

OUR BUSINESS

OVERVIEW

We are a leading supplier of lighting products in China. According to the Report on the Development of China's Lighting Industry during the Past Twenty Years dated 15 March 2010 which was subsequently updated on 12 April 2010 (the "CALI Report"), published by the China Association of Lighting Industry ("CALI"), we are the largest domestic lighting brand supplier and rank second amongst all lighting brand suppliers in China, based on revenue in 2009. We design, develop, produce, market and sell a variety of lighting products, with a strong focus on energy-saving products, through the following product segments:

- *Luminaire products.*⁽¹⁾ A luminaire is generally considered to be a complete lighting unit that consists of a lighting fixture, a lamp (namely the light source such as a light bulb or tube) and a lighting electronics appliance (e.g. a ballast). Our luminaire products are sold as complete lighting units or units without lamps, based on the needs of our end customers;
- *Lamp products.*⁽²⁾ Our lamp products primarily consist of a range of light bulbs and tubes for compact fluorescent lamps (namely energy-saving lamps), HID lamps, fluorescent lamps, halogen lamps and LED lamps; and
- *Lighting electronics products.*⁽³⁾ Our lighting electronics products primarily consist of electronic transformers, electronic and inductive ballasts for fluorescent and HID lamps, and HID ballast boxes.

The following table sets forth our revenue by product segment, after inter-segment elimination, and as a percentage of total revenue for the periods indicated.

| | Year ended 31 December | | | | | |
|---|------------------------|--------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
| | 2007 | | 2008 | | 2009 | |
| | Revenue (US\$'000) | % of total revenue | Revenue (US\$'000) | % of total revenue | Revenue (US\$'000) | % of total revenue |
| Luminaire products | 90,143 | 69.3% | 152,965 | 59.7% | 153,799 | 50.3% |
| Lamp products | 24,407 | 18.8% | 79,947 | 31.1% | 118,048 | 38.6% |
| Lighting electronics products | 15,518 | 11.9% | 23,503 | 9.2% | 33,923 | 11.1% |
| Total revenue | 130,068 | 100.0% | 256,415 | 100.0% | 305,770 | 100.0% |

As at 31 December 2009, our products were sold through a nationwide sales network of 36 exclusive regional distributors and 2,461 NVC outlets covering 31 provinces, municipalities and autonomous regions in China.

According to CALI, we are a leading supplier of energy-saving lighting products in China, as reflected by the following market positions⁽⁴⁾:

- we are the largest producer of energy-saving lamps in China based on production volume in 2008;
- we are the largest producer of T4 and T5 battens in China based on production volume in 2008; and
- we are the largest electronic ballast producer in China based on production volume in 2008.

Notes:

- (1) Among our luminaires product categories, T4/T5 battens and LED lighting products are energy-saving products while spotlights, downlights, lighting louvers and floodlights are not, according to CALI's definition. A T4/T5 batten is a complete lighting unit that consists of a fluorescent lamp, a supporting lighting fixture and an electronic ballast, and based on the Company's understanding, is energy-saving under CALI's definition.
- (2) According to CALI's definition, other than halogen lamps, all products under our lamp products segment, including compact fluorescent lamps, HID lamps, fluorescent lamps, Halogen lamps and LED lamps, are energy-saving products.
- (3) According to CALI's definition, our lighting electronics products primarily consist of electronic ballasts, which are energy-saving products, and three other categories of non-energy-saving products, namely inductive ballasts, ballast boxes for HID appliances and electronic transformers for halogen appliances.
- (4) As at the Latest Practicable Date, the 2008 figures for the market positions in different product categories had not been updated into the 2009 report by CALI.

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Our sales of energy-saving lighting products experienced rapid growth in recent years. In 2007, 2008 and 2009, our sales of energy-saving lighting products totalled US\$48.8 million, US\$119.1 million, and US\$183.8 million, respectively, representing 37.5%, 46.4% and 60.1%, respectively, of our total revenue for these periods with a CAGR of 94.1%. In March 2010, we were recognised as the “Merit Green Enterprise” of the “CAPITAL Entrepreneur Green Enterprise Awards 2010” organized by CAPITAL Entrepreneur Magazine. As environmental consciousness increases in China and elsewhere around the world, we expect the demand for energy-saving lighting products to increase significantly.

Energy-saving lighting products generally include (i) lamp products that are more energy efficient compared to incandescent light bulbs and (ii) lighting products which support the use of energy-saving lamp products. The compact fluorescent lamp (CFL) is one of the most common energy-saving lamp products. Different countries and regions adopt a variety of standards for energy-saving lighting products for different purposes based on criteria such as lifespan and energy efficiency. CALI defines energy-saving lighting products in China as typically consisting of compact fluorescent lamps, fluorescent lamps and supporting lighting fixtures, LED lamps, HID lamps and electronic ballasts. CALI's standard for energy-saving lighting products is based on the standards adopted by the Standardisation Administration of the PRC (國家標準化管理委員會), an organisation authorised by the State Council of the PRC to establish quality and/or safety standards for a variety of products. CALI's standard is in line with the list of lighting products approved to be labelled as energy-saving lighting products as published by the China Quality Certification Centre (中國質量認證中心), as well as the measures published by the National Development and Reform Commission and the Ministry of Finance of the PRC defining the scope of energy-saving products that are eligible for government subsidies. Please see the section headed “Industry Overview — The PRC Energy-Saving Lighting Industry — Scope of Energy-saving Lighting Products in China” for further details.

The following table sets forth our revenue by energy-saving and non-energy-saving products.

| | Year ended 31 December | | | | | |
|---|------------------------|--------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
| | 2007 | | 2008 | | 2009 | |
| | Revenue (US\$'000) | % of total revenue | Revenue (US\$'000) | % of total revenue | Revenue (US\$'000) | % of total revenue |
| Energy-saving products | 48,783 | 37.5% | 119,072 | 46.4% | 183,810 | 60.1% |
| Light tubes for CFL | — | — | 25,994 | 10.1% | 59,062 | 19.3% |
| T4/T5 battens ⁽¹⁾ | 28,079 | 21.6% | 46,059 | 18.0% | 51,226 | 16.8% |
| Compact fluorescent lamps (CFL) | 14,062 | 10.8% | 34,488 | 13.4% | 43,876 | 14.4% |
| Electronic ballasts | 317 | 0.3% | 1,059 | 0.4% | 17,501 | 5.7% |
| HID lamps | 3,672 | 2.8% | 5,038 | 2.0% | 4,195 | 1.4% |
| Fluorescent lamps | 2,350 | 1.8% | 3,559 | 1.4% | 3,461 | 1.1% |
| LED products | 296 | 0.2% | 2,330 | 0.9% | 2,510 | 0.8% |
| HID street lighting products | 7 | — | 545 | 0.2% | 1,979 | 0.6% |
| Non energy-saving products | 81,285 | 62.5% | 137,343 | 53.6% | 121,960 | 39.9% |
| Total revenue | 130,068 | | 256,415 | | 305,770 | |

Note:

- (1) A T4/T5 batten is a complete lighting unit that consists of a fluorescent lamp, a supporting lighting fixture and an electronic ballast, and based on the Company's understanding, is energy-saving under CALI's definition.

For further information on the financial performance and profit margins of our energy-saving and non-energy-saving products, please see the section headed “Financial Information — Descriptions of Selected Components of Results of Operations”.

We believe that our production efficiency and scale in energy-saving lighting, combined with our brand name and distribution network, will enable us to continue to strengthen our market position vis-a-vis domestic and international competitors in China and in the international lighting products industry.

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We were founded in 1998 and have historically focused on marketing our NVC brand products for retail chains, department stores and office use. Today, our NVC brand products are sold to a wide range of end customers, including professional end customers (such as retail chains, department stores, offices, hotels and public infrastructure projects) and retail end customers (such as residential households). Capitalising on our experience and capabilities in lighting products, we now offer lighting solution services, through which we provide design services and customised products to meet the specific demands of our professional end customers, particularly for large-scale projects. We did not derive revenue from these solution services during the Track Record Period. We became the largest domestic supplier of lighting products for the construction projects associated with the Beijing 2008 Olympic Games, and were selected as a qualified lighting products supplier and a sponsor to the Guangzhou 2010 Asian Games. In 2009, we were recognised as having “The Best Business Model of China in 21st Century” by the 21st Century Business Herald.

We believe that a successful brand is key to our development, as it enables us to distinguish ourselves from our competitors in the highly fragmented and competitive Chinese lighting products industry. Accordingly, since our establishment, we have focused on marketing lighting products under our own brand, NVC (雷士). We were among the earliest lighting product companies in China to market and sell products through branded outlets. This approach has helped to increase the awareness of our brand and products in a relatively short period of time. In 2009, our NVC brand was named as one of the “Most Popular Commercial Lighting Brands Among Chinese Designers in Year of 2009” (2009年最受中國設計師歡迎商業照明領袖品牌) by China Architecture Decoration Association (中國建築裝飾協會) and our 雷士 trademark was recognised as a “China Well-Known Trademark” (中國馳名商標) by the State Administration for Industry and Commerce of the PRC (國家工商行政管理局). We believe that our commitment to building the NVC brand has helped us maintain our pricing power, gain customer loyalty and expand our customer base.

Our products are primarily sold in the PRC and exported to over 40 countries around the world. In China, we sell substantially all of our NVC brand products on a wholesale basis to our exclusive regional distributors, which have the exclusive right to distribute our NVC brand products within a defined geographical region. Our distributors generally sell our products to end customers through NVC outlets (which are operated either directly by such distributors or by third party outlet operators), and sometimes directly to end customers for large-scale orders such as those involved in public infrastructure projects. Our largest export market was the United Kingdom in 2007 and the United States in 2008 and 2009. Sales in the United Kingdom accounted for approximately 4.0% of our total revenue in 2007, and sales in the United States accounted for approximately 5.3% and 12.1% of our total revenue in 2008 and 2009, respectively. In addition to our NVC brand products, we sell non-NVC brand products which primarily consist of products sold on an ODM basis to leading international and domestic brand manufacturers. In 2007, 2008 and 2009, the revenue derived from sales of non-NVC brand products accounted for 8.2%, 24.7% and 37.4% of our total revenue, respectively.

We have strong relationships with our exclusive regional distributors, to which we refer as our operating centres. They are managed through contractual agreements with terms covering, among other things, product exclusivity, performance targets and management of NVC outlets. We develop and implement policies and guidelines for our distributors in a number of respects. To help them comply with our policies and guidelines and meet their performance targets, we hold frequent meetings and work closely with them on various business and management decisions including the formulation of their own sales policies. Some of our management members and other employees hold key management positions in all of our distributors and work on-site at the offices of our distributors on a full-time basis to help manage their daily operations and sales activities. Our distributors have the primary responsibilities for managing the operations as well as the sales and marketing activities at the NVC outlets and ensuring compliance with our policies and guidelines. We also actively monitor compliance with such policies and guidelines through regular on-site visits to the NVC outlets.

We have five production centres in different regions of China, each with its own production focus. Our production centres are located in Huizhou City, Guangdong Province, Wanzhou District, Chongqing (both focusing on luminaire products), Jiangshan City, Zhejiang Province (focusing on lamp products) and Shanghai (focusing on lighting electronics products). We have more than 10 years of experience in manufacturing lighting products, which has allowed us to continuously refine our production process and improve our

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efficiency at each stage of production. Our Zhejiang production centres will be relocated and new production facilities will be built at the new site. Our production volume is expected to increase further through these new production facilities, with a planned annual production capacity of 200 million units of energy-saving lamps.

We place great emphasis on our research and development efforts, which primarily consist of developing new products and updating our products with the latest technology. The goal of these efforts is to rapidly develop and roll out new products to meet the continuously changing demands and preferences of our end customers. We have two research and development centres, one is located in Huizhou City, Guangdong Province, which focuses on developing new product designs for our luminaire products, and the other is in Shanghai, which focuses on the research and development of energy-saving technology for lamp products and on the research and development of lighting electronics products. We have developed 16 models of new energy-saving lighting products at our Shanghai research and development centre since its establishment in 2008. In December 2008, our “Wing” (翔) series of luminaire products, which was specially designed for the Beijing 2008 Olympic Games, was awarded the “Gold Prize” for design at the “China Red Star Design Award” organised by the China Industrial Design Association (中國工業設計協會), the Development Research Centre of the State Council (國務院發展研究中心) and the Beijing Industrial Design Centre (北京工業設計促進中心). We are also actively monitoring the technological and market development of LED-based lighting products, and have commenced our LED research efforts.

We have grown rapidly through a combination of organic growth and strategic acquisitions. In 2007, 2008 and 2009, our revenue totaled US\$130.1 million, US\$256.4 million and US\$305.8 million, respectively, and our operating profit totaled US\$14.8 million, US\$39.5 million and US\$43.8 million, respectively. We generated net profits of US\$12.9 million, US\$18.1 million and US\$14.7 million in 2007, 2008 and 2009, respectively. Our net profits in 2008 and 2009 were significantly affected by expenses (consisting of fair value changes of the embedded derivatives of the Preference Shares, fair value changes from a warrant and interest expense on the Preference Shares) associated with the Preference Shares and warrant we issued to our pre-IPO investors, totaling US\$19.3 million and US\$23.5 million for 2008 and 2009, respectively. See “Financial Information — Factors affecting the comparability of our results of operations”. The terms of the Preference Shares were modified by a waiver signed by SAIF and GS on 31 December 2009 which has resulted in the extinguishment of the liability components of the conversion features of the Preference Shares, and the recognition of the conversion feature as an equity component. As a result, there will be no fair value changes of the Preference Shares in 2010.

OUR COMPETITIVE STRENGTHS

We believe that the following strengths of our Company have enabled us to compete effectively in the market:

Market leadership in energy-saving and other lighting products

We are a leading supplier of lighting products in the PRC according to CALI and we focus on supplying energy-saving lighting products. According to CALI, we are the largest domestic lighting brand supplier based on revenue in 2009. Approximately 60.1% of our total revenue in 2009 was derived from the sale of energy-saving lighting products. We are a vertically integrated supplier engaged in all stages of production of lighting products from raw materials procurement to product distribution, which covers a complete value chain of the lighting industry. As at 31 December 2009, we offered approximately 9,000 luminaire products, 1,500 lamp products and 200 lighting electronics products. Our NVC brand products are sold to a wide range of retail and professional end customers. Capitalising on our experience and capabilities with lighting products, we also offer lighting solution services, which include providing design services and customised products to meet the specific needs of our professional end customers. Our capabilities in providing lighting solutions, coupled with our extensive product range, have contributed to our efforts to become a one-stop destination for our customers’ lighting needs, and have helped us to solidify our leading market position.

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As environmental consciousness increases in China and elsewhere around the world, we expect the demand for energy-saving lighting products to increase significantly. According to CALI, we are a leading supplier of energy-saving lighting products in China as reflected in the following market positions:

- the largest producer of energy-saving lamps in China based on production volume in 2008; our production volume is expected to increase further through our new Zhejiang production centre, with a planned annual production capacity of 200 million units of energy-saving lamps;
- the largest producer of T4/T5 battens in China based on production volume in 2008; and
- the largest electronic ballast producer in China based on production volume in 2008.

In addition, we experienced rapid growth in the sales of energy-saving lighting products in recent years. Our revenue derived from energy-saving lighting products increased at a CAGR of 94.1% from 2007 to 2009. We believe that our production efficiency and scale in the field of energy-saving lighting, combined with our brand name and distribution network, will enable us to continue to strengthen our market position vis-a-vis domestic and international competitors in China and the international lighting products industry.

Commitment to product quality with cost and scale advantages

We are committed to product quality. We received 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. In addition, as a reflection of our ability to supply quality products at competitive prices, our ODM products have been sold to, or have been incorporated into the products of, a number of leading international lighting brands. We have also obtained a number of international product quality and safety certifications such as CSA (Canada) and UL (US).

We are the largest supplier of energy-saving lamp products in China based on production volume in 2008 according to CALI. The scale of our production has helped to manage costs due to our economies of scale as well as strengthened bargaining power in the procurement process. In 2009, we produced over 4 million units of electronic ballasts of which over 60% were exported overseas including, to the United States. We are also the largest producer of T4/T5 battens, spotlights and downlights in China based on production volume in 2008 according to CALI. Furthermore, the acquisition of Sunny has helped us to become a more vertically integrated producer of lighting products, thereby increasing our profit margin. The acquisition of Sunny has strengthened our knowledge and capabilities in the production process of energy-saving lamps, which, when combined with the experience and capabilities we have gained through our own experience as a lighting products specialist, have helped to continuously improve operating efficiency and lower costs at each stage of the production process.

Leading brand recognition

We believe that a successful brand is key to our development, as it enables us to distinguish ourselves from our competitors in the highly fragmented and competitive Chinese lighting products industry. In 2008, our “雷士” trademark was recognised as a “China Well-Known Trademark” (中國馳名商標) by the State Administration for Industry and Commerce of the PRC (國家工商行政管理局). We believe that our commitment to build the NVC brand has helped us to maintain our pricing power, gain customer loyalty and expand our customer base.

Equally important to recognition by the general public is the recognition of our NVC brand among lighting professionals within the industry. The lighting professionals, which mainly include architects, interior designers, landscape designers and lighting consultants, have significant influence over customer purchasing decisions and brand selection for lighting products. In a survey among lighting professionals conducted by the China Architecture Decoration Association (中國建築裝飾協會) in 2009, our NVC brand was named the most popular brand in China among lighting professionals in a number of lighting product categories including No. 1 in commercial, hotel and outdoor lighting and No. 2 in energy-saving and residential lighting.

As a reflection of our successful brand-building efforts, we became the largest domestic supplier of lighting products for the construction projects associated with the Beijing 2008 Olympic Games. We have also been

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awarded contracts for the Guangzhou 2010 Asian Games, the Shanghai World Expo 2010, high speed railway projects and terminals at major airports in China. Recognition of our brand has been further enhanced by our contracts for these major events and large infrastructure projects.

Wide-reaching distribution network and effective distribution model

The first branded outlet to sell NVC brand products was opened by one of our distributors in 2000. We were among the earliest lighting product companies in China to market and sell products through branded outlets. This approach has helped us increase the awareness of our brand and products in a relatively short period of time. Our products are currently distributed through a wide-reaching nationwide network, which as at 31 December 2009, comprises 36 exclusive regional distributors and 2,461 NVC outlets covering 31 provinces, municipalities and autonomous regions in China. We expect the breadth and depth of this distribution network to be instrumental in our effort to drive sales in smaller cities and rural areas in China.

Our distribution model distinguishes us from our competitors. Under this model, we manage our distributors through contractual arrangements without holding an ownership interest. This model allows us to focus our resources on the design, development, production and nationwide brand promotion of our products. Our distributors, with in-depth local knowledge, focus on local marketing activities and the management of local NVC outlets. We value our relationships with our distributors. To help our distributors continue to comply with our policies and meet their performance targets, we hold frequent meetings and work closely with them on various business and management decisions including the formulation of their own sales policies. Our in-house team members hold key management positions in all of our distributors and work on-site at the offices of our distributors on a full-time basis to help manage their daily operation and sales activities. Our distributors have the primary responsibilities of managing the operations as well as the sales and marketing activities at the NVC outlets and ensuring compliance with our policies and guidelines. We also actively monitor compliance with such policies and guidelines through regular on-site visits to the NVC outlets.

We believe that the wide reach of the NVC distribution network, when considered in light of the relationships that we have built with our distributors as well as the knowledge and experience that we and our distributors developed in managing lighting products distribution businesses, represents a significant and unique entry barrier to our PRC-based competitors.

Responsive and demand-driven research and development capabilities

The goal of our research and development efforts is to rapidly develop and roll out new products to meet the continuously changing demands and preferences of our end customers. These efforts primarily consist of developing new products and updating our products with the latest technology. For our large-scale projects, our research and development efforts also entail providing customised products and solutions to meet the specific requirements of our professional end customers. We have two research and development centres, one of which is in Huizhou, Guangdong Province, which focuses on developing new product designs for our luminaire products, and the other, which is in Shanghai, focuses on the research and development of energy-saving technology for lamp products and on the research and development of lighting electronics.

As at 31 December 2009, we had a total of 243 full-time employees dedicated to research and development, which includes 72 in Huizhou and 53 in Shanghai, and the remaining personnel stationed at production sites. In December 2008, our “Wing” (翔) series luminaire products, specially designed for the Beijing 2008 Olympic Games, were awarded the Gold Prize for design at the “China Red Star Design Award” organised by the China Industrial Design Association (中國工業設計協會), the Development Research Centre of the State Council (國務院發展研究中心) and the Beijing Industrial Design Centre (北京工業設計促進中心). As at 31 December 2009, we had developed 16 models of new energy-saving lighting products at our Shanghai research and development centre. Our “Xuan Liang” (炫亮) T2 lamp under “Guang Mang” (光芒) series reached the highest efficient energy level of national standards. We are also actively monitoring the technological and market development of LED-based lighting products, and have commenced our LED research efforts.

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Proven ability to acquire and integrate strategic targets

To complement the growth of our business, we have made a number of strategic acquisitions and investments in recent years. These acquisitions and investments have diversified our product offering, increased our production capabilities and strengthened our global presence. In 2008 we completed the acquisition of Sunny, a leading producer of light tubes for energy-saving lamps in China, and in 2009, the acquisition of Shanghai Arcata, a leading producer of electronic ballasts in China. As a result of these two acquisitions, we are well-positioned to capture future growth as demand for energy-saving products increases, and have become a more vertically integrated producer of complete luminaire products. In 2007, we expanded our distribution capabilities in the UK, which is a key overseas market, by establishing UK NVC with two partners that have extensive experience and networks in the UK lighting products industry. Since our acquisitions and establishment of these businesses, we have allocated significant resources to centralise the management of various aspects of the business, including sales, costs and expenses, research and development and human resources, to increase control and operational efficiency.

Experienced management team with proven track record

We are led by an experienced and dedicated management team, which brings strong industry knowledge and execution capabilities. In particular, Mr. Wu Changjiang, our founder, chairman and president, has over 15 years of experience in the PRC lighting products industry and has received numerous high profile awards such as “China’s Excellent Entrepreneur for Private Technology Company of Year 2007” (2007年中國優秀民營科技企業家) awarded by the All-China Federation of Industry and Commerce (全國工商聯合會) and the China Non-governmental Science Technology Entrepreneur Association (中國民營科技實業家協會). The remaining members of our management team have an average of 10 years of experience in their respective fields. In addition, we have benefited from significant support from SAIF and GS, our pre-IPO investors, in refining our corporate governance structure and developing our growth strategy. Under the leadership of our management team, we have experienced significant growth, and we believe we will continue to deliver sustainable growth for our company in the future.

OUR BUSINESS STRATEGIES

We aim to become the dominant leader in the PRC lighting products industry as well as a leading player in the global market. We intend to achieve this goal by implementing business strategies with the following key aspects:

Strengthen market leadership

We intend to strengthen our leading market position in China. To that end, we plan to focus on the following areas:

- *Enhance customised solutions capabilities.* We intend to strengthen our capability to provide customised lighting products and solutions to large-scale projects, such as public infrastructure projects, as we believe this capability will continue to allow us to distinguish ourselves from our competitors.
- *Increase production scale for standardised products.* A significant portion of our products are relatively standardised, including lamps, lighting electronics as well as certain luminaire products such as battens and lighting louvers. With respect to these products, we intend to significantly increase our production capacity and volume to increase economy of scale and lower production costs and product prices.
- *Diversify product offering.* In an effort to become a one-stop destination for our customers’ lighting needs, we plan to diversify into lighting products for specialised applications, such as outdoor lighting and construction lighting, and emerging product areas such as LED-based lighting products. We plan to allocate additional resources for the development of these products accordingly.

Increase brand penetration and build a “green” image

We have historically focused on the marketing and sale of office and commercial lighting products. In recent years, we have expanded our product offering significantly to meet the demands of a wide range of retail and

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professional end customers. Accordingly, we have increased, and intend to continue to increase, our brand recognition among the general population. As we increase sales penetration, we will increasingly seek to build our NVC brand as a lighting specialist offering products that meet the demands of all end customers.

In addition, as our end customers become more environmentally conscious, and as demand for environmentally friendly products increases, we will seek to increase awareness in the general population of our capabilities in the field of energy-saving lighting products and focus our marketing efforts on building a “green” image for our products. To this end, we plan to allocate more resources to marketing activities designed to promote our environmentally friendly image, including the launch of a recycling project for obsolete compact fluorescent lamps. We will also continue to focus our research and development efforts on energy-saving lighting products to keep abreast of the latest changes in technology and customer preferences.

Strengthen and expand domestic distribution channels

We plan to continue to strengthen and expand the distribution channels for our products in China. To this end, we intend to:

- expand the number of NVC outlets, including in small- to large-sized cities and in rural areas in China to increase sales penetration;
- increase specialisation among existing NVC outlets to better meet the needs of our different end customers, and in particular, through developing and expanding the number of NVC outlets focusing on professional end customers, which often have more specialised needs than retail end customers; and
- introduce new channels of distribution, such as sales in supermarkets.

Continue international expansion

We seek to be a leading global participant in the lighting products industry, and believe that overseas markets will become an increasingly important source of our growth in the future. In more developed markets such as North America and Europe where distribution channels for existing products are more established, we plan to build up our distribution network both through making strategic acquisitions or investments and through selectively hiring sales teams with experienced professionals. In emerging markets such as South America where there are less developed distribution channels, we plan to develop our own distribution networks through contractual arrangements with local distributors and open NVC outlets based on our distribution model in China.

Enhance our research and development capabilities with a focus on energy-saving products

The goal of our research and development efforts will continue to be rapidly developing and rolling out new products to meet the continuously changing demands of end customers. In particular, to meet the growing demand for energy-saving products from an increasingly environmentally conscious end customer base, we plan to allocate additional resources to the development of these products. The second phase of our Zhejiang production centre, which is expected to occupy approximately 106,405 sq.m., is planned to focus exclusively on the production of energy-saving lamps. Furthermore, as demand for LED-based lighting products increases, we plan to focus more resources on LED research at our Shanghai research and development centre, as well as cooperate with the leading universities and research institutions in China on these research efforts. As a result of our research efforts, we expect to introduce a number of new LED-based lamp and luminaire products in 2010. In addition to energy-saving lighting products, we intend to continue to focus our resources on general product development as part of our product diversification efforts, as well as on improvements to operating efficiency at various stages of the production process.

Selectively pursue acquisition and investment opportunities

We intend to continue to acquire products, businesses or technologies that can be synergistically combined with our own. The highly fragmented nature of our industry offers us the opportunity to identify potential partners or targets for acquisition. We plan to acquire products that would complement our existing product line and businesses that would allow us to maximise the utilisation of our distribution network. In integrating and consolidating future acquisitions, we expect to capitalise on our previous successful experiences in

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acquiring and consolidating companies and their products. We believe that through the implementation of our acquisition strategy, we will be able to build on our own strengths as well as those of others, thereby enhancing our market competitiveness.

OUR PRODUCTS




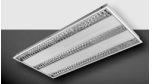
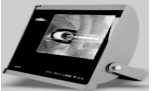

We design, develop, produce, market and sell a variety of lighting products through the following product segments:

- *Luminaire products.* A luminaire is generally considered to be a complete lighting unit that consists of a lamp (namely the light source such as a light bulb or tube), an outer shell for lamp alignment and protection, and a lighting electronics appliance (e.g. a ballast). We offer a majority of our luminaire products, including spotlights, downlights, battens and LED-based lights, as complete lighting units. Our remaining products, including lighting louvers, are sold without lamps;
- *Lamp products.* Our lamp products primarily consist of a range of light bulbs and tubes for compact fluorescent lamps (namely energy-saving lamps), HID lamps, fluorescent lamps, halogen lamps and LED lamps; and
- *Lighting electronics products.* Our lighting electronics products primarily consist of electronic transformers, electronic and inductive ballasts for fluorescent and HID lamps, and HID ballast boxes.

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Luminaire Products

We have historically focused on commercial (such as retail chains and department stores) and office lighting products. Lighting products for commercial use generally include battens, spotlights and downlights. We have expanded our luminaire product lines to include approximately 9,000 products. According to CALI, we are the largest producer of T4/T5 battens in China based on 2008 production volume. We sell our luminaire products as complete lighting units or units without lamps based on the needs of our end customers. The table below sets forth the key products series of each of our luminaires product categories, among which T4/T5 battens and LED series are energy-saving products.






| Key Product Series | Numbers of Product Series | Key Products | Application Areas | Sample Product Picture |
|----------------------------------|---------------------------|--|--|---|
| Spotlight series (射燈系列) | 11 | Electronic rail-guided metal halide spotlight (電感式導軌金鹵射燈) Embedded tungsten halogen spotlight (嵌入式鹵鎢射燈) (equipped with halogen lamps and electronic transformers) | retail shops, exhibition halls and shopping malls |  |
| Downlight series (筒燈系列) | 7 | Inductive florescent downlight (電感式熒光筒燈) Small diameter screw fluorescent downlight (小口徑螺口熒光筒燈) (equipped with fluorescent/halogen lamps and inductive/electronic ballasts) | retail shops, hotels, restaurants, and shopping malls |  |
| Batten series (支架系列) | 4 | T4/T5/T8 battens (T4/T5/T8電子支架) (equipped with fluorescent lamp tubes) | offices, schools, hotels, factories, shopping malls and supermarkets |  |
| Lighting louver series (燈盤系列) | 7 | T5/T8 louvers (T5/T8燈盤) (without lamps) | offices, schools and hotels |  |
| Outdoor series (戶外系列) | 16 | Floodlight (投泛光燈) | parking areas, public places, expressways, city roads and sport arenas |  |
| LED series (LED系列) | 17 | LED wall washer series (LED投光燈) | parking areas, public places, expressways, city roads and sport arenas |  |

OUR BUSINESS

Lamp Products

Our lamp products consist of five major product categories, namely compact fluorescent lamps, HID lamps, fluorescent lamps, LED lamps and halogen lamps, the first four categories of which are energy-saving products. According to CALI, we are the largest producer of energy-saving lamps in China based on 2008 production volume. In addition to selling lamp products designed and produced by us in-house, we have entered into an agreement with General Electric to sell HID lamp and lighting electronics products produced by General Electric to our distributors for sale at the NVC outlets. Such sales were US\$4.1 million in 2008 and US\$1.5 million in 2009. Our agreement with General Electric is expected to terminate in August 2010.




The table below sets forth the key product series of each of our lamp product lines.

| Key Product Series | Numbers of Product Series | Key Products | Energy-Saving/ Non-Energy-Saving Products | Application Areas | Sample Product Picture |
|---------------------------------------|---------------------------|---|--|--|---|
| Compact fluorescent lamp (緊湊型熒光光源) | 5 | T2 twist energy-saving lamp (T2螺旋型節能燈) | Energy-saving product | home, hotels and offices |  |
| HID lamp (HID光源) | 3 | Low power metal halide lamp (小功率石英金鹵光源) | Energy-saving product | retail shops, hotels, shopping malls and offices |  |
| Fluorescent lamp (熒光光源) | 5 | T4/T5/T8 fluorescent lamp tubes (T4/T5/T8熒光燈管) | Energy-saving product | offices, hotels, schools and factories |  |
| Halogen lamp (鹵鎢光源) | 5 | Halogen lamp cup (鹵素燈杯) | Non-energy-saving product | shopping malls, retail shops, hotels, restaurants and home |  |
| LED lamp (LED光源) | 3 | LED light bulb (LED燈泡) | Energy-saving product | shopping malls, retail shops, hotels, restaurants and home |  |

OUR BUSINESS

Lighting Electronics Products

Our lighting electronics products mainly consist of (i) electronic and inductive ballasts for fluorescent appliances; (ii) electronic and inductive ballast and ballast boxes for HID lamps appliances; and (iii) electronic transformers for halogen appliances. According to CALI, we are the largest electronic ballast producer in China based on 2008 production volume. The table below sets forth the key product series of each of our lighting electronics product categories among which electronic ballasts are energy-saving products.

| Key Product Series | Numbers of Product Series | Key Products | Application Areas | Sample Product Picture |
|--|---------------------------|---|--|---|
| Electronic ballast and inductive ballast for fluorescent appliances (熒光電器) | 5 | T5/T8 electronic ballast (T5/T8電子鎮流器) | offices, retail shops schools and factories |  |
| Electronic ballast and inductive ballast and ballasts boxes for HID appliances (HID電器) | 2 | Low power inductive ballast box (小功率電感電器箱) | offices, retail shops schools and factories |  |
| Electronic transformer for halogen appliances (鹵鎢電器) | 3 | Low power electronic transformer (小功率電子變壓器) | retail shops, hotels and home |  |

OUR BRAND

We believe that a successful brand is key to our development, as it enables us to distinguish ourselves from our competitors in the fragmented and highly competitive Chinese lighting products industry. Accordingly, since our early days, we have focused on marketing lighting products under our own brand, NVC (雷士). We believe that we were among the earliest lighting product companies in China to market and sell products through branded outlets. This approach has helped us increase the awareness of our brand and products in a relatively short period of time. The first NVC outlet was opened by one of our distributors in 2000. Today, our products are distributed through a network of 36 exclusive regional distributors and 2,461 NVC outlets in China.

We have historically focused on the marketing and sale of office and commercial lighting products. Accordingly, we adopted “NVC Commercial Lighting” (雷士商業照明) as our brand name to target mid-to high-end corporate end customers. As we began to expand our product offering, our targeted end customer base expanded to include residential and outdoor lighting end customers, and our branding strategy was adjusted accordingly. We began to promote our brand image as a lighting specialist. We market ourselves to our end customer base as the “Expert in Lighting Environment” (光環境專家). Our claim is supported by our market position as a leading lighting products supplier in China, as well as by the full range of lighting products and solutions we currently offer. Capitalising on our experience and capabilities with lighting products, we also offer lighting solution services, which we provide design services and produce customised products to meet the specific needs of our professional end customers.

As our end customers become more environmentally conscious, and as demand for environmentally friendly products increases, we will seek to increase awareness in the general population of our capabilities in the field of energy-saving lighting products and focus our marketing efforts in building a “green” image for our products. To this end, we plan to allocate more resources to marketing activities designed to promote our environmentally friendly image, including the launch of a recycling project for obsolete energy-saving lamps. We will also continue to focus our research and development efforts on energy-saving lighting products to keep abreast of the latest changes in technology and customer preferences.

OUR BUSINESS

Our brand-building efforts are reflected in our leading market position in China, as well as the awards and recognitions we have received, including:

- one of the “Top Ten Brands of the Industry” (行業十佳品牌) named by China Association of Decorative Building Materials (中國建築裝飾裝修材料協會) in 2002;
- one of the “Ten Most Competitive Brands of China’s Lighting Sector in Year of 2003” (2003年中國照明行業最具競爭力十大名牌) named by the China Illumination Engineering Society (中國照明學會) and the China Brand Promotion Association(中國名牌促進會) in 2003;
- “Guangdong Famous Trademark” (廣東省著名商標) named by the Administration Bureau of Industry and Commerce of Guangdong Province (廣東省工商行政管理局) in 2004;
- “Guangdong Top Brand” (廣東省名牌產品) named by the Quality and Technology Supervision Bureau of Guangdong Province (廣東省質量技術監督局) in 2005;
- “Most Influential Brand of the Year” for 2005 (2005年度最具影響力品牌) named by the Guangdong Lighting and Electronic Product Association (廣東省照明電器協會) in 2006;
- a “China Well-Known Trademark” (中國馳名商標) by the State Administration for Industry and Commerce of the PRC (國家工商行政管理總局) in 2008;
- the “Most Popular Commercial Lighting Brands Among Chinese Designers in Year of 2009” (2009年最受中國設計師歡迎商業照明領袖品牌) by the China Architecture Decoration Association (中國建築裝飾協會) in 2009; and
- the “Merit Green Enterprise” of the “CAPITAL Entrepreneur Green Enterprise Awards 2010” organised by CAPITAL Entrepreneur Magazine in 2010.

As a further reflection of our diligent brand-building efforts and leading market position, we became the largest domestic supplier of lighting products for the construction projects associated with the Beijing 2008 Olympic Games, and were selected as a qualified lighting products supplier and a sponsor to the Guangzhou 2010 Asian Games.

SALES AND DISTRIBUTION

We distribute and sell a majority of our products in China. In recent years, our international sales have also become more significant. In 2009, our sales in the PRC and international sales represented 79.3% and 20.7%, respectively, of our total revenue. We sell both NVC brand products and non-NVC brand products (which are primarily sold on an ODM basis) both in the PRC and in the overseas market. In 2009, sales of NVC brand products and non-NVC brand sales represented 62.6% and 37.4%, respectively, of our total revenue.

We apply different sales and distribution approaches to sales of our NVC brand products in China, international sales and non-NVC brand sales.

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Distribution of Branded Products in the PRC

Overview

As at 31 December 2009, the distribution network of our products comprised 36 exclusive regional distributors and 2,461 NVC outlets covering 31 provinces, municipalities and autonomous regions in China including 31 provincial capital cities, 275 district-level cities and 1246 county-level cities. The following diagram illustrates the geographic distribution of the NVC outlets in the PRC as at 31 December 2009:



Distribution Model

In the PRC, we sell substantially all of our NVC brand products on a wholesale basis to our exclusive regional distributors, who have the exclusive right to distribute our NVC brand products within a defined geographical region in China. Revenue derived from sales to our distributors accounted for approximately 86.5%, 70.8% and 58.7% of our total revenue for 2007, 2008 and 2009, respectively. We recognise revenue from the sales of goods to our distributors when our NVC products are dispatched from our warehouse, because at that time the distributors have accepted the related risks and rewards of ownership. Our distributors generally sell our products to end customers through NVC outlets (which are operated either directly by such distributors or by third party outlet operators), and sometimes directly to end customers on large-scale orders such as public infrastructure projects. Occasionally, we sell products directly to end customers such as governmental institutions and large chain-store companies at their request, and enter into back-to-back arrangements with our distributors by which they will be responsible for product supply and after-sale service. We manage our distributors through contractual arrangements and do not hold any equity interest in any of our distributors.

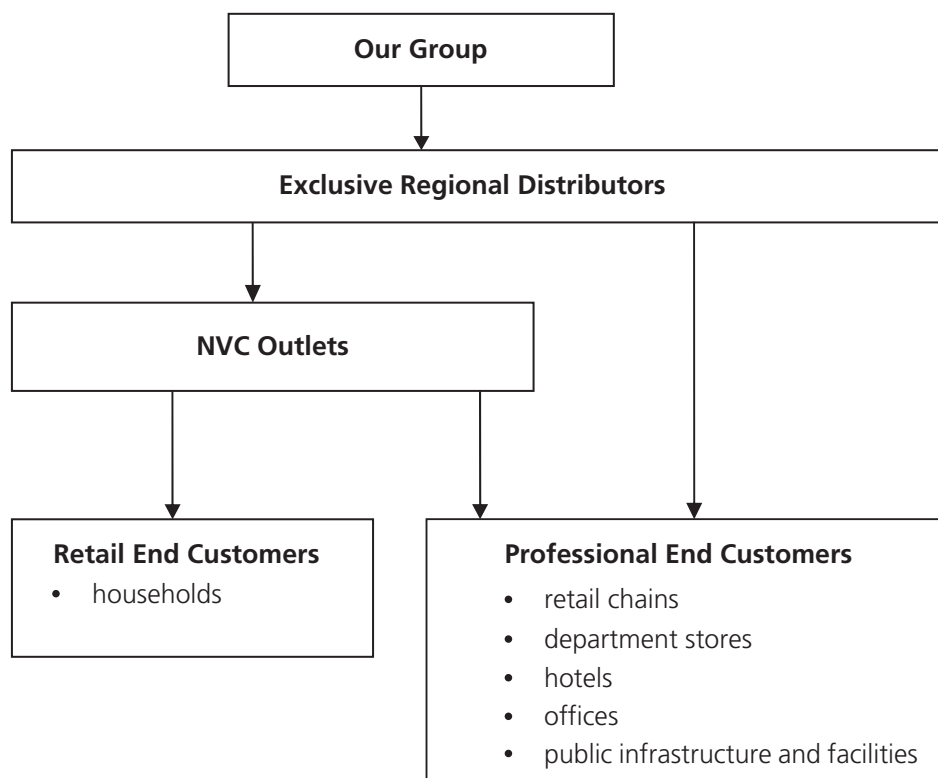
OUR BUSINESS

The following table sets forth the breakdown of our revenue from sales in the PRC by means of distributors, ODM and direct sales during the Track Record Period:

| | Year ended 31 December | | | | | |
|--------------------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2007 | | 2008 | | 2009 | |
| | Revenue (US\$'000) | % of total revenue | Revenue (US\$'000) | % of total revenue | Revenue (US\$'000) | % of total revenue |
| Distributors | 112,462 | 94.5% | 181,462 | 85.8% | 179,584 | 74.0% |
| ODM sales | 3,947 | 3.3% | 29,400 | 13.9% | 60,418 | 24.9% |
| Direct sales | 2,659 | 2.2% | 644 | 0.3% | 2,591 | 1.1% |
| Total revenue | 119,068 | 100% | 211,506 | 100% | 242,593 | 100% |

The NVC outlets operated by our distributors and their third party outlet operators serve two functions. The NVC outlets serve as retail outlets for our retail end customers. In addition, we provide through NVC outlets our sales support, design and after-sales services for our professional end customers. Our retail end customer base primarily consists of household consumers which typically purchase a small volume of our lighting products at the NVC outlets. Our professional end customer base primarily consists of (i) retail chains (e.g. restaurants and brand apparel stores), (ii) department stores, (iii) office buildings, (iv) hotel operators, and (v) public infrastructure and facilities projects, which include city outlook improvement projects undertaken by the government, schools, museums, hospitals, airports, railway stations, and sport stadiums.

The following diagram illustrates our primary distribution model for the sales of NVC brand products in the PRC:



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The following table sets forth the additions, terminations and total number of our distributors and NVC outlets (operated by our distributors and third party outlet operators) during the Track Record Period:

| | Year ended 31 December | | |
|--|------------------------|--------------|--------------|
| | 2007 | 2008 | 2009 |
| Distributors | | | |
| Additions | — | — | 2 |
| Terminations | — | — | 2 |
| Total | <u>36</u> | <u>36</u> | <u>36</u> |
| NVC Outlets | | | |
| Additions | 275 | 481 | 512 |
| Terminations | 73 | 120 | 265 |
| Total | <u>1,853</u> | <u>2,214</u> | <u>2,461</u> |
| Outlets Operated by Distributors | 100 | 91 | 100 |
| Outlets Operated by Third Party Outlet Operators | 1,753 | 2,123 | 2,361 |

We believe that we derive significant efficiencies from our distribution model through such alignment of responsibilities with the relative experience and capabilities. Our distribution model allows us to closely manage our distributors and NVC outlets more cost effectively. Our distributors, with more in-depth local knowledge than us, are allowed to focus on local marketing activities and the management of local NVC outlets.

Management of Distributors

The following is a summary of the key terms in our typical distribution agreement with our exclusive regional distributors in the PRC:

- *Geographical exclusivity.* Our distributors have the exclusive right to distribute our products in their defined geographic regions;
- *Product exclusivity.* Our distributors are prohibited from selling any products similar to our products sold at the NVC outlets that they operate;
- *Performance targets.* Our distributors are required to meet minimum purchase targets;
- *Pricing.* Our distributors are required to comply with our pricing guidelines in their sales to third party outlet operators; we maintain standard pricing policies with all of our distributors in the PRC; our NVC brand products are sold to all of our distributors at a uniform discount to the suggested retail price of the products;
- *Compliance with policies.* Our distributors are required to ensure that all NVC outlets under their operation or management observe our policies and guidelines in various aspects including brand image maintenance, outlet layout, inventory management, product pricing, customer service standards, marketing activities and after-sale services;
- *Evaluation of overall performance.* Our distributors are subject to our evaluation of their overall performance on a quarterly basis, including purchase volume, pricing, management and sales team and establishment of new NVC outlets; we may order the distributors that have failed to pass the quarterly evaluation to improve their performance within next quarter of the year;
- *Payment and credit terms.* We grant our distributors credit periods which are determined based on annual sales performance, financial conditions and credit profiles of the distributors; we frequently require payments in full from our distributors before delivery of products, while occasionally, at the request of certain distributors, we may grant a credit period of up to 120 days based on their financial conditions and historical sales performance;

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- *Intellectual property rights.* Our distributors are only allowed to use our intellectual property in connection with the sale of our products and are not permitted to sell any products that may infringe upon our intellectual property rights;
- *Duration.* The agreement has a term of one year, renewable on an annual basis, subject to, among other things, the performance of the distributors; and
- *Termination.* We reserve the right to terminate the distribution agreement if the distributor, among other things, (i) fails to meet the purchase target under the distribution agreement; or (ii) sells our products outside of its defined geographic region.

We have strong relationships with our exclusive regional distributors, to which we refer as our operating centres. To help our distributors continue to comply with our policies and meet their performance targets, we hold frequent meetings and work closely with them on various business and management decisions including the formulation of their own sales policies. We have adopted a secondment arrangement pursuant to which many of our employees are seconded to our distributors (the “Secondees”) where they hold key management positions (such as head of sales team) on a full-time basis to help manage business operation and sales activities of our distributors. Currently our in-house team comprises approximately 150 employees holding key management positions in all of our distributors. The Secondees, who are employed and remunerated by our Group, are responsible for reporting business and sales performance of the distributors to the management team of the Group, through which we are able to closely monitor and oversee daily operation and sales activities of our distributors. They act as the coordinators between our Group and the independent distributors including providing us with timely updates on the sales activities and ensure that each step of the distribution process is consistent with our expectations and requirements, and performing other duties including, among others, formulating promotion and marketing plans, assisting in the selection and decision making process on the locations and specific design of retail stores operated by our distributors, participating in the discussion of overall strategies with and evaluating feedback from our end customers. Although sales support, design and after-sale services to the end customers are mainly provided by our distributors, our employees work onsite at the offices of our distributors to work closely with them to provide such services to the end customers. We do not receive any consultancy fees or other compensation for providing such services to our distributors and therefore do not derive any revenue from the secondment arrangement. Our Directors are of the view that the secondment arrangement is an innovative model developed by the Company for the management of its distribution channels and, on the basis that our Directors are not aware of any other major players in the lighting industry who have adopted this model, this model is believe to be unique and is not a usual and normal practice within the lighting industry.

Criteria for Selection of Distributors

We consider a range of factors when selecting our exclusive regional distributors. We generally select our distributors based on the following criteria:

- experience in the lighting products industry;
- management capabilities;
- ability to develop and operate a network of NVC outlets in a designated sales region; and
- financial and logistical resources.

As at 31 December 2009, we had 36 distributors which are Independent Third Parties. Approximately 75% of our distributors have maintained a business relationship with us since 2005. During the Track Record Period, we terminated two distributorships because they either failed to meet our sales and expansion targets, managed their sales network unsatisfactorily or did not adhere to our sales and pricing policies.

Management of NVC Outlets

We promulgate policies and guidelines in respect of the operation of NVC outlets in various respects including outlet layout, inventory management, product pricing, customer service standards, marketing activities and after-sale services. Our distributors are required to ensure that their third party outlet operators follow our

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policies and guidelines. In particular, with respect to product pricing, third party outlet operators may, after taking into account local market conditions and customer preferences, sell products at a discount to the suggested retail price but their pricing policies are subject to our prior approval. Our distributors are required to obtain approval from us prior to authorising the opening of new outlets and closing of existing outlets. We also work closely with our distributors to open new outlets. Our in-house team assigned to work at the sites of our distributors, together with our distributors, regularly conduct on-site inspections of the NVC outlets. In 2009, a total of 265 NVC outlets were closed primarily due to sales performance and replacement with outlets at new locations, most of which were opened from 2006 to 2008. It did not include any NVC outlets which were newly opened in 2009.

While we do not have direct contractual relationships with the third party outlet operators, our distributors enter into separate agreements with the third party outlet operators and require them to comply with our standard operating procedures. Third party outlet operators breaching any of the terms stipulated in their agreements with our distributors may be subject to penalties including the termination of their authorisation to sell our products. During the Track Record Period, there were four instances where the authorisation of the third party outlet operators was terminated by our distributors for their authorisation to sell our products primarily due to repeated non-compliance with the policies formulated by our distributors.

Training and Incentive Programmes

To help our distributors and third party outlet operators manage the operations of NVC outlets, we regularly organise in-house training programmes in a variety of areas, including sales and marketing, retail management, product information, customer service, and sales planning for our distributors and third party outlet operators. We have retained Shanghai Jiao Tong University (上海交通大學) to conduct regular business management training courses for key personnel working at our distributors and third party outlet operators.

In addition, we provide various types of subsidies to our distributors and third party outlet operators as an incentive to expand our sales network and enhance our NVC brand image. For example, we provide certain renovation subsidies to qualified NVC outlets through our distributors. We also provide certain subsidies to our distributors and third party outlet operators to incentivise them to conduct marketing, promotional and advertising campaigns and programmes. Furthermore, we periodically provide product catalogues and product application handbooks to our distributors free of charge. In 2009, we selected approximately 30 key outlet operators nationwide to receive personnel allowance and marketing subsidies provided that they meet certain minimum purchase targets.

International Sales

We began marketing our NVC brand products in the overseas markets in 2006. As at 31 December 2009, a total of approximately 50 series of our products were sold in over 40 countries around the world. Our largest export market was the United Kingdom in 2007 and the United States in 2008 and 2009. Sales in the United Kingdom accounted for 4.0% of our revenue in 2007, and sales in the United States accounted for 5.3% and 12.1% of our revenue in 2008 and 2009, respectively. In 2009, our international sales represented 20.7% of our total revenue.

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A key component of our growth strategy is to increase our international sales. Our international sales strategy has two components. For regions with well-established local distribution channels such as Europe and North America, we plan to continue to penetrate into the local market through both making strategic acquisitions or investments and selectively hiring sales teams with qualified professionals. In emerging markets such as South America, we plan to engage more local distributors and open NVC outlets based on our distribution model in the PRC. A breakdown of our revenue from international sales by means of direct sales and overseas distributors during the Track Record Period is set out in the following table:

| | Year ended 31 December | | | | | |
|--------------------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2007 | | 2008 | | 2009 | |
| | Revenue (US\$'000) | % of total revenue | Revenue (US\$'000) | % of total revenue | Revenue (US\$'000) | % of total revenue |
| Direct sales | 6,826 | 62.1% | 33,989 | 75.7% | 54,066 | 85.6% |
| Distributors | 4,174 | 37.9% | 10,920 | 24.3% | 9,111 | 14.4% |
| Total revenue | 11,000 | 100% | 44,909 | 100% | 63,177 | 100% |

As at 31 December 2007, 2008 and 2009, we had entered into distribution agreements with 10, 12 and 19 overseas distributors, respectively. As at 31 December 2009, our 19 overseas distributors covered a total of 19 countries and regions globally. For the remaining countries and regions where our products are currently exported to, we sell our products directly to our customers, instead of engaging local distributors. The following is a summary of the key terms of our typical distribution agreements with our overseas distributors:

- our distributors have the exclusive right to distribute our products in their defined geographic countries/regions;
- our distributors are authorised to use our NVC trademarks for advertising our products in their local markets;
- our distributors are prohibited from selling any products same or similar to our products;
- our distributors are required to meet minimum annual purchase targets;
- our distributors are required to maintain sufficient sales, engineering and after-sale service personnel;
- we ship our products on a free-on-board basis; we usually receive full payment before we dispatch our bill of lading while sometimes we offer a credit period of 30 to 60 days to our distributors;
- our distributors are required to provide us with regular reports regarding, among others, their inventory and local marketing conditions;
- we reserve the right to terminate the distribution agreement if the distributor, among others, fails to meet the purchase target or sells our products outside of its defined geographic country/region; and
- the distribution agreements usually have a term of one to five years.

As a part of our implementation of this strategy, in 2007, we expanded our distribution capabilities in the UK, which is a key overseas market, by establishing UK NVC with two partners who have extensive experience and networks in the UK lighting products industry. Within a short period of time, our NVC products gained significant recognition by the local market and currently we sell our NVC products in the top three UK chain stores for electronic goods. As at 31 December 2009, approximately 34% of our products sold through UK NVC are NVC brand products. In 2007, 2008 and 2009, our sales through UK NVC were approximately US\$4.5 million, US\$8.0 million and US\$7.8 million, respectively, representing approximately 40.9%, 17.8% and 12.4% of our international sales for these periods.

Our Directors are not aware of any non-compliance with the energy-saving laws and regulations in the countries where we sell or intend to sell our products to. The central government of India has imposed an anti-dumping duty on certain lighting products (such as CFL) imported from the PRC since March 2010. Revenue from exports to India accounted for approximately 0.3%, 1.6% and 0.1% of the Group's total revenue in 2007, 2008 and 2009, respectively, among which, revenue from exports of CFL to India (which is currently

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subject to anti-dumping duty) accounted for approximately 0.6% and less than 0.1% of the Group's total revenue in 2008 and 2009, respectively. As a percentage of total export revenue, exports to India were 3.2%, 9.3% and 0.5% in 2007, 2008 and 2009, among which, exports of CFL (which is currently subject to anti-dumping duty) to India were 3.4% and 0.1% in 2008 and 2009, respectively. The Group did not record any revenue from exports of CFLs to India in 2007. Given that the exports sales of CFL to India only constitute a minor percentage of the Group's total revenue and total export sales during the Track Record Period, the Directors are of the view that such anti-dumping measures would not materially and adversely affect the Group's business and results of operation.

The Directors are not aware of any anti-dumping, other punitive tariff measures or any similar legislation, restrictions or matters which may have a material adverse effect over the Company's performance. For more information about potential anti-dumping laws or tariffs, see "Risk Factors — We must satisfy the laws, regulations and industry standards of various jurisdictions. Failure to comply with these rules and standards or failure to make timely adjustments in response to the changes of such rules and standards would have a material and adverse effect on our business and results of operations."

Sales of Non-NVC Brand Products

Our sales of non-NVC brand products primarily consist of sales on an ODM basis. We began our OEM business in 1998, which has since then transitioned to an ODM business whereby we design products for our ODM customers in accordance with their specifications. We believe that our ODM business complements our branded lighting business and helps us to keep abreast of the latest lighting technologies, market trends and quality control standards.

Our ODM products, which mainly include lighting electronics, energy-saving lamps and light tubes for energy-saving lamps, are primarily sold to, or have been incorporated into the products of, a number of leading domestic and international lighting brands. We primarily sell our ODM products through our subsidiaries including Shanghai Arcata, Zhejiang NVC and Sunny. Shanghai Arcata and Zhejiang NVC design and produce lighting electronics and energy-saving lamps, respectively, and sell their products to their customers. Sunny, as the largest producer of light tubes for energy-saving lamps in China, sells these tubes to leading domestic lighting brands which in turn assemble various components and parts to produce complete luminaire and lamp products for export. In addition, we produce a small portion of ODM luminaire products at our production centre in Huizhou. In 2007, 2008 and 2009, the revenue derived from our ODM business which makes up the majority of our sales of non-NVC brand products totaled approximately US\$3.9 million, US\$47.2 million and US\$103.3 million, respectively, representing 3.0%, 18.4% and 33.8%, respectively, of our total revenue for these periods.

We usually prepare a prototype product for our ODM customer's approval before coordinating with our suppliers to commence production. The agreements with our ODM customers usually have a term of one year. We typically grant our ODM customers credit terms ranging from 30 to 90 days.

Trademark Licensing Arrangements

To further promote our brand name and broaden our product offering, we have entered into trademark licensing agreements with a number of lighting products manufacturers in the PRC, some of whom are the associates of Mr. Wu, for the production of certain residential luminaires and lighting switches using our registered trademarks including "NVC", "雷士", "雷士LEISHI" and "光環境專家". The products of these licensees are complementary to our existing product portfolio and are primarily sold to our distributors through our distribution network, who in turn sell these products to end customers through NVC outlets. We require our licensees to manufacture products which conform to our brand images and quality control standards. Under the licensing agreements, we also have the right to appoint external auditors to review the financial records of these licensees.

Under the licensing agreements, our licensees pay us 3% of their annual turnover as the licence fee which is settled with us on a quarterly basis. For those licensees who sell lighting products through our distribution network, we charge 6% to 8% of their sales through our distribution network as a distribution commission. The licensing agreements normally have a term of three years. For the years ended 31 December 2007, 2008

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and 2009, the total licence fees we received from the licensees were approximately US\$1.3 million, US\$1.8 million and US\$2.2 million, respectively, and the total distribution commission were nil, US\$0.7 million and US\$2.4 million, respectively. All of this income was derived from associates of Mr. Wu.

Return Policy

Our return policy only permits our distributors to return products to us due to material quality defects. Our distributors are expected to inspect the products upon delivery and, where defective products are found, may report the alleged defect to us. In 2007, 2008 and 2009, the amount of total sales returns (due to quality defect, misdelivery and other reasons) was approximately US\$1.2 million, US\$2.6 million and US\$4.5 million respectively, representing approximately 0.9%, 1.0% and 1.5% of our total revenue during the same periods. In light of the small number of products involved, our Directors considered that there was no financial impact on us caused by such returns. Furthermore, the standard operating procedures which we require our distributors to adhere to and which they in turn require third party outlet operators to adhere to state that claims regarding defective products from end consumers should be handled in accordance with applicable consumer protection laws, which generally require defective products to be accepted for return if claimed within certain prescribed time periods. Our products sold in China typically have a warranty period of 12 months to 24 months. During the Track Record Period, we did not receive any material claims or incur any material costs in relation to product warranty and have not made provisions for potential warranty liabilities.

Top Five Customers

Our top five customers, accounted for approximately 30.9%, 30.0% and 24.3%, respectively, of our total revenue, and our largest customers accounted for approximately 8.7%, 7.1% and 6.3%, respectively, of our total revenue for the years ended 31 December 2007, 2008 and 2009.

None of our Directors, our chief executive or any person who, to the knowledge of our Directors owns more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our Group's top five customers, during the Track Record Period.

MARKETING AND PROMOTION

Marketing and promotional activities are a critical aspect of our operations and have significantly contributed to our brand image and sales. We have developed targeted marketing and promotional activities aimed at our professional end customer base vis-a-vis our retail end customer base.

Our principal marketing and promotional activities targeted at our retail and professional end customers include:

- **Brand promotion events.** Our NVC brand products are well-recognised among lighting professionals such as architects, interior designers, landscape designers and lighting consultants, who we regard as an important channel for our brand promotion. We periodically organise lighting brand events in a number of major cities in the PRC, and invite our distributors, lighting professionals, city planning organisations, industry associations and the media to attend these events. In 2009, we launched the "Lighting Design Forum" (光環境設計大講堂) in which we invite well-known architects and interior designers to attend and introduce the latest technologies and trends in lighting products design.
- **Sponsorship.** We sponsor a number of public events to promote our NVC brand. In 2005, we sponsored the China Entrepreneur Summit (中國企業領袖年會). In 2009, we became one of the designated lighting product providers and a sponsor for the Guangzhou 2010 Asian Games. We also selectively sponsor movies to enhance our brand image with the general public.
- **Community service.** We actively participate in community service activities. In 2009, we launched the "Bright Journey" (光明行) campaign, in which our employees periodically visit schools and families in economically under-developed areas and provide free NVC energy-saving lamps for their classrooms and homes. Since the launch of this campaign, we have visited 16 schools and more than 1,000 families in Guizhou, Sichuan, and Guangdong and have made donations valued at approximately US\$33,000. We

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received the “Huizhou Charity Award” (惠州慈善獎) from the Huizhou Municipal Government for our contributions to the community.

- **NVC lighting application centre.** In 2009, we launched our first “NVC lighting application centre” (NVC光環境演示中心) in Huizhou, Guangdong Province. The centre provides a platform for us to display our lighting solutions and their applications and effects by illustrating different scenes where our NVC brand products may be used, such as in the office and in hotels.
- **Joint marketing activities.** In April 2009, we launched the “Champion Alliance” (冠軍聯盟) promotion programme with five other leading household product providers in the PRC. The members of this alliance will conduct brand promotion activities together in different cities in China. As part of this alliance, purchasers of two company's product will be eligible to obtain vouchers for purchasing products from other brands at a discount.
- **Advertisement.** We place advertisements in professional and high end magazines such as China Entrepreneur (中國企業家) and China Economic Weekly (中國經濟週刊). We also advertise on buses, trains, airports and outdoor billboards to broaden the exposure for our brand name.

In addition to the marketing and promotional activities that we undertake, our distributors also contribute to the marketing and promotion of our brand by conducting local promotional activities within their geographic areas. Other than our nationwide marketing campaigns where we bear the marketing costs and marketing subsidies provided to distributors at our discretion, the operating costs and marketing costs of the NVC outlets are borne by the distributors and their third party outlet operators. In 2007, 2008 and 2009, our marketing and promotional expenses were approximately US\$5.9 million, US\$4.2 million, and US\$8.2 million, respectively.

PRODUCTION

As at 31 December 2009, we had a total of five production centres with a total gross floor area of approximately 266,165 sq.m.. Our production staff consisted of approximately 10,375 workers as at 31 December 2009.

The following table sets out the details of our production centres for the periods shown:

| Location | Luminaire production facilities | | Lamp production facilities ⁽¹⁾ | | Lighting electronics production facilities |
|--|----------------------------------|-----------------------------|---|---|--|
| | Huizhou City, Guangdong Province | Wanzhou District, Chongqing | Centre No.1, Jiangshan City, Zhejiang Province ⁽²⁾ | Centre No.2, Jiangshan City, Zhejiang Province ⁽³⁾ | Qingpu District, Shanghai |
| Commencement date of production . . | November 1998 | December 2006 | September 2007 | September 1994 | March 2006 |
| Number of production lines as at 31 December 2009 | 35 | 37 | 13 | 60 | 3 |
| Gross floor area (sq.m.) | 135,667 | 46,102 | 13,575 | 63,913 | 6,908 |
| Annual production capacity as at 31 December 2009 (units) ⁽⁴⁾ | 60,000,000 ⁽⁵⁾ | 43,000,000 ⁽⁵⁾ | 54,000,000 ⁽⁵⁾ | 215,000,000 ⁽⁶⁾ | 6,750,000 ⁽⁵⁾ |
| Actual production volume as at 31 December 2009 (units) | 49,535,367 | 35,517,280 | 47,000,000 | 170,900,000 | 4,405,473 |
| Average utilisation rate | 82.6% | 82.6% | 87.0% | 79.5% | 65.3% ⁽⁷⁾ |

Notes:

(1) We also have lamp production facilities in Fujian Province in addition to Zhejiang production centres, and the Fujian production centre has a total production volume and capacity as at 31 December 2009 of approximately 24,424,755 units and 50,000,000 units, respectively.

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

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

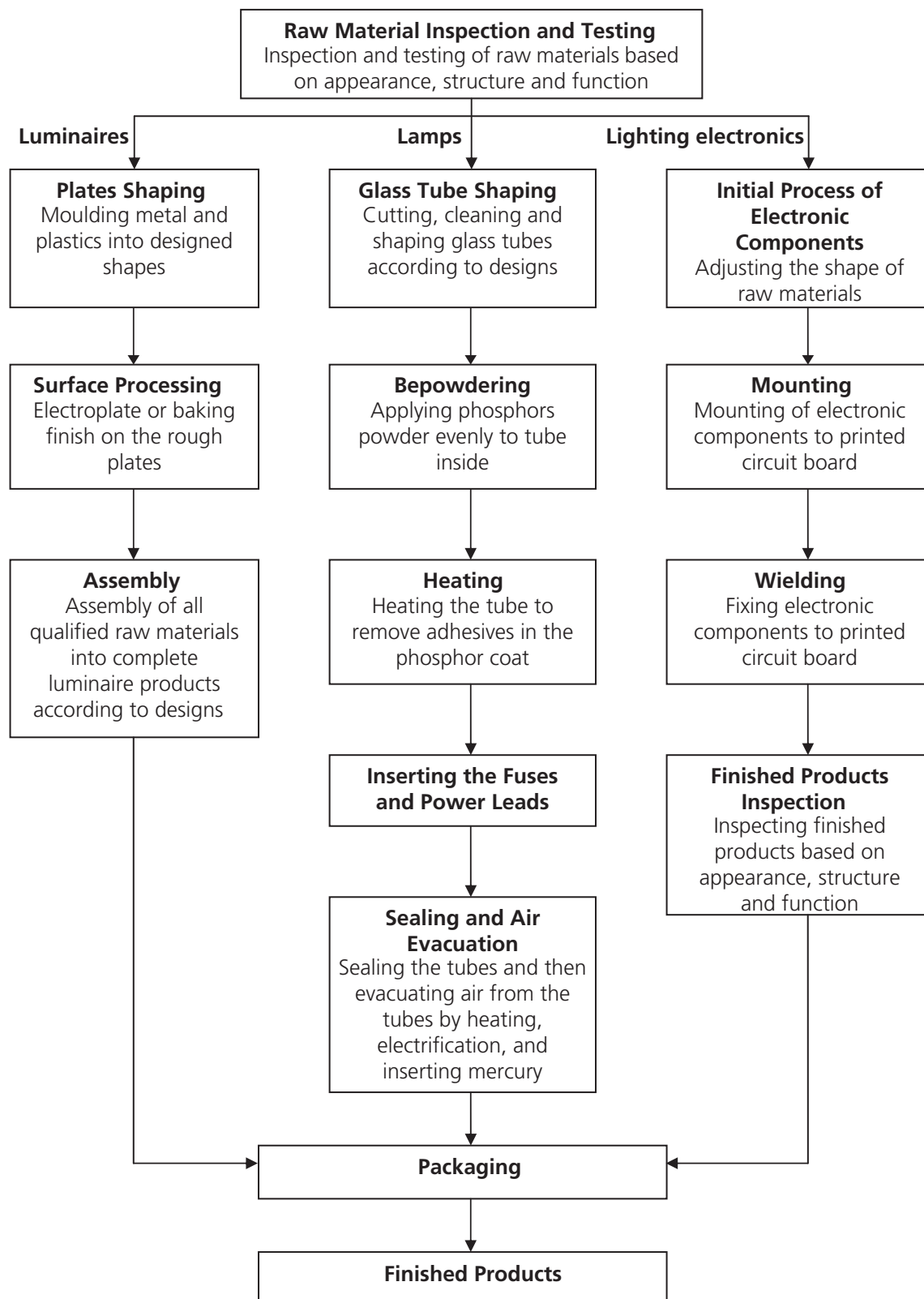
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- (4) Annual production capacity is an estimate we make with regard to each period taking into account a number of factors and assumptions, including, among others: number of production lines, amount of equipment and personnel, estimated rate of production per worker per hour, and number of hours and days our workers work per month. As a result, there can be no assurance that total amounts we would have been able to produce in any period would not have been higher or lower than the actual amount we produce for such period.
- (5) Calculated based on an 8-hour shift.
- (6) Calculated based on a 12-hour shift.
- (7) Although the average utilisation rate for the Shanghai production centre was 65.3% for 2009, the production lines of the Shanghai production centre are currently more fully utilised due to the rapid expansion of the international and domestic sales network for our electronic ballasts. The Company intends to increase the annual production capacity of the Shanghai production centre by 60% in light of the anticipated increase of our domestic and international sales of electronic ballasts.

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Production Process

The diagram below illustrates the major production steps for our lighting products:



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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 China 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 certifications such as CSA (Canada) and UL (US).

To enhance our quality management system, we have established a laboratory in our production centre in Huizhou with advanced equipment and stringent testing standards for lighting products that exceed quality control standards imposed at the national level. As at 31 December 2009, we had approximately 620 employees performing quality control functions. Our total sales returns accounted for approximately 0.9%, 1.0% and 1.5% of our total revenue in 2007, 2008 and 2009, respectively.

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.

During the Track Record Period, we did not receive any notification in respect of any sample reviews undertaken by the General Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) or any notice of penalty for failure to pass any sample reviews.

RESEARCH AND DEVELOPMENT

We believe technological innovation is critical to our sustained success in the lighting products market. We currently have two research and development centres, located in Huizhou, Guangdong Province and in Shanghai. As at 31 December 2009, we had a total of 243 full-time employees dedicated to research and development which includes 72 in Huizhou and 53 in Shanghai, and the remaining research and development personnel stationed at production sites.

Our research and development capability covers a variety of products, ranging from lamps and lighting electronics to luminaires. Supported by a national standard laboratory, our research and development centre in Huizhou is dedicated to the development of luminaire products catering to both commercial needs and mass consumption. Established in July 2008, our research and development centre in Shanghai focuses on the research and development of energy-saving lamp products and lighting electronics products.

The goal of our research and development efforts is to rapidly develop and roll out new products to meet the continuously changing demands and preferences of our end customers. These efforts primarily consist of developing new products and updating our products with the latest technology. For our large-scale projects, our research and development efforts also entail providing customised products and solutions, to meet the specific requirements of our end customers.

We have developed our own technical know-how to raise the performance of production equipment and the automation level of our production. By applying such technical know-how to production, we are able to lower consumption of raw materials and labour costs, as well as costs incurred by human error.

Our research and development teams are led by a number of well-known experts in the lighting products industry such as Mr. Zhou Xiang(周詳), who is the general manager of our research and development centre in Shanghai, who worked for Philips as a senior engineering consultant for 15 years. In addition, our research and development capabilities are further strengthened by our long-term cooperation relationships with a number of top Chinese universities and research institutions. Our total expenditures for research and development

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amounted to approximately US\$0.6 million, US\$1.3 million and US\$6.4 million, for the years ended 31 December 2007, 2008 and 2009, respectively.

As at 31 December 2009, our research and development teams have developed 65 patented technologies which are already in use in our products including eight patents for our products developed for the Beijing 2008 Olympic Games. In December 2008, our “Wing” (翔) series luminaire products specially designed for the Beijing 2008 Olympic Games, were awarded the “Gold Prize” for design at the “China Red Star Design Award” organised by China Industrial Design Association (中國工業設計協會), Development Research Centre of the State Council (國務院發展研究中心) and Beijing Industrial Design Centre (北京工業設計促進中心). In addition, we are currently in the process of applying for the registration of 11 patents in the PRC.

SUPPLY CHAIN

Contract Manufacturers

In addition to producing our NVC brand products using our own production facilities, we outsource a small portion of production to a number of contract manufacturers, which produce some of our luminaire products and some of the components used in our lamp products. Currently, we do not manufacture some of these outsourced products because we believe that our outsourced production arrangement is more cost-efficient and we do not directly undertake the operational and financial risks and expense associated with the production of such outsourced products. Currently, we outsource production to four major contract manufacturers, which are Independent Third Parties. We have established a business relationship with these contract manufacturers for an average of two years. We generally enter into one-year outsourcing contracts with these contract manufacturers and orders under those contracts are placed with them according to our production needs throughout the year. We do not restrict all of our contract manufacturers from production for other companies that compete with us.

The contracts entered into between the contract manufacturers and us typically stipulate that we provide our contract manufacturers with the designs and specifications of the products. The contract manufacturers, in turn, provide raw materials, labour, factory premises and necessary equipment for production purposes. The contracts also stipulate that all intellectual property rights in connection with the design, manufacturing equipment or materials provided by us under the contracts belong to us. Transfer or disclosure of technical information in whole or in any part to third parties is not permitted without our prior consent. We normally pay processing fees to the contract manufacturers on a monthly basis through bank settlements. The cost of outsourced production was approximately US\$42.2 million, US\$65.5 million and US\$43.3 million, representing 42.5%, 33.8% and 19.5% of our total cost of sales for the years ended 31 December 2007, 2008 and 2009, respectively.

We select contract manufacturers only after rigorous inspection and assessment, including sample product testing, in accordance with our standard outsource administration measures. We monitor the performance of our contract manufacturers on an ongoing basis to ensure compliance with our standards for quality and to maintain the consistency of our products.

Raw Material Suppliers

The principal raw materials used in the production of our lighting products consist of cold coils, lacquered wires, copper and aluminium materials, glass components, phosphors, fuses, mercury, printed circuit boards, resistors and condensers. We source these materials mainly from domestic suppliers which are in close proximity to each of our production facilities. We believe this is both convenient and economical as it helps us reduce procurement costs.

We select raw material suppliers based on financial profile and ability to provide good quality supplies at a reasonable price. New candidates that apply to become our suppliers are required to go through a stringent selection process. We usually make a preliminary selection of the candidates by requiring them to provide us with relevant production licences, following which we conduct a site visit to evaluate their production facilities and quality control systems. While the price of raw materials is usually negotiated beforehand, our raw

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material suppliers may discuss altering the price based on certain market fluctuations. We have been granted credit periods of between 30 to 90 days by our raw material suppliers.

We have developed stable relationships with many of our key suppliers over the past years. We retain at least two suppliers for each principal raw material. We have not encountered any material disruption to our business as a result of a shortage of raw materials, and we have not experienced and do not envisage that we will experience any material difficulties in sourcing raw materials for our requirements.

Top Five Suppliers

Our suppliers include our raw material suppliers and contract manufacturers. In 2007, 2008 and 2009, our five largest suppliers accounted for approximately 19.6%, 28.8% and 14.3%, respectively, of the aggregate amount of purchases from all suppliers and our largest supplier accounted for approximately 5.2%, 10.0% and 5.0%, respectively, of the aggregate amount of purchases from all suppliers.

Except for Mr. Wu and Mr. Wu Jiannong, being two executive Directors, none of our Directors, our chief executive, or any person who (to our knowledge) owns more than 5% of the issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our top five suppliers during the Track Record Period.

Inventory Management

We strive to reduce excess levels of raw materials and finished goods in our inventory while maintaining our ability to meet the supply demands of our customers. We maintain a certain level of inventories of finished products and procure raw materials according to the production plan based on our prediction of the demand from our distributors. We seek to maintain a consistent level of inventories of our lighting electronics products and the raw materials used to produce them, as those products are more standardised and orders from customers are constant over the year. We do not maintain steady inventories of our luminaire and lamp products manufactured for ODM customers. Procurement of raw materials used in the production of those products only takes place when the customer places its order. Orders are usually placed with us two to four weeks in advance of delivery of raw materials, depending upon the complexity of the order and our capacity at the time.

We also monitor the inventory of our distributors and require our distributors to maintain a stable inventory level under the distribution agreement with us. Our distributors are required to provide us with monthly sales and inventory reports about our products within their geographic areas. We, together with the distributors, conduct random inventory inspection of NVC outlets operated by third party outlet operators. By closely monitoring the sales level of our distributors, the Directors are not aware of any circumstances where distributors purchased products from us without intending to sell the products to their customers during the Track Record Period. The Directors are also not aware of an unreasonable or unusual build up of inventory levels at our distributors.

Our inventory balances as at 31 December 2007, 2008 and 2009 were approximately US\$21.0 million, US\$21.7 million and US\$47.6 million, respectively, and our average inventory turnover days were 56.6, 40.3 and 57.0 for the years ended 31 December 2007, 2008 and 2009, respectively.

Logistics and Transportation

We believe that an effective logistics management system is essential to our business performance and enables efficient product replenishment. We have established four regional distribution centres which are strategically located in Guangdong, Jiangsu, Chongqing and Beijing, and which are responsible for dispatching products to our distributors located in South Eastern China, Eastern China, South Western China, and Northern China, respectively. These distribution centres have four warehouses with a total gross floor area of approximately 26,000 sq.m. to store allocated inventory. As at 31 December 2009, our logistics team comprised of 435 full-time employees working at our production facilities and distribution centres.

Our finished products are initially delivered from our production premises to warehouses located in the distribution centres and then dispatched to our distributors. For our ODM products, we arrange direct delivery

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to our ODM customers. We engage third-party transportation companies to deliver products to our distributors and ODM customers. We generally bear the cost of such transportation. Depending on the urgency of the order from our distributors, we usually utilise road or maritime transportation as our delivery method.

COMPETITION

The demand for lighting products has been growing significantly in recent years, due in part to the continuing economic growth in the PRC. We compete with an increasing number of international and domestic lighting companies for brand recognition in the lighting market, market share in China, product variety, product design, product quality, marketing and promotion, price, distribution and retail channels. This competition has led to increasing market concentration, with a selected number of leading brands continuing to gain market share over less established, lower-end brands.

Since we market a wide array of products to a variety of customers, we face different competitors depending on the targeted customers. International brands, such as Osram, Philips and General Electric, are our main competitors in the mid to high-end market while domestic brands compete with us for low- to mid-end markets.

MANAGEMENT INFORMATION SYSTEM

Our management information system is crucial to our efficient management in procurement, inventory control, logistics, distribution and sales. In September 2004, we established our centralised enterprise resource planning system, or ERP system, which is currently used for financial management, production planning, sales and distribution, raw material management and the consolidation of group financial information. This system enables us to monitor and exchange information including information on our supply and distribution chain among various departments. We also have other separate management information systems such as SAP and separate research and development information systems, human resource management systems, and customer relationship management system.

EMPLOYEES

As at 31 December 2009, we had a total of 10,375 full-time employees. The following table shows a breakdown of our full-time employees by functions as at that date.

| | As at 31 December 2009 | |
|--|------------------------|----------------------|
| | Number of employees | % of total employees |
| Production | 8,820 | 85.0% |
| Management/Administration | 425 | 4.1% |
| Procurement/Logistics | 398 | 3.8% |
| Sales/Marketing/Planning | 355 | 3.4% |
| Design/Research/Development | 243 | 2.3% |
| Finance | 68 | 0.7% |
| Others (human resources, audit and information technology) | 66 | 0.6% |
| Total | 10,375 | 100% |

Remuneration of our employees includes basic wages, production unit allowances, bonuses and other staff benefits. For the years ended 31 December 2007, 2008 and 2009, we incurred labour costs of approximately US\$9.6 million, US\$21.2 million and US\$39.8 million, respectively.

We usually enter into individual employment contracts with our employees directly. However, at our production centre in Shanghai, as at 31 December 2009, we engaged 123 production workers through two employment agencies. Our agreements with these two employment agencies provide that they employ the workers and then dispatch those workers to our production facilities to work in our production process. Pursuant to these agreements, we may request the agencies to provide certain number of workers on as needed basis. We may interview these workers before they are dispatched to work at our Shanghai production

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centre. We have agreed to pay a monthly management fee of RMB30 to RMB50 per worker to the agencies. The working hours, remuneration and social benefits of these workers are generally at the same level with our own employees working in the same positions. Their remuneration and social benefits will be paid by us to the agencies and in turn paid to the dispatched workers. Our PRC legal advisors confirm that if we duly perform our obligations pursuant to our agreements with the employment agencies but the employment agencies fail to perform their obligations pursuant to their agreements with individual dispatched workers, such employment agencies will assume any liabilities arising therefrom.

We have designed an appraisal system to assess the performance of our employees. This system forms the basis of our determinations of whether an employee should receive salary raises, bonuses or promotions. We believe the salaries and bonuses that our employees receive are competitive with the market rate. Under applicable PRC laws and regulations, we are subject to social insurance contribution plans, work-related injury insurance and maternity insurance schemes. We believe that we have complied with relevant national and local labour and social welfare laws and regulations in China in all material respects.

We place a strong emphasis on providing training to our staff in order to enhance their technical and product knowledge, comprehension of industry quality standards, and work place safety standards. We also provide regular training to help our staff improve their sales and marketing skills.

INSURANCE

We maintain different types of insurance policies, including product liability, transport accident insurance, vehicle insurance, property casualty insurance and real estate insurance. As at 31 December 2009, we have not received any material insurance claims against us.

INTELLECTUAL PROPERTY RIGHTS

Trademarks

We currently market and sell most of our lighting products using the NVC brand. We recognise the importance of registering our brand names as trademarks for protection against infringement. As at 31 December 2009, we had 34 registered trademarks and nine applications for trademark registration in the PRC. Outside China, we have also maintained an international registration of the NVC trademark in 43 countries and regions, including US, UK, Korea, and Japan, as well as individual registrations of the NVC trademark in Hong Kong, Macau, Thailand and the Philippines.

Patents and Domain Names

Our patents are principally related to the structure, improvement, technology and exterior design of our lighting products. As at 31 December 2009, we had obtained three patent certificates for invention, 40 patent certificates for exterior design and 61 patent certificates for utility models. We are also in the process of applying for registration of 20 patents in the PRC, including two for invention, 14 for exterior design and four for utility models. Furthermore, as at 31 December 2009, we were the registered owner of 23 domain names.

During the Track Record Period, no material claims or disputes were brought against us in relation to any infringement of trademarks, patents or other kinds of intellectual property rights.

Counterfeit Products

We have discovered a number of counterfeit cases for our products in several provinces in the PRC. To address this issue, we have established a designated in-house team to protect our intellectual property rights. Where appropriate, we inform the relevant PRC government authorities of the existence of such counterfeit goods and request for appropriate actions to be taken to protect our intellectual property rights. We may also engage professional agents to watch for counterfeit products and commence legal proceedings before the PRC courts against the counterfeiting party. In 2007, 2008 and 2009, the total cost for the protection of our intellectual property rights was approximately US\$47,000, US\$68,000 and US\$190,000 respectively.

For details of our intellectual property portfolio, see “Appendix VI — Statutory and General Information — Intellectual property rights”.

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OUR PROPERTIES

Owned Land and Buildings

As at 28 February 2010, we owned 13 parcels of land with an aggregate site area of approximately 534,792.76 sq.m., for use as production facilities and offices to support our business activities and operations in the PRC. We have obtained the land use rights certificates for all such 13 parcels of land.

As at 28 February 2010, we owned 88 buildings with a total gross floor area of 240,081.18 sq.m.. We have obtained building ownership certificates for 82 buildings with a total gross floor area of 226,097.38 sq.m., accounting for approximately 94.2% of the total gross floor area of all buildings located in the PRC owned by our Group. Eight of the 82 buildings with a total gross floor area of 65,212.46 sq.m. were mortgaged to the Shenzhen Development Bank as security for an amount of RMB200 million pursuant to the mortgage agreements entered into between us and the Shenzhen Development Bank dated 2 July 2009.

As at 28 February 2010, we had not obtained relevant construction permits or ownership certificates for five of our buildings with a total gross floor area of 9,558.8 sq.m., accounting for approximately 4.0% of the total gross floor area of all our buildings located in the PRC.

One of the five buildings with a gross floor area of 7,850.3 sq.m. is located in Huizhou and was built by Huizhou NVC ("**Huizhou Building**"), which is currently used as warehouse. The remaining four buildings with a gross floor area of 1,708.5 sq.m. are located in Jiangshan City, Zhejiang Province and were built by Sunny ("**Sunny Building**"), which are currently used as gas supply workshops, warehouses and employee service centres. Huizhou NVC and Sunny did not obtain relevant construction permits before the commencement of construction of Huizhou Building and Sunny Building, as these five buildings failed to meet the regulatory requirements from local administrative authorities. Our PRC legal advisors, (Jun He Law Offices, have advised that the relevant administrative authority may either order us to rectify the situation within a prescribed time limit, demolish the buildings and/or impose a fine of up to 10% of the construction cost which is up to approximately RMB500,000 in respect of the failure to obtain the relevant construction permits before commencing construction of Huizhou Building and Sunny Building.)

We believe that the defective titles of Huizhou Building and Sunny Building are not crucial to, and will not have a material impact on our operations because: (i) the total defective gross floor area only accounts for approximately 4.0% of the total gross floor area of all our buildings located in the PRC; (ii) Huizhou Building and Sunny Building are currently used as warehouses, gas supply workshops, and employee service centres; and (iii) if we are required to vacate Huizhou Building and Sunny Building, our Directors estimate that additional costs of approximately RMB500,000 may be incurred, and it may take up to approximately one month to complete the relocation. Our Directors confirm that suitable properties in appropriate areas could be identified for relocation, if needed, and any such relocation is not expected to have any material adverse effect on our overall financial conditions and operations.

In addition, due to an urban planning scheme, we have to relocate our Zhejiang production facilities in Jiangshan City to another site in Jiangshan City designated by the local government. As at 31 December 2009, the carrying value of our Zhejiang production facilities amounted to approximately RMB120 million of which approximately RMB50 million is attributable to lands and buildings and the remaining approximately RMB70 million is attributable to machinery. We entered into relocation and compensation agreements with the local government in September 2009, pursuant to which the local government agreed to compensate us a total amount of compensation of RMB123 million for the relocation. Such compensation was calculated based on independent land and property valuation reports and local policies in Jiangshan City. As at the Latest Practicable Date, we have received RMB78 million for the compensation and based on the agreements with the local government, we will receive another RMB30 million within one week from commencement of the production and the remaining RMB15 million upon completion of the relocation. We also entered a land use right grant agreement with the local government in December 2009. In January 2010, we obtained a land use right certificate for a parcel of land with a site area of approximately 149,257.00 sq.m. at the new location. The construction of the new production facilities on such parcel of land started in October 2009 and is expected to be completed by 2010. Pursuant to the agreements with the local government, we are required to complete the relocation by June 2011 but we may extend such deadline

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in case of a delay if we are not responsible for the delay. The total construction costs for the new production facilities are currently estimated at RMB100 million (including the land costs associated with the new site) which will be covered by the compensation provided by the local government. In the event that the total construction costs exceed the compensation, we will use our own funds or bank loans to complete the relocation. We have obtained the relevant construction-related permits as required by PRC laws for the production facilities under construction at the new site and will apply the relevant permits for other production facilities as the relocation proceeds. In order to minimise the business disruption to our operation due to the relocation, we plan to construct and install new production facilities at the new site before the suspension of the existing production lines to be relocated. There will be no time gap between the commencement of production at the new site and the suspension of production at the relocated site. Therefore, the Directors believe that the impact or loss of such relocation on our operations is minimal.

Properties without Ownership Certificates

As at 28 February 2010, we held one property in Jiangshan City, Zhejiang Province with a gross floor area of 4,425 sq.m. for a new factory for production of light tubes for energy-saving lamps. The construction of that property started in November 2007 and the construction completion certificate has been obtained. We have obtained the relevant construction-related permits as required by PRC laws for that property. As such property is located in our Zhejiang production facilities to be relocated, we do not intend to apply for ownership certificates for that property prior to the relocation. According to a written confirmation letter issued by the local authority, we have been permitted not to obtain the ownership certificates prior to the relocation and the usage of the new factory upon completion is not affected by the lack of the ownership certificates. Therefore, the risk of our Group being prohibited from using that property is minimal.

Properties under Construction

As at 28 February 2010, we held one property under construction at Jingsan Road, Jiangshan, Zhejiang Province with a total planned gross floor area of approximately 106,405.00 sq.m. The proposed development is scheduled to be completed in 2010. The land use rights of the property have been granted for a term expiring on 20 January 2060 for industrial use.

Leased Properties

As at 28 February 2010, we leased 21 buildings or units with a total area of approximately 63,967.33 sq.m. from Independent Third Parties for offices, warehouses and industrial purposes. Of these 21 leased properties, our landlords for nine leased buildings or units have obtained the property ownership certificates and have registered six leases. However, our landlords have failed to obtain the relevant property ownership certificates for the other 12 leased properties and register the other 15 leased properties. Whether landlords have obtained relevant certificates or registered such leases is not a matter within the control of our Company and is dependent on the relevant landlords. However, as such 15 leased properties are not crucial to our operations (for office and warehouse purposes and vacant) and account for only 17.1% of our total leased floor area, our Directors believe that in the event we are required to vacate such leased properties, the relocation will not materially affect our business operations.

ENVIRONMENTAL AND SAFETY MATTERS

Environmental Matters

We are subject to environmental protection laws and regulations promulgated by the PRC Government. As advised by our PRC legal advisors, our products are, however, not subject to recycling measures imposed by PRC laws and regulations as at the Latest Practicable Date, and we currently do not use any recycled materials to manufacture our lighting products and neither our products nor their components are recyclable. Our production facilities discharge pollutants such as waste water (about 500 cubic metres annually) and solid wastes (about 50 tonnes annually) during our production process. We have implemented a set of stringent waste treatment procedures in our production facilities. Waste produced by us is treated in compliance with applicable environmental standards in our production facilities. In particular, we have procedures in place and designated special staff to treat and dispose of any hazardous waste such as mercury in compliance with

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applicable national waste treatment standards. In 2008, we obtained ISO14001 environmental control certification showing that our environmental management system complies with international standards. Our expenses in respect of environmental and work-safety compliance matters amounted to approximately US\$100,000, US\$37,000 and US\$219,000 in 2007, 2008 and 2009, respectively. We currently do not have any specific expenditure plan in this regard. However, we will devote operating and financial resources to such compliance whenever we are required by PRC laws and regulations to do so in the future.

As at the Latest Practicable Date, we had complied with applicable PRC laws and regulations on environmental protection in all material respects and obtained all the required environmental permits and approvals for our production facilities. As at the Latest Practicable Date, no environmental complaints or administrative penalties had been made against or imposed on us.

Safety Matters

We are subject to the PRC laws and regulations regarding labour work-safety. In order to ensure the safety of our employees, we implement operational procedures and safety standards for our production process. We provide our employees with occupational safety education and training to enhance their awareness of safety issues. In particular, for employees whose position involves exposure to hazardous raw materials such as mercury, we have special safety policies in place and closely monitor the usage of such raw materials in our production process. We also carry out equipment maintenance on a regular basis to ensure their smooth and safety operation. Our expenses in respect of environmental and work-safety compliance matters amounted to approximately US\$100,000, US\$37,000 and US\$219,000 in 2007, 2008 and 2009, respectively. We currently do not have any specific expenditure plan in this regard. However, we will devote operating and financial resources to such compliance whenever we are required by PRC laws and regulations to do so in the future.

As at the Latest Practicable Date, we had complied with the PRC work-safety regulatory requirements in all material respects and have not had any accidents or complaints which had materially and adversely affected our operations.

LEGAL PROCEEDINGS AND COMPLIANCE

We are involved, from time to time, in legal proceedings arising from the ordinary course of our operations. As at 31 December 2009, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation or arbitration is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial conditions.

As disclosed in Note 21(b) to the Accountants' Report in Appendix I to this prospectus, a portion of our other receivables consist of interest-bearing advances to distributors or suppliers with no fixed repayment terms. In particular, Sunny made loans to Wei Xiaoxian, an Independent Third Party, with an outstanding balance of US\$396,000 as at 31 December 2009, including interests. Our PRC legal advisors, Jun He Law Offices have confirmed that, except that interest for the loans made to Wei Xiaoxian that is over four times bench mark interest rate, is not protected by PRC law, these advances do not violate any PRC Law, rule or regulation.

As confirmed by our PRC legal advisors, Jun He Law Offices, as at 31 December 2009, we had obtained all the necessary licences, approvals and permits from appropriate regulatory authorities for our business operations in the PRC and have complied with the all the applicable PRC laws and regulations in relation to our business and operations in all material respects. See "PRC Regulatory Overview" for the details of the relevant laws and regulations. We have not been materially penalised by national or local authorities for violations of PRC laws and regulations.