*	**–**	97
Exchange realignment	**32**	(2)
At 30 June	**33,928**	33,578

As at 30 June 2010, the goodwill was tested for impairment (note 16) and no impairment provision was considered necessary.

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14. Intangible Assets

	Computer software US$'000	Customer relationships US$'000	Trademarks US$'000	Patents US$'000	Total US$'000
Cost:					
At 1 January 2010	**692**	**5,461**	**39,542**	**11,334**	**57,029**
Additions	**67**	**–**	**–**	**–**	**67**
Exchange realignment	**6**	**8**	**217**	**27**	**258**
At 30 June 2010	**765**	**5,469**	**39,759**	**11,361**	**57,354**
Amortisation:					
At 1 January 2010	**243**	**1,716**	**–**	**2,154**	**4,113**
Amortisation	**44**	**514**	**–**	**1,090**	**1,648**
Exchange realignment	**3**	**2**	**–**	**3**	**8**
At 30 June 2010	**290**	**2,232**	**–**	**3,247**	**5,769**
Net book value:					
At 30 June 2010	**475**	**3,237**	**39,759**	**8,114**	**51,585**
Cost:					
At 1 January 2009	584	5,461	39,505	8,747	54,297
From a business combination *(note 29)*	–	–	–	1,770	1,770
Additions	38	–	–	–	38
Exchange realignment	2	–	20	–	22
At 30 June 2009 (Unaudited)	624	5,461	39,525	10,517	56,127
Accumulated amortisation:					
At 1 January 2009	162	692	–	156	1,010
Amortisation	41	512	–	982	1,535
At 30 June 2009 (Unaudited)	203	1,204	–	1,138	2,545
Net book value:					
At 30 June 2009 (Unaudited)	421	4,257	39,525	9,379	53,582

14. Intangible Assets *(continued)*

	Computer software US$'000	Customer relationships US$'000	Trademarks US$'000	Patents US$'000	Total US$'000
At 30 June 2010					
Cost	**765**	**5,469**	**39,759**	**11,361**	**57,354**
Accumulated amortisation	**290**	**2,232**	**–**	**3,247**	**5,769**
Net carrying amount	**475**	**3,237**	**39,759**	**8,114**	**51,585**
At 31 December 2009					
Cost	692	5,461	39,542	11,334	57,029
Accumulated amortisation	243	1,716	–	2,154	4,113
Net carrying amount	449	3,745	39,542	9,180	52,916

The useful lives of trademarks were estimated by senior management to be indefinite as the trademarks are renewable at insignificant cost. The trademarks were tested for impairment on 30 June 2010 and 31 December 2009 (note 16), and no impairment provision was recorded.

There was no impairment provision for intangible assets as at 30 June 2010 (31 December 2009: Nil).

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15. Investment in an Associate

The Group had a 35% equity interest in Mianyang Leici Electronic Technology Co., Ltd. ("Leici") as at 30 June 2010 and 31 December 2009. Leici was established in the PRC where it operates. Leici is a private entity which is not listed on any public exchange and manufactures lighting electronic products.

As disclosed in note 29, the Group acquired a 26% equity interest in Shanghai Arcata on 7 November 2008 and further acquired control of Shanghai Arcata on 20 February 2009. Shanghai Arcata was accounted for as an associate before 20 February 2009 and a subsidiary beginning on 21 February 2009.

The following table illustrates the summarised financial information of the Group's investment in its associates:

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
		(Unaudited)
Share of associates' revenue and profit:		
Revenue	**1,264**	990
Profit	**2**	16

	30 June 2010 US$'000	31 December 2009 US$'000
Share of an associate's assets and liabilities:		
Current assets	**1,493**	1,546
Non-current assets	**750**	214
Current liabilities	**(1,493)**	(964)
Non-current liabilities	**(208)**	(256)
Net assets	**542**	540
Carrying amount of an investment in an associate	**542**	540

16. Impairment Testing of Goodwill and Intangibles with Indefinite Lives

Impairment testing of goodwill

Goodwill acquired through the business combination with the WIL Subgroup has been allocated to the following cash-generating unit for impairment testing:

Lamp products cash-generating unit in the WIL Subgroup

The recoverable amount of the cash-generating unit is determined based on a value in use calculation using cash flow projections covering a five-year period approved by senior management. Management adopted a compound annual growth rate ("CAGR") of 15% (31 December 2009: 14%) for the cash flow projection made on 30 June 2010. The future cash flow was discounted to its present value using a discount rate of 18.51% as at 30 June 2010 (31 December 2009: 19.11%). The cash flow beyond the five-year period was extrapolated using a growth rate of 2%, which is the same as the long-term average growth rate of the lighting industry. As at 30 June 2010, the value in use of the cash-generating unit exceeded its carrying amount, hence the goodwill allocated to this cash-generating unit was regarded as not impaired (31 December 2009: Nil).

Goodwill acquired through the business combination with Shanghai Arcata has been allocated to the following cash-generating unit for impairment testing:

Lighting electronic products cash-generating unit in Shanghai Arcata

The recoverable amount of the cash-generating unit is determined based on a value in use calculation using cash flow projections for the next five years. Management adopted a CAGR of 17% by reference to past experience and external sources of information (31 December 2009: 16%). The future cash flow was discounted to its present value using a discount rate of 17.94% (31 December 2009:18.63%). The cash flow beyond the five-year period was extrapolated using a growth rate of 2%, which is the same as the long-term average growth rate of the lighting industry. As at 30 June 2010, the value in use of the cash-generating unit exceeded its carrying amount, and hence the goodwill allocated to this cash-generating unit was regarded as not impaired (31 December 2009: Nil).

Goodwill acquired through the business combination with Chongqing Lianxin has been allocated to the following cash-generating unit for impairment testing:

Spot luminaires cash-generating unit in Chongqing NVC

The recoverable amount of the cash-generating unit is determined based on a value in use calculation using the cash flow projections for the next five years. Management adopted a CAGR of 8% by reference to past experience and external sources of information (31 December 2009: 9.5%). The future cash flow was discounted to its present value using a discount rate of 18.74% (31 December 2009: 18.91%). The cash flow beyond the five-year period was extrapolated using a growth rate of 2%, which is the same as the long-term average growth rate of the lighting industry. As at 30 June 2010, the value in use of the cash-generating unit exceeded its carrying amount, and hence the goodwill allocated to this cash-generating unit was regarded as not impaired (31 December 2009: Nil).

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16. Impairment Testing of Goodwill and Intangibles with Indefinite Lives *(continued)*

Impairment testing of goodwill *(continued)*

Goodwill acquired through the business combination with Chongqing Tianyi Lighting Electronics Co., Ltd. ("Chongqing Tianyi") has been allocated to the following cash-generating unit for impairment testing:

Decorative fluorescent luminaires cash-generating unit in Chongqing NVC

The recoverable amount of the cash-generating unit is determined on the basis of value in use that was calculated using the cash flow projections for the next five years. Management adopted a CAGR of 9% by reference to past experience and external sources of information (31 December 2009: 9%). The future cash flow was discounted to its present value using a discount rate of 19.10% (31 December 2009: 19.82%). The cash flow beyond the five-year period was extrapolated using a growth rate of 2%, which is the same as the long-term average growth rate of the lighting industry. As at 30 June 2010, the value in use of the cash-generating unit exceeded its carrying amount, and hence the goodwill allocated to this cash-generating unit was regarded as not impaired (31 December 2009: Nil).

Impairment testing of intangible assets with indefinite useful lives

Trademarks with indefinite useful lives have been allocated to the following cash-generating unit for impairment testing:

Lamp and luminaire products cash-generating unit in Huizhou NVC and Chongqing NVC

The recoverable amount of the cash-generating unit is determined on the basis of value in use that was calculated using the cash flow projections for the next five years. Management adopted a CAGR of 17% by reference to past experience and external sources of information (31 December 2009: 17%). The future cash flow was discounted to its present value using a discount rate of 23.0% (31 December 2009: 24.2%). The cash flow beyond the five-year period was extrapolated using a growth rate of 2%, which is the same as the long-term average growth rate of the lighting industry. As at 30 June 2010, the value in use of the cash-generating unit exceeds its carrying amount, and hence the trademark allocated to this cash-generating unit was regarded as not impaired (31 December 2009: Nil).

16. Impairment Testing of Goodwill and Intangibles with Indefinite Lives *(continued)*

Key assumptions used in the value in use calculation

The following describes each key assumption on which management has based its cash flow projections to undertake the above impairment testing:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margin achieved in the year immediately before the budget year, increased for expected efficiency improvement, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Raw materials' price inflation – Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available, otherwise perpetual raw materials' price movements have been used as an indicator of future price movements. The basis used to determine the value assigned to raw materials' price inflation is the forecast prices indices during the budget year for the countries where raw materials are sourced.

Growth rate estimates – Rates are based on published industrial research.

17. Inventories

	30 June 2010 US$'000	31 December 2009 US$'000
Raw materials	**16,104**	13,707
Work in progress	**2,950**	1,297
Finished goods	**38,508**	32,563
Total inventories	**57,562**	47,567

The amount of the write-down of inventories recognised as an expense for the six months ended 30 June 2010 was US$1,727,000 (six months ended 30 June 2009: write-down of US$999,000 (Unaudited)), which was recorded in cost of sales.

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18. Trade and Other Receivables

	Notes	30 June 2010 US$'000	31 December 2009 US$'000
Trade receivables	*(a)*	**92,919**	67,186
Provision		**(1,820)**	(1,858)
		91,099	65,328
Other receivables	*(b)*	**13,339**	20,859
Provision		**(246)**	(392)
		13,093	20,467
		104,192	85,795

Notes:

(a) Trade receivables

Trade receivables of the Group represented proceeds receivable from the sale of goods. The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period generally ranges from 90 to 120 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control management system. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are free of interest.

As at 30 June 2010, trade receivables with an aggregate carrying amount of US$5,253,000 were pledged to secure bank facilities granted to the Group (31 December 2009: US$293,000).

The carrying amounts of trade receivables approximate to their fair values.

18. Trade and Other Receivables *(continued)*

Notes: (continued)

(a) Trade receivables *(continued)*

An ageing analysis of the trade receivables of the Group based on the invoice date as at the end of the reporting period, net of provision, is as follows:

	30 June 2010 US$'000	31 December 2009 US$'000
Within 3 months	**81,153**	59,252
Between 4 and 6 months	**7,199**	4,407
Between 7 and 12 months	**2,182**	1,073
Between 1 and 2 years	**558**	595
Between 2 and 3 years	**7**	1
	91,099	65,328

Movements in the provision for impairment of trade receivables are as follows:

	Six months ended 30 June	
	2010 US$'000	2009 US$'000 (Unaudited)
At 1 January	**1,858**	945
Impairment loss recognised	**415**	797
Unused balance reversed	**(449)**	(104)
Exchange realignment	**(4)**	28
At 30 June	**1,820**	1,666

The above provision for impairment of trade receivables is a provision made for individually impaired trade receivables of US$1,820,000 as at 30 June 2010 (31 December 2009: US$1,858,000), representing full provision for those receivables. The individually impaired trade receivables related to customers that were in unexpected financial difficulties and those receivables are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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18. Trade and Other Receivables *(continued)*

Notes: (continued)

(a) Trade receivables *(continued)*

An ageing analysis of the trade receivables that are not considered to be impaired is as follows:

	30 June 2010 US$'000	31 December 2009 US$'000
Neither past due nor impaired	**81,374**	63,100
Past due but not impaired:		
– Less than 2 months past due	**7,744**	1,107
– 2 to 6 months past due	**965**	883
– 7 to 12 months past due	**451**	135
– Over 1 year past due	**565**	103
	91,099	65,328

Receivables that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers who have good repayment records with the Group. Based on past experience, the directors of the Company are of the opinion that no impairment provision is required in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

18. Trade and Other Receivables *(continued)*

Notes: (continued)

(b) Other receivables

The breakdown of other receivables is as follows:

	Notes	30 June 2010 US$'000	31 December 2009 US$'000
Receivables from third parties	*(i)*	**5,360**	9,777
Amount due from directors	*(ii)*	**–**	4,866
Amounts due from other related parties	*(iii)*	**7,979**	6,216
Provision	*(iv)*	**(246)**	(392)
Net balance		**13,093**	20,467

Notes:

(i) The balance as at 30 June 2010 mainly represented deductible input value-added tax, value-added tax refunds arising from export sales due from local tax authorities, withheld individual income tax for employees, employee borrowings and sundry deposits.

Included in the receivables from third parties as at 31 December 2009 was an aggregate amount of US$5,500,000 due from Mr. Jiang Jianming, Mr. Xu Shuisheng and Mr. Qiao Jianping, who are the original non-controlling shareholders of Sunny before Sunny was acquired by the Group. The amount has been repaid subsequent to 31 December 2009.

(ii) The balance due from a director as at 31 December 2009 was due from Mr. Wu Jiannong, a director of the Company and the substantial shareholder of Signkey, and was acquired upon the acquisition of the WIL Subgroup in 2008.

The balance was subsequently deducted from the outstanding cash consideration payable to Signkey according to the share purchase agreement entered into by the Company, Wu Changjiang, World Through, Signkey, Mr. Wu Jiannong and other shareholders of the Company on 14 August 2008 and a supplemental agreement entered into between the Company and Signkey in February 2010. Hence, amount due from Mr. Wu Jiannong became nil as at 30 June 2010.

The maximum amount receivable from Mr. Wu Jiannong outstanding during the six months ended 30 June 2010 was RMB33,223,000 (equivalent to US$4,892,000) (six months ended 30 June 2009: RMB33,223,000 (equivalent to US$4,861,000) (Unaudited)).

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18. Trade and Other Receivables *(continued)*

Notes: (continued)

(b) Other receivables *(continued)*

(iii) The amounts due from other related parties (defined in note 31) consist of the following:

	30 June 2010 US$'000	31 December 2009 US$'000
Sheng Di Ai Si	4,227	2,841
Huizhou Enlin	1,373	1,123
Changjiang Luminaire	–	668
Shandong NVC	2,264	1,471
Chongqing Enlin	104	57
Jiangshan Youhe	11	–
Quzhou Phoebus	–	56
	7,979	6,216

The amounts due from Sheng Di Ai Si, Huizhou Enlin, Changjiang Luminaire, Shandong NVC and Chongqing Enlin represented trademark licence fees and distribution commission receivable by the Group. The credit terms granted to the above related companies are 90 days.

(iv) Movements in the provision for impairment of other receivables are as follows:

	Six months ended 30 June	
	2010 US$'000	2009 US$'000 (Unaudited)
At 1 January	392	162
Impairment loss recognised	–	221
Unused balance reversed	(147)	(7)
Exchange realignment	1	3
At 30 June	246	379

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18. Trade and Other Receivables *(continued)*

Notes: (continued)

(b) Other receivables *(continued)*

(v) An ageing analysis of the other receivables of the Group based on the transaction date as at the end of the reporting period, net of provisions, is as follows:

	30 June 2010 US$'000	31 December 2009 US$'000
Within 1 year	9,158	5,624
Between 1 and 2 years	1,872	13,200
Over 2 years	2,063	1,643
	13,093	20,467

The ageing analysis of the other receivables that are not considered to be impaired is as follows:

	30 June 2010 US$'000	31 December 2009 US$'000
Neither past due nor impaired	6,789	9,789
Past due but not impaired:		
– Less than 2 months past due	734	–
– 2 to 12 months past due	4,292	5,812
– Over 1 year past due	1,278	4,866
	13,093	20,467

Other receivables that were neither past due nor impaired relate to a number of debtors for whom there was no recent history of default.

The balance of other receivables as at 30 June 2010 was unsecured, interest-free and had no fixed terms of repayment, except for those that were defined by contracts, which are mentioned elsewhere in the financial statements.

The carrying amounts of the other receivables approximate to their fair values.

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19. Prepayments

As at 30 June 2010, there were no (31 December 2009: US$1,010,000) outstanding prepayments to related companies (defined in note 31).

	30 June 2010 US$'000	31 December 2009 US$'000
Chongqing Chidian	**–**	737
Changjiang Luminaire	**–**	235
Zhongshan Qitian	**–**	38
	–	1,010

The balances as at 31 December 2009 were interest-free and unsecured.

20. Cash and Short-Term Deposits

	30 June 2010 US$'000	31 December 2009 US$'000
Cash and bank balances	**141,524**	44,034
Time deposits:		
Non-pledged time deposits	**89,732**	–
Pledged time deposits	**7,096**	3,258
	238,352	47,292
Less:		
Non-pledged time deposits with original maturity of more than three months when acquired	**(64,039)**	–
Pledged time deposits for banking facilities with original maturity of more than three months when acquired	**(6,978)**	(3,258)
Cash and cash equivalents	**167,335**	44,034

Time deposits were made for varying periods of between one and twelve months depending on the immediate cash requirements of the Group, and earned interest at the respective short-term deposit rates. Pledged deposits were made to banks to secure the issuance of bank acceptance notes and banking facilities. Cash at banks and pledged deposits earn interest at floating rates based on the daily bank deposit rate. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

20. Cash and Short-Term Deposits *(continued)*

At 30 June 2010, the cash and bank balances of the Group denominated in RMB amounted to RMB575,530,000 (equivalent to: US$84,750,000) (31 December 2009: RMB268,467,000 (equivalent to: US$39,317,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The carrying amounts of the cash and short-term deposits approximate to their fair values.

21. Trade and Bills Payables

	30 June 2010 US$'000	31 December 2009 US$'000
Trade and bills payables to third parties	**58,956**	48,527
Trade payables to related parties	**3,332**	6,242
	62,288	54,769

Trade payables to related parties (defined in note 31) include the following:

	30 June 2010 US$'000	31 December 2009 US$'000
Quzhou Aushite	**1,322**	4,287
Changxin	**590**	974
World Bright	**300**	329
Huizhou Huanyu	**–**	307
Chongqing Chidian	**1,095**	286
Quzhou Phoebus	**–**	48
Changjiang Luminaire	**–**	11
Sheng Di Ai Si	**25**	–
	3,332	6,242

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21. Trade and Bills Payables *(continued)*

Trade and bills payables are non-interest-bearing and are normally settled on 30-day to 90-day terms. At 30 June 2010, the Group's bills payable of US$353,000 (31 December 2009: US$2,033,000) are secured by certain of the Group's bank balances (note 20). The carrying amounts of the trade and bills payables approximate to their fair values.

An ageing analysis of the trade and bills payables of the Group, based on the invoice date, as at the end of the reporting period is as follows:

	30 June 2010 US$'000	31 December 2009 US$'000
Within 3 months	**60,591**	53,383
Between 4 and 6 months	**1,034**	902
Between 7 and 12 months	**260**	120
Between 1 and 2 years	**277**	261
Between 2 and 3 years	**23**	23
Over 3 years	**103**	80
	62,288	54,769

22. Other Payables and Accruals

	30 June 2010 US$'000	31 December 2009 US$'000
Advances from customers	**2,083**	1,519
Accruals	**7,866**	6,951
Other payables to third parties	**18,399**	18,483
Amounts due to related parties	**712**	14,911
	29,060	41,864

22. Other Payables and Accruals *(continued)*

The amounts due to related parties (defined in note 31) include the following:

	30 June 2010 US$'000	31 December 2009 US$'000
Signkey	**107**	13,136
Jiangshan Youhe	**442**	1,582
Jiangshan Liming	**159**	121
Others	**4**	72
	712	14,911

During the six months ended 30 June 2010, the Company paid US$7,736,000 to Signkey to settle part of the outstanding cash consideration for the acquisition of the WIL Subgroup. The amount due from Mr. Wu Jiannong of RMB33,223,000 (equivalent to US$4,892,000) was deducted from the Company's outstanding cash consideration payable to Signkey, as mentioned in note 18 above. In addition, the Group's loan of US$396,000 due from Ms. Wei Xiaoxian, an independent third party, was deducted from the Company's outstanding consideration payable to Signkey in May 2010, according to an agreement entered into by the Company, Signkey, Sunny and Mr. Wu Jiannong.

Other payables of the Group are unsecured, non-interest-bearing and have no fixed terms of repayment.

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23. Interest-bearing Loans

Current

	Notes	30 June 2010 US$'000	31 December 2009 US$'000
Bank loans – secured	*(a)*	**11,587**	6,093
Bank loans – unsecured	*(b)*	**1,473**	–
		13,060	6,093

Notes:

(a) Included in the secured bank loans was a factoring loan of GBP850,585 (equivalent to US$1,279,000) (31 December 2009: US$235,000) arising from the factoring of trade receivables. The loan carried a floating interest rate based on the London Inter-bank Offered Rate ("LIBOR") plus 1.6% (31 December 2009: LIBOR plus 1.6%). The loan was repayable upon the collection of the factored trade receivables.

Other secured bank loans as at 30 June 2010 included RMB-denominated loans of RMB20 million (equivalent to US$2,945,000) at a contractual rate of 4.617% per annum, RMB30 million (equivalent to US$4,418,000) at a contractual rate of 4.799% per annum and RMB20 million (equivalent to US$2,945,000) at a contractual rate of 5.045% per annum. These loans were secured by certain of the Group's buildings (note 11) and land use rights (note 12). The loans mature in September and December 2010.

(b) The contractual interest rate of the unsecured bank loan of RMB10 million (equivalent to US$1,473,000) is 4.779%. The loan matured in August 2010.

The loan balance of US$6,093,000 as at 31 December 2009 was repayable in the year 2010 and carried interest rates ranging from 4.37% to 4.78% per annum.

Non-current

The non-current portion as at 31 December 2009 represented a long-term unsecured loan amounting to RMB2 million (equivalent to US$293,000) borrowed from the local government of Jiangshan City. The loan was fully settled during the six months ended 30 June 2010, and accordingly there was no balance as at 30 June 2010.

24. Convertible Redeemable Preference Shares

On 1 August 2006, the Company issued 505,051 and 50,505 Series A-1 preference shares with a par value of US$0.0001 each to SAIF and SAIF Venture Capital Investment Growth Fund, respectively, for an aggregate consideration of US$22,000,000. On 25 October 2007, SAIF Venture Capital Investment Growth Fund transferred 50,505 Series A-1 preference shares to SAIF.

On 27 August 2008, 97,125 Series A-2 preference shares were issued to SAIF. On the same date, the Company issued 208,157 and 28,471 Series B preference shares with a par value of US$0.0001 each to GS Director L.L.C ("GS") and SAIF, respectively, for a consideration of US$36,555,556 and US$5,000,000, respectively.

On 20 May 2010, all Series A-1/Series A-2/Series B preference shares were converted into ordinary shares upon the Company's listing on the Main Board of the Hong Kong Stock Exchange.

Prior to the conversion into ordinary shares, the major terms of the preference shares effective during the six months ended 30 June 2010 were as follows:

(a) Redemption

The Series A-1/Series B preference shares were redeemable at the option of the holders starting from 1 August 2011 if the Company had not completed a qualified IPO by then. The original redemption price is 100% of the original issue price, plus an amount that will yield, in respect of the period from 1 August 2006 to and including the date of completion of such redemption and taking into account any dividends and other payments received by the holders thereof in respect of such Series A-1/Series B preference shares, an annual compounded rate of return of 10% to such holders on its investment in such Series A-1/Series B preference shares.

Pursuant to a waiver letter entered into by the Company, SAIF and GS on 31 December 2009 (the "Waiver Letter"), the holders of the Series A-1/Series B preference shares agreed to change the redemption price to 100% of the Series A-1/Series B issue price.

Series A-2 preference shares were not redeemable.

(b) Conversion

The Series A/Series B preference shares were convertible at the option of the holders into ordinary shares. The initial conversion ratio was 1:1, subject to adjustment.

Without any action being required by the holders of such shares, each Series A/Series B preference share shall automatically be converted, without the payment of any additional consideration, into one ordinary share upon the earlier of (i) the closing of the Group's qualified IPO, (ii) the vote on written consent of holders of more than two-thirds of the then outstanding Series A/Series B preference shares, or (iii) the occurrence of the transfer the Series A/Series B preference shares to the Group's competitors.

Pursuant to the Waiver Letter dated 31 December 2009, SAIF and GS agreed to waive their respective entitlement to adjustment with respect to the Series A/Series B applicable conversion price and conversion ratio.

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24. Convertible Redeemable Preference Shares *(continued)*

(c) Dividends

Each holder of the Series A/Series B preference shares was entitled to any dividends paid by the Company pro rata (on an as-converted basis) with the ordinary shares.

According to the Amended and Restated Shareholders Agreement entered into on 9 May 2008 by the Company, Mr. Wu Changjiang, GS, SAIF and all of the then ordinary shareholders, the Company shall not declare or pay any dividend prior to the closing of a qualified IPO.

(d) Voting rights

Each holder of any Series A/Series B preference share was entitled to the number of votes equal to that number of ordinary shares into which such Series A/Series B preference shares could then be converted, and with respect to such vote, such holder had full voting rights and powers equal to the voting rights and powers of the holders of ordinary shares.

For so long as any Series A/Series B preference share remained outstanding, the Company and any other of its subsidiaries would not take any actions without the prior approval in a resolution adopted by the affirmative vote of holders of more than 67% in voting power of the Series A/Series B preference shares then issued and outstanding.

(e) Liquidation

According to the Second Amended and Restated Memorandum and Articles of Association approved by the board of directors on 6 May 2008, upon any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, before any distribution or payment was made to the holders of any junior shares, each holder of the Series A/Series B preference shares was entitled to receive an amount equal to 100% of the original issue price of the Series A/Series B preference shares, plus an amount that will yield, in respect of the period from the date of the closing of such holder's purchase of the relevant Series A/Series B preference shares to and including the date of completion of such distribution or payment, an annual compound rate of return of 10% plus all dividends declared and unpaid.

After distribution or payment in full of the amount distributable or payable above, the remaining assets of the Company available for distribution to members were to be distributed rateably among shareholders of the outstanding ordinary shares and the holders of preference shares.

24. Convertible Redeemable Preference Shares *(continued)*

During the six months ended 30 June 2009, the conversion features of the Series A-1 and Series B preference shares were accounted for as derivatives and the host instruments were accounted for as liabilities on the amortisation cost basis using the effective interest rate method. The Series A-2 preference shares had no liability component and their conversion feature was accounted for as equity (note 27 (b)). The fair value loss of the derivatives during the six months ended 30 June 2009 amounted to US$16,540,000 (Unaudited). The fair value of the derivatives as at 30 June 2009 was determined by Sallmanns and the key assumptions based on the directors' best estimate are set out below:

Expected volatility	70.32%
Option life	1 year
Expected dividends	–
Risk-free interest rate	0.94%
Total equity price of the Group	US$253,609,000

On 31 December 2009, the conversion features were accounted for as equity at the fair value of US$47,493,000 as at that date, which resulted from the modification stated in the Waiver Letter. In addition, because the modification was considered as significant, it led to an extinguishment of the original liability components of the Series A-1/Series B preference shares and the recognition of new liability components of the Series A-1/Series B preference shares on 31 December 2009. The total carrying amount of the liability components of the Series A-1/Series B preference shares was US$59,247,000 as at 20 May 2010, the conversion date of the preference shares. For the period from 1 January 2010 to 20 May 2010, the effective interest rates to amortise the liability component were 6.03% for the Series A-1 preference shares (2009: 13.4%), and 6.03% for the Series B preference shares (2009: 10.13%).

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24. Convertible Redeemable Preference Shares *(continued)*

The movements in the carrying amount of the host instruments in the Series A-1 preference shares and the Series B preference shares are as follows:

	Series A-1 preference shares US$'000	**Series B preference shares US$'000**	**Total US$'000**
Liability component at 1 January 2010	**20,053**	**37,879**	**57,932**
Interest expense accrued *(note 7.5)*	**455**	**860**	**1,315**
Conversion into ordinary shares	**(20,508)**	**(38,739)**	**(59,247)**
Liability component at 30 June 2010	**–**	**–**	**–**

	Series A-1 preference shares US$'000	Series B preference shares US$'000	Total US$'000
Liability component at 1 January 2009	25,549	42,805	68,354
Interest expense accrued *(note 7.5)*	1,713	2,168	3,881
Liability component at 30 June 2009 (Unaudited)	27,262	44,973	72,235

Upon conversion into ordinary shares, the then carrying amount of the equity components and liability components of the Series A-1/Series B preference shares of US$47,493,000 and US$59,247,000, respectively, were converted into share capital, with the excess of the aggregate carrying amounts over the par value of the ordinary shares recorded in the share premium account.

25. Government Grants

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
		(Unaudited)
At 1 January	**8,680**	1,611
Received during the period	**5,275**	707
Released to the income statement	**(829)**	(848)
Exchange realignment	**67**	1
At 30 June	**13,193**	1,471
Non-current	**13,193**	1,471

Various government subsidies have been granted to the Group's PRC subsidiaries by the local governments as incentives for sales, technology research and development, and recruitment of local workers as well as financial support to the Group's PRC subsidiaries for the improvement of production capacity of energy-saving lamps and as compensation for plant relocation.

Included in the balance at 30 June 2010 is US$1,434,000 (31 December 2009: US$1,617,000) representing government grants for financing the establishment of a production line of T5 energy-saving lamp tubes and is being credited to the income statement over the estimated useful life of 10 years of the associated production line.

The remaining balance of US$11,759,000 (31 December 2009: US$7,063,000) represented the government grant as compensation for the relocation of the Group's production facilities in Sunny, Jiangshan Phoebus and Zhejiang NVC. The government grant will be recorded in the income statement to match all relocation costs and the carrying amount of the existing land and buildings of the Group's production facilities in Sunny, Jiangshan Phoebus and Zhejiang NVC to be disposed of upon the completion of the Relocation.

There are no unfulfilled conditions or contingencies attached to these grants.

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26. Issued Capital

	30 June 2010			31 December 2009		
	Number of shares	**Par value of each share (US$)**	**US$**	Number of shares	Par value of each share (US$)	US$
Authorised:						
Ordinary shares	**500,000,000,000**	**0.0000001**	**50,000**	3,000,000	0.0001	300.00
Preference shares	**–**	**–**	**–**	2,000,000	0.0001	200.00
	500,000,000,000		**50,000**	5,000,000		500.00
Issued and fully paid:						
Ordinary shares	**2,963,654,000**	**0.0000001**	**296.37**	1,326,930	0.0001	132.69
Preference shares	**–**	**–**	**–**	889,309	0.0001	88.93
	2,963,654,000		**296.37**	2,216,239		221.62

Movements in the Company's issued capital during the six months ended 30 June 2010 are as follows:

	Notes	**Number of shares in issue**	**Issued capital US$**
At 1 January 2010		**1,326,930**	**132.69**
After sub-division of each ordinary share with a par value of US$0.0001 into 1,000 ordinary shares with a par value of US$0.0000001 each	*(a)*	**1,326,930,000**	**132.69**
Issuance of new ordinary shares	*(b)*	**747,415,000**	**74.74**
Conversion of convertible redeemable preference shares	*(c)*	**889,309,000**	**88.94**
At 30 June 2010		**2,963,654,000**	**296.37**

There was no movement in the Company's share capital during the six months ended 30 June 2009.

26. Issued Capital *(continued)*

Notes:

(a) According to the Second Amended and Restated Memorandum and Articles of Association of the Company effective 20 May 2010, the Company cancelled all authorised but unissued Series A-1 preference shares, Series A-2 preference shares and Series B preference shares, and increased the authorised share capital to US$50,000 divided into 500,000,000 shares of US$0.0001 each. Each issued and unissued share of the Company was further sub-divided into 1,000 shares of par value of US$0.0000001 each and each was designated as an ordinary share of the Company.

(b) In connection with the Company's IPO, 693,913,000 ordinary shares with a par value of US$0.0000001 each were issued at a price of HK$2.1 per share, which raised total gross proceeds of HK$1,457,217,300 (equivalent to US$186,813,150) before share issue expenses. The issued ordinary shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange on 20 May 2010.

On 17 June 2010, the over-allotment option of the Company's shares granted by the Company to the international underwriters including Goldman Sachs (Asia) L.L.C. and The Hongkong and Shanghai Banking Corporation Limited was partially exercised and 53,502,000 additional shares with a par value of US$0.0000001 each were issued at the price of HK$2.1 per share. The gross proceeds from the issuance of these shares amounted to approximately HK$112,354,200 (equivalent to US$14,424,357) before the relevant share issue expenses. The shares were listed on the Main Board of the Hong Kong Stock Exchange on 17 June 2010.

The share issue expenses amounted to US$9,414,000. The net proceeds received by the Company from the issuance of new ordinary shares totalled US$191,824,000, out of which the par value of US$74.7 was credited to the Company's share capital and the remaining balance of US$191,824,000 was credited to the share premium account.

(c) On 20 May 2010, the outstanding 555,556,000 Series A-1 preference shares, 97,125,000 Series A-2 preference shares and 28,471,000 Series B preference shares held by SAIF, and 208,157,000 Series B preference shares held by GS were converted into ordinary shares at the conversion ratio of 1:1. The excess of the then carrying amount of the Series A-1/Series A-2/Series B preference shares of US$113,728,000 over the par value of the ordinary shares was recorded in the share premium account.

27. Reserves

The movements in the reserves of the Group are set out in the consolidated statement of changes in equity.

(a) Share premium

The balance of share premium as at 30 June 2010 mainly represented (1) the excess capital contribution of US$1 million from SAIF in 2006; (2) the fair value of the 326,930 ordinary shares issued to Signkey on 29 August 2008 of US$22,634,000, less their par value; (3) the excess of the net IPO proceeds of US$191,824,000 received in the six months ended 30 June 2010 over the par value of the relevant issued ordinary shares (note 26 (b)); and (4) the excess of the total carrying amount of the Series A-1/Series A-2/Series B preference shares of US$113,728,000 as at 20 May 2010 over the par value of the ordinary shares into which these preference shares were converted (note 26(c)).

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27. Reserves *(continued)*

(b) Equity component of convertible preference shares

The balance as at 31 December 2009 represented the fair value of the equity component of the Series A-1/Series A-2/Series B preference shares. Upon the conversion of the preference shares into ordinary shares, the balance was transferred to the issued capital and share premium account, as mentioned in note (a) above.

(c) Shareholders' contribution

Shareholders' contribution represents the cash contributed by Mr. Wu Changjiang with the cash received from NVC Industrial Co., Ltd., a company controlled by Mr. Wu Changjiang, when NVC Industrial Co., Ltd. was deregistered in 2007.

(d) Statutory reserve

Pursuant to the relevant PRC laws and regulations, each wholly-owned foreign enterprise registered in the PRC is required to transfer not less than 10% of its profit after tax, as determined in accordance with generally accepted accounting principles in the PRC, to its reserve fund, until the balance of the fund reaches 50% of the registered capital of that company. The fund is restricted as to use.

(e) Employee equity benefit reserve

The employee share-based capital reserve records the accumulated amortisation of fair value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Further details are set out in note 28 to the financial statements.

(f) Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising from the translation of the financial statements of the subsidiaries who use a functional currency other than the US$.

28. Pre-IPO Share Option Scheme

The Company operates a pre-IPO share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Group's key employees, directors and consultants and strategic suppliers (collectively as "Participants"). The Scheme became effective on 15 October 2006 and was amended on 23 December 2009 and 24 March 2010. The Scheme shall be valid and effective for the period of time commencing on 15 October 2006 and expiring on the day immediately prior to the earlier of (i) the date on which dealings commence in the ordinary shares on the Hong Kong Stock Exchange and (ii) the date which is 10 years after 15 October 2006, after which period no further options will be granted but the provisions of this Scheme shall in all other respects remain in full force an effect and options which are granted during the life of the Scheme may continue to be exercisable in accordance with this Scheme and their terms of issue.

The aggregate number of ordinary shares that may be issued pursuant to the Scheme shall not exceed 240,429,000 ordinary shares. An option shall not be granted if it would have the effect of causing the total number of ordinary shares subject to options to exceed the total number of ordinary shares reserved for issuance pursuant to the exercise of options. If any ordinary shares subject to issuance by exercising options under the Scheme are not issued or are re-acquired by the Company, for any reasons including, but not limited to, the termination or expiration or cancellation (with the consent of the Participants) of options, the ordinary shares shall again become available for grant under the Scheme.

28. Pre-IPO Share Option Scheme *(continued)*

The extent to which an eligible participant shall be entitled to be granted options pursuant to the Scheme shall be determined at the sole and absolute discretion of the board of directors, provided, however, that the number of ordinary shares issued to or reserved for issuance to any one person pursuant to the Scheme and pursuant to other plan shall not exceed 3% of the outstanding shares, i.e., the number of ordinary shares outstanding on a fully-diluted basis including those ordinary shares which are issuable upon the exercise or conversion of outstanding securities of the Company, including the options previously granted under the Scheme and any options granted under other plans. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Terms of options

Subject to any accelerated termination as set forth below, each option shall expire on the date specified by the board of directors, provided that in no event shall the exercise period of an option exceed 10 years from its date of grant. The occurrence of any of the following events will result in the acceleration of the right and obligation to exercise options. If: (a) an optionee dies or becomes disabled while being an employee or director of the Company or an affiliate of the Company, (b) the employment agreement of an optionee being an employee or a director, terminates due to retirement, termination by the Company or a voluntary termination by the optionee, or (c) the optionee is a consultant or supplier to the Company or an affiliate of the Company and the consulting agreement or supply agreement of such optionee terminates or is terminated for any reason (each referred to as an "Accelerating Event"). In the case of an Accelerating Event, the executor or administrator of the optionee's estate or the optionee, as the case may be, shall have the right to exercise any options of the optionee to the extent that the options are exercisable at the date of such Accelerating Event within 90 days from the Accelerating Event. Any options held by the optionee which were not exercisable at the date of the Accelerating Event shall immediately terminate on such date.

Options granted to grantees under the Pre-IPO Share Option Scheme shall vest immediately to the grantees, or vest to the grantees at a rate not more than 25% of each such grant for each year commencing from the date when the grantees can exercise such options granted to them, subject to proportional vesting on a quarterly basis.

The movements in share options granted by the Company pursuant to the Scheme are as follows:

	Six months ended 30 June 2010		Six months ended 30 June 2009 (Unaudited)	
	Number of options	**Weighted average exercise price per share US$**	Number of options*	Weighted average exercise price per share US$
At 1 January	**191,884,000**	**0.0503**	192,259,000	0.0503
Granted during the period	**48,545,000**	**0.2746**	–	–
At 30 June	**240,429,000**	**0.0956**	192,259,000	0.0503

* *On 20 May 2010, each share option of the Company was divided into 1,000 shares. The sub-division was retrospectively applied to the outstanding share options as at 1 January 2009.*

Notes to Consolidated Financial Statements

30 June 2010

28. Pre-IPO Share Option Scheme *(continued)*

Terms of options *(continued)*

A summary of the exercise prices and vesting periods of the share options granted by the Company as well as outstanding as at the end of each reporting period is as follows:

30 June 2010

Number of options	Exercise price per share HKD	Exercise price per share US$ equivalent	Vesting periods *(Note)*
104,868,000	**0.31**	**0.0398**	***(a)***
64,800,000	**0.4**	**0.0514**	***(b)***
22,591,000	**0.75**	**0.0963**	***(b)***
12,597,000	**2.1**	**0.2698**	***(c)***
32,573,000	**2.1**	**0.2698**	***(d)***
3,000,000	**2.1**	**0.2698**	***(e)***
240,429,000			

31 December 2009

Number of options	Exercise price per share US$	Vesting periods *(Note)*
104,868,000	0.0396	*(a)*
64,425,000	0.05148	*(b)*
22,591,000	0.09648	*(b)*
191,884,000		

28. Pre-IPO Share Option Scheme *(continued)*

Terms of options *(continued)*

Notes:

The vesting period of share options of each grant is listed below:

(a) The options vested immediately.

(b) The options vested at the rate of 25% of each such grant for each year measured from the first anniversary of the grant, subject to proportional vesting on a quarterly basis.

(c) The options shall vest at the rate of 20% per year starting from the second year after the date of grant, subject to proportional vesting on a quarterly basis.

(d) The options shall vest 100% immediately starting from the third year after the date of grant.

(e) The options shall vest at the rate of 20% per year starting from the third year after the employees signed the service contracts, subject to proportional vesting on a quarterly basis.

In the event that any of the Participants is no longer employed by any of the Company or an affiliate of the Company without cause, not including death or disability, any unvested options held by such Participant shall be forfeited.

The weighted average remaining contractual life for the share options outstanding as at 30 June 2010 is 6.1 years (31 December 2009: 6.9 years).

The number and weighted average exercise price of exercisable share options as at the end of each reporting period are as follows:

30 June 2010		31 December 2009	
Number of share options	**Weighted average exercise price US$ per share**	Number of share options	Weighted average exercise price US$ per share
180,798,188	**0.05**	169,624,000	0.05

No share option was exercised during the six months ended 30 June 2010 (2009: Nil). There has been no cancellation or modification to the Scheme for issued share options during the six months ended 30 June 2010.

The fair value of the share options granted during the six months ended 30 June 2010 was estimated at approximately US$1,965,000 (2009: Nil), which was estimated at the grant date using the Binomial option pricing model with contractual life, taking into account the terms and conditions upon which the options were granted.

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28. Pre-IPO Share Option Scheme *(continued)*

Terms of options *(continued)*

The following table lists the inputs to the model used:

	Six months ended 30 June 2010
Dividend yield (%)	–
Expected volatility (%)	55.06 – 59.34
Risk-free interest rate (%)	2.78 – 3.19
Expected life of options (year)	5 – 7
Weighted average share price (US$ per share)	0.15

The assumed exercise date was the mid-point between the vesting date and the maturity date. The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

No other features of the options granted were incorporated into the measurement of fair value.

The fair value of the share options granted by the Company has been recognised in the income statement over the vesting periods and the total amount recognised as a share option expense for the six months ended 30 June 2010 totalled US$255,000 (30 June 2009: US$37,000) (Unaudited) (note 7.7).

There is no cash settlement alternative. The Company has not developed a past practice of cash settlement.

As at 30 June 2010, the Company had 240,429,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 240,429,000 additional ordinary shares of the Company and additional share capital of US$24 and share premium of US$22,674,000 (before issue expenses).

On 31 December 2009, 139,450,000 share options were transferred by certain optionees to Eastern Galaxy Trust, a discretionary trust established by deed of declaration made by HSBC Trustee (Hong Kong) Limited as trustee. Subsequent to the end of the reporting period, on 12 July 2010, a total of 89,621,500 share options were exercised by Eastern Galaxy Investment Limited, a company incorporated in the BVI as the nominee holding in trust for HSBC Trustee (Hong Kong) Limited.

At the date of approval of these financial statements, the Company had 150,807,500 share options outstanding under the Scheme, which represented approximately 5% of the Company's shares in issue as at that date.

29. Business Combinations

During the six months ended 30 June 2010, the Group did not have any business combinations. In the six months ended 30 June 2009, the Group had business combinations with Shanghai Arcata, Chongqing Lianxin and Huizhou Huixin which are detailed below:

(a) Acquisition of Shanghai Arcata

The Group acquired a 100% equity interest in Shanghai Arcata by means of a step acquisition.

On 7 November 2008, Jiangshan Phoebus acquired a 26% equity interest in Shanghai Arcata for a cash consideration of RMB2,099,000 (equivalent to US$307,000). The consideration was paid during the six months ended 30 June 2009.

29. Business Combinations *(continued)*

(a) Acquisition of Shanghai Arcata *(continued)*

On 20 February 2009, World Through acquired the remaining 74% equity interest in Shanghai Arcata for the consideration of RMB15,201,000 (equivalent to US$2,225,000). The consideration was paid during the six months ended 30 June 2009.

As a result of the above step acquisition, Shanghai Arcata was accounted for as an associate of the Group from 7 November 2008 to 20 February 2009 and then as a subsidiary starting from 21 February 2009.

The fair values of the identifiable assets and liabilities of Shanghai Arcata as determined by Sallmanns, and the corresponding carrying amounts before fair value adjustments at each exchange transaction date in the step acquisition, as at 7 November 2008 and 20 February 2009, were as follows:

	As at 7 November 2008		As at 20 February 2009	
	Fair value recognised on acquisition US$'000	Previous carrying value US$'000	Fair value recognised on acquisition US$'000	Previous carrying value US$'000
Property, plant and equipment	1,228	1,101	1,238	1,125
Intangible assets	1,775	–	1,770	–
Inventories	1,756	1,756	1,991	1,991
Trade receivables	2,735	2,735	3,480	3,480
Cash and bank balances	592	592	1,526	1,526
Other current assets	207	207	189	189
Trade payables	(2,563)	(2,563)	(3,614)	(3,614)
Other payables	(2,637)	(2,637)	(4,016)	(4,016)
Interest-bearing loans	(1,317)	(1,317)	(512)	(512)
Other liabilities	(191)	(191)	–	–
Fair value of identifiable assets acquired and liabilities assumed, excluding deferred tax liabilities arising from the acquisition	1,585	(317)	2,052	169
Deferred tax liabilities arising from the step acquisition	(476)		(471)	
Fair value of identifiable assets acquired and liabilities assumed	1,109		1,581	
Percentage of equity interest acquired	26%		74%	
Share of fair values of Shanghai Arcata's assets and liabilities, net	288		1,170	
Goodwill arising on acquisition	19		1,055	
Consideration paid	307		2,225	
Total goodwill	1,074			
Total consideration	2,532			

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29. Business Combinations *(continued)*

(a) Acquisition of Shanghai Arcata *(continued)*

Cash outflow on acquisition during the six months ended 30 June 2009:

	US$'000
Net cash acquired with Shanghai Arcata	1,526
Cash paid	(2,225)
Net cash outflow	(699)

(b) Acquisition of Chongqing Lianxin

On 27 December 2008 and 31 December 2008, Chongqing NVC entered into agreements with Chongqing Lianxin to acquire all inventories and fixed assets of Chongqing Lianxin for considerations of RMB10,923,000 (equivalent to US$1,598,000) and RMB35,842,000 (equivalent to US$5,247,000), respectively. The exchange transactions were completed on 2 January 2009. In addition, most of the employees of Chongqing Lianxin were transferred to Chongqing NVC and signed labour contracts with Chongqing NVC on 1 January 2009. The senior management of the Group considered the transactions as a combination of the operation of Chongqing Lianxin with Chongqing NVC and accordingly the Group accounted for the transactions as a business combination.

The fair values of the identifiable assets acquired from Chongqing Lianxin as determined by Sallmanns and the corresponding carrying amounts at the exchange transaction date immediately before the acquisition as at 2 January 2009, which were extracted from the management accounts of Chongqing Lianxin, were as follows:

	Fair value recognised on acquisition US$'000	Previous carrying value US$'000
Property, plant and equipment	2,898	5,045
Inventories	1,367	1,367
Fair value of identifiable assets acquired and liabilities assumed, excluding deferred tax assets and related deductible input value added tax arising from the acquisition	4,265	6,412
Input value added tax arising from the acquisition which was deducted by the Group	434	
Deferred tax assets arising from the acquisition	537	
Fair value of identifiable assets acquired	5,236	
Goodwill arising on the acquisition	1,610	
Total consideration	6,846	

The total cost of the business combination was US$6,846,000, out of which, cash of US$5,248,000 was paid during the six months ended 30 June 2009, and the remaining balance of US$1,598,000 was offset against the Group's prepayments to Chongqing Lianxin during the six months ended 30 June 2009.

29. Business Combinations *(continued)*

(c) Acquisition of Huizhou Huixin

On 17 June 2009, Huizhou NVC acquired all fixed assets of Huizhou Huixin, an independent company which principally produced ceiling lights, for a consideration of RMB7,730,000 (equivalent to US$1,132,000) and absorbed the majority of the skilled workers and administrative staff of Huizhou Huixin on the same day. The senior management considered the transaction as a combination of the operations of Huizhou Huixin and Huizhou NVC and, accordingly, the Group accounted for the transaction as a business combination.

The fair values of the identifiable assets of Huizhou Huixin as determined by Sallmanns and the corresponding carrying amounts at the exchange transaction date on 17 June 2009 immediately before the acquisition, which were extracted from the management accounts of Huizhou Huixin, were as follows:

	Fair value recognised on acquisition US$'000	Previous carrying value US$'000
Property, plant and equipment	1,035	1,132
Fair value of identifiable assets acquired	1,035	1,132
Goodwill arising on acquisition of Huizhou Huixin	97	
Total consideration	1,132	

The total cost of the combination was US$1,132,000 and was fully paid in the six months ended 30 June 2009.

30. Commitments

(a) Operating lease commitments – as lessee

The Group has entered into commercial leases on exhibition venues and properties, with lease terms ranging from one to thirty years. There are no restrictions placed on the Group by entering into these leases.

Future minimum rental payables under non-cancellable operating leases of the Group as at each balance sheet date are as follows:

	30 June 2010 US$'000	31 December 2009 US$'000
Within one year	**740**	642
After one year but not more than five years	**1,220**	1,304
More than five years	**320**	418
	2,280	2,364

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30. Commitments *(continued)*

(b) Operating lease commitments – as lessor

As lessor, the Group leases its plant and offices under operating lease arrangements with lease terms ranging from ten months to four years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At each balance sheet date, the Group had total future minimum rental receivables under non-cancellable operating leases as follows:

	30 June 2010 US$'000	31 December 2009 US$'000
Within one year	**488**	381
After one year but not more than five years	**660**	798
More than five years	**–**	550
	1,148	1,729

(c) Capital commitments

In addition to the operating lease commitments detailed in (a) and (b) above, the Group had the following capital commitments as at the end of the reporting period:

	30 June 2010 US$'000	31 December 2009 US$'000
Contracted, but not provided for:		
Acquisition of fixed assets	**9,511**	8,981
	9,511	8,981
Authorised, but not contracted for:		
Acquisition of fixed assets	**28,997**	33,181
Acquisition of land use rights	**492**	489
	29,489	33,670
	39,000	42,651

(d) Contingent liabilities

The Group had no significant contingent liabilities as at 30 June 2010 (31 December 2009: Nil).

31. Related Party Transactions

(a) Major related parties with which the Group had transactions during the six months ended 30 June 2010 and 2009 are listed below:

Associate
Leici

Entities controlled by Mr. Wu Jiannong, a director of the Company
Signkey
Zhejiang Tonking Technology Co., Ltd. ("Zhejiang Tonking")
Jiangshan Youhe Machinery Co., Ltd. ("Jiangshan Youhe")
Jiangshan World Bright Crystal Co., Ltd. ("World Bright")
Quzhou Aushite Illumination Co., Ltd. ("Quzhou Aushite")
Quzhou Phoebus Lighting Dectron Co., Ltd. ("Quzhou Phoebus")

An entity jointly controlled by Mr. Wu Jiannong
Jiangshan Liming Transportation Co., Ltd. ("Jiangshan Liming")

Entities over which a close family member of Mr. Wu Changjiang has significant influence
Zhongshan Sheng Di Ai Si Lighting Co., Ltd. ("Sheng Di Ai Si")
Huizhou Enlin Electronics Co., Ltd. ("Huizhou Enlin")
Chongqing Enlin Electronics Co., Ltd. ("Chongqing Enlin")
Shandong NVC Lighting Development Co., Ltd. ("Shandong NVC")
Huizhou Changjiang Luminaire Manufacturing Co., Ltd. ("Changjiang Luminaire")
Zhongshan Qitian Lighting Co., Ltd. ("Zhongshan Qitian")
Huizhou Huanyu Lighting Technology Co., Ltd. ("Huizhou Huanyu")
Huizhou Huichengqu Changxin Hardware Machining Plant ("Changxin")

An entity owned by a key management personnel of the Group
Chongqing Tianyi

An entity over which the Company indirectly has significant influence through its associate
Chongqing Chidian Technology Co., Ltd. ("Chongqing Chidian")

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31. Related Party Transactions *(continued)*

(b) Significant transactions with related parties

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
		(Unaudited)
Sale of finished goods and other materials to:		
Zhejiang Tonking	**–**	711
Chongqing Tianyi	**–**	457
	–	1,168
Sale of machinery to:		
Jianshan Youhe	**–**	305
Purchases of raw materials and finished goods from:		
Quzhou Aushite	**4,183**	3,738
Chongqing Tianyi	**–**	3,585
Chongqing Chidian	**2,783**	1,555
Zhongshan Qitian	**957**	–
World Bright	**1,036**	1,079
Changjiang Luminaire	**552**	2,543
Changxin	**1,805**	741
Huizhou Huanyu	**596**	–
Others	**28**	14
	11,940	13,255
Purchase of machinery from:		
Jiangshan Youhe	**289**	311
Transportation fee payable to:		
Jiangshan Liming	**494**	323

31. Related Party Transactions *(continued)*

(b) Significant transactions with related parties *(continued)*

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
		(Unaudited)
Rental fee income from:		
Huizhou Enlin	**–**	48
Changjiang Luminaire	**30**	56
	30	104
Trademark licence fee income from:		
Sheng Di Ai Si	**547**	281
Huizhou Enlin	**200**	218
Shandong NVC	**248**	162
Chongqing Enlin	**213**	30
Changjiang Luminaire	**–**	69
	1,208	760
Distribution commission from:		
Shandong NVC	**633**	426
Sheng Di Ai Si	**1,458**	280
	2,091	706
Consultation fee expense to:		
Jiangshan Youhe	**130**	–

Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
		(Unaudited)
Short-term employee benefits	**721**	601
Equity-settled share option expenses	**168**	28
	889	629

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31. Related Party Transactions *(continued)*

(c) Terms of related party transactions

The related party transactions were conducted at prices mutually agreed by both parties.

In the opinion of the board of directors, the related party transactions were conducted on normal commercial terms and in the ordinary course of the Group's business.

The detailed terms regarding the outstanding balances with related parties at the end of the reporting period are set out in notes 18, 19, 21 and 22.

32. Financial Instruments by Category

The carrying amounts of each category of financial instruments as at the end of the reporting period are as follows:

Financial assets

	30 June 2010		31 December 2009	
	Loans and receivables US$'000	**Total US$'000**	Loans and receivables US$'000	Total US$'000
Trade and other receivables	**104,192**	**104,192**	85,795	85,795
Financial assets included in prepayments	**4,256**	**4,256**	6,692	6,692
Cash and short-term deposits	**238,352**	**238,352**	47,292	47,292
Total	**346,800**	**346,800**	139,779	139,779

Financial liabilities

	30 June 2010		31 December 2009	
	Financial liabilities at amortised cost US$'000	**Total US$'000**	Financial liabilities at amortised cost US$'000	Total US$'000
Trade and bills payables	**62,288**	**62,288**	54,769	54,769
Financial liabilities included in other payables	**21,194**	**21,194**	34,913	34,913
Convertible redeemable preference shares	**–**	**–**	57,932	57,932
Interest-bearing loans	**13,060**	**13,060**	6,386	6,386
Total	**96,542**	**96,542**	154,000	154,000

33. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise interest-bearing loans, cash and short-term deposits and convertible redeemable preference shares prior to their conversion into ordinary shares. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, commodity price risk, foreign currency risk and liquidity risk. The directors meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes.

The Group does not hold or issue derivative financial instruments for trading purposes. The directors review and agree policies for managing each of these risks and they are summarised below:

(a) Credit risk

The major concentration of credit risk arises from the Group's exposure to a substantial number of trade receivables and other receivables from debtors. The Group has policies in place to ensure that the sales of products are made to customers with an appropriate credit limit, and has strict control over credit limits of trade and other receivables.

In 2009, the Group entered into a number of insurance contracts with China Export & Credit Insurance Corporation whereby 85% and 90% of the uncollectible amount derived from the domestic sales and overseas sales, respectively, during the period from 1 November 2009 to 31 October 2010 would be compensated, provided that the aggregate compensation amount was not greater than RMB25,200,000 (equivalent to US$3,711,000) for domestic sales and US$10,000,000 for overseas sales.

Cash and short-term deposits are mainly deposited with registered banks in Mainland China except that at 30 June 2010, the proceeds of the IPO were held with The Hongkong and Shanghai Banking Corporation Limited before being subsequently transferred to various banks registered in Mainland China. The Group has policies that limit its credit exposure to any financial institutions. The carrying amounts of trade and other receivables, cash and short-term deposits included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

(b) Commodity price risk

The Group is exposed to fluctuations in the prices of raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

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33. Financial Risk Management Objectives and Policies *(continued)*

(c) Foreign currency risk

The Group has transactional currency exposure. Such exposure mainly arises from sales by an operating unit in currencies other than the unit's functional currency. The Group's PRC entities sell their products to overseas customers. Such sales are predominately conducted in US$. As a result, the Group is exposed to movements in the exchange rate between US$ and RMB.

The following table demonstrates the sensitivity as at the end of the reporting period to a reasonably possible change in the US$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

30 June 2010

	Increase/(decrease) in foreign currency exchange rate %	Increase/(decrease) in profit before tax US$'000	Increase/(decrease) in equity US$'000
If RMB weakens against US$	**5%**	**962**	**816**
If RMB strengthens against US$	**(5%)**	**(962)**	**(816)**

31 December 2009

	Increase/(decrease) in foreign currency exchange rate %	Increase/(decrease) in profit before tax US$'000	Increase/(decrease) in equity US$'000
If RMB weakens against US$	5%	473	420
If RMB strengthens against US$	(5%)	(473)	(420)

Certain bank balance of US$38,345,000 in total held by the Company was denominated in RMB. The directors consider the foreign currency risk associated with the bank balance denominated in RMB held by the Company is remote because the Company temporarily holds the balance after the completion of the IPO and plans to invest most of the balance in its PRC subsidiaries in the coming two years to expand the production capacity of the PRC subsidiaries. Considering the historical fluctuations of the exchange rate of RMB against US$ in the past 24 months did not exceed 1%, the directors estimate the fluctuation of the exchange rate of RMB against US$ in a reasonable possible range of 1% will not have a significant impact on the Group's profit before tax or equity.

Certain bank balance of US$146,182,000 in total held by the Company was denominated in HK$. As HK$ is pegged to US$, the directors consider these bank balance is not subject to foreign currency risk.

33. Financial Risk Management Objectives and Policies *(continued)*

(d) Liquidity risk

The Group monitors its risk to a shortage of funds by considering the maturity of its financial instruments, financial assets and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing borrowings. As at 30 June 2010, the Group had interest-bearing loans. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group does not have any significant liquidity risk.

The maturity profile of the Group's non-derivative financial liabilities based on the contractual undiscounted payments, is as follows:

30 June 2010

	Within one year or on demand US$'000	**Over one year but within five years US$'000**	**Total US$'000**
Trade and bills payables	**62,288**	**–**	**62,288**
Financial liabilities included in other payables	**21,194**	**–**	**21,194**
Interest-bearing loans	**13,281**	**–**	**13,281**
Total	**96,763**	**–**	**96,763**

31 December 2009

	Within one year or on demand US$'000	Over one year but within five years US$'000	Total US$'000
Trade and bills payables	54,769	–	54,769
Financial liabilities included in other payables	34,913	–	34,913
Interest-bearing loans	6,451	398	6,849
Convertible redeemable preference shares	–	63,556	63,556
Total	96,133	63,954	160,087

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34. Capital Management

The primary objective of the Group's capital management is to maintain the Group's stability and growth. The Group regularly reviews and manages its capital structure and makes adjustments to it, taking into consideration changes in economic conditions, future capital requirements of the Group, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity attributable to owners of the Company. Net debt includes interest-bearing loans and convertible redeemable preference shares less cash and short-term deposits. The Group's policy is to maintain a gearing ratio at a reasonable level.

The gearing ratio as at the end of the reporting period is as follows:

	30 June 2010 US$'000	31 December 2009 US$'000
Interest-bearing loans	**13,060**	6,386
Convertible redeemable preference shares	**–**	57,932
Total debt	**13,060**	64,318
Less: Cash and short-term deposits	**(238,352)**	(47,292)
Net debt	**(225,292)**	17,026
Total equity attributable to owners of the Company	**442,733**	164,192
Gearing ratio	**–***	10.4%

* *As a result of the receipt of the cash proceeds from the IPO and the conversion of convertible redeemable preference shares into ordinary shares during the six months ended 30 June 2010, the gearing ratio of the Company decreased from 10.4% as at 31 December 2009 to nil as at 30 June 2010. The Group had interest-bearing loans of US$13,060,000 as at 30 June 2010. The total debt as a percentage of total equity attributable to owners of the Company was approximately 3% as at 30 June 2010.*

35. Events After the Reporting Period

On 24 August 2010, the board of directors resolved to declare an interim dividend of 2 HK cents (equivalent to 0.257 US cents) per share for the six months ended 30 June 2010 payable to members whose names appear on the Register of Members as at 24 September 2010.

36. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 24 August 2010.