The following discussion and analysis should be read in conjunction with our audited consolidated financial information, including the notes thereto, attached as Appendix I to this prospectus. We have prepared our consolidated financial information in accordance with International Financial Reporting Standards ("IFRSs") throughout the Track Record Period, which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. Our financial information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking information that involves risks and uncertainties. Accordingly, the results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods. Factors that could cause or contribute to such differences include those discussed in the section set forth under "Risk Factors". In addition, certain industry-related factors that affect our results of operations are described in "Industry Overview".

SUMMARY CONSOLIDATED FINANCIAL DATA

The following summary consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, the Accountants' Report set forth in Appendix I to this prospectus, as well as "— Management's Discussion and Analysis of Financial Condition and Results of Operations" below.

Summary Consolidated Income Statement Data

	For the year ended 31 December					
	2007		2008		2009	
	Amount	% of the total revenue	Amount	% of the total revenue	Amount	% of the total revenue
	(US$'000)		(US$'000)		(US$'000)	
REVENUE	130,068	100.0%	256,415	100.0%	305,770	100.0%
Cost of sales	(99,172)	76.2%	(193,507)	75.5%	(221,740)	72.5%
GROSS PROFIT	30,896	23.8%	62,908	24.5%	84,030	27.5%
Other income and gains	2,444	1.9%	5,017	2.0%	7,659	2.5%
Selling and distribution costs	(11,810)	9.1%	(15,230)	5.9%	(20,654)	6.8%
Administrative expenses	(6,616)	5.1%	(12,497)	4.9%	(26,588)	8.7%
Other expenses	(164)	0.1%	(712)	0.3%	(633)	0.2%
OPERATING PROFIT	14,750	11.3%	39,486	15.4%	43,814	14.3%
Finance income	827	0.6%	622	0.2%	755	0.2%
Finance costs	(2,710)	2.1%	(5,030)	2.0%	(8,737)	2.9%
Net fair value loss on convertible redeemable preference shares and warrant	—	—	(14,946)	5.8%	(15,780)	5.2%
Share of profits and losses of associates	(45)	0.0%	39	0.0%	58	0.0%
PROFIT BEFORE TAX	12,822	9.9%	20,171	7.9%	20,110	6.6%
Income tax (charge)/credit	54	0.0%	(2,103)	0.8%	(5,420)	1.8%
PROFIT FOR THE YEAR	12,876	9.9%	18,068	7.0%	14,690	4.8%

	For the year ended 31 December					
	2007		2008		2009	
	Amount	% of the total revenue	Amount	% of the total revenue	Amount	% of the total revenue
	(US$'000)		(US$'000)		(US$'000)	
Other comprehensive income						
Exchange differences on translating foreign operations	3,980	3.1%	4,986	1.9%	128	0.0%
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	16,856	13.0%	23,054	9.0%	14,818	4.8%
Profit for the year attributable to:						
Owners of the Company	12,850		17,949		12,843	
Minority interests	26		119		1,847	
	12,876	9.9%	18,068	7.0%	14,690	4.8%
Total comprehensive income attributable to:						
Owners of the Company	16,830		22,953		12,971	
Minority interests	26		101		1,847	
	16,856	13.0%	23,054	9.0%	14,818	4.8%

Summary Consolidated Balance Sheet Data

	As at 31 December		
	2007	2008	2009
	(US$'000)	(US$'000)	(US$'000)
Total current assets	55,485	147,907	187,346
Total non-current assets	66,463	150,790	168,368
Total assets	121,948	298,697	355,714
Total current liabilities	36,649	108,100	105,934
Total non-current liabilities	32,703	85,264	82,062
Total Liabilities	69,352	193,364	187,996
Net current assets	18,836	39,807	81,412
EQUITY			
Equity attributable to owners of the Company	51,018	103,654	164,192
Minority interests	1,578	1,679	3,526
Total equity	52,596	105,333	167,718

Summary Consolidated Cash Flow Statement Data

	Year ended 31 December		
	2007	2008	2009
	(US$'000)	(US$'000)	(US$'000)
Net cash flows from/(used in) operating activities	(56)	14,057	42,073
Net cash flows used in investing activities	(2,738)	(36,766)	(25,048)
Net cash flows from financing activities	6,318	32,459	4,849
Net increase in cash and cash equivalents	3,524	9,750	21,874
Cash and cash equivalents at beginning of year	8,599	11,603	22,085
Effect of foreign exchange rate charges, net	(520)	732	75
Cash and cash equivalents at the end of year	11,603	22,085	44,034

BASIS OF PRESENTATION

Our financial information has been prepared in accordance with IFRSs throughout the Track Record Period, which comprise standards and interpretations approved by IASB and IASs and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. Our financial information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

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

Our business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest. See "— Factors affecting comparability of results of operations — Acquisitions" in this section for more information about the impact of acquisitions on our business.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Minority interests represent the interests of outside shareholders not held by our Group in the results and net assets of the Company's subsidiaries, and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the equity attributable to owners of the Company.

We have not applied certain new and revised IFRSs which have been issued but not yet effective in our financial information. For more information on these IFRSs, see Note 3 to the Accountants' Report in Appendix I to this prospectus. We are in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, we have concluded that although the adoption of IFRSs 3 (revised) and IAS 27 (revised) may result in changes to our accounting policies, these new and revised IFRSs are unlikely to have a significant impact on our results of operations and financial position.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a leading supplier of lighting products in China. According to the CALI Report, we are the largest domestic lighting brand supplier and rank second amongst all lighting brand suppliers in China based on

revenue in 2009. 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. We design, develop, produce, market and sell a variety of lighting products. Our products consist of three principal categories — luminaire products, lamp products, and lighting electronics products. Our products are sold as NVC brand products, or as non-NVC brand products.

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 chain, department store chain, office, hotel 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 solutions 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 produce the majority of our products at our own production centres in China and outsource a small portion of production activities to a number of contract manufacturers. 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, who generally sell our products to end customers through NVC outlets. 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.

Since our establishment in 1998, we have experienced significant growth in our revenue. Our revenues for the years ended 31 December 2007, 2008 and 2009 were US$130.1 million, US$256.4 million and US$305.8 million, respectively. Our profit for the years ended 31 December 2007, 2008 and 2009 were US$12.9 million, US$18.1 million and US$14.7 million, respectively. Our profit for the years ended 31 December 2008 and 2009 reflected expenses (consisting of fair value changes of embedded derivatives of Preference Shares, fair value change from warrants and interest expense on Preference Shares) associated with the Preference Shares and warrants we issued to our pre-IPO investors totalling US$19.3 million and US$23.5 million for 2008 and 2009, respectively.

Significant factors affecting our results of operations and financial condition

Business Mix

- *Product mix.* We derive revenue from sales of products in three segments — luminaire products, lamp products and lighting electronics products. Historically, our revenue has been primarily derived from the sale of luminaire products. During the Track Record Period, primarily as a result of our acquisitions of World Through and Shanghai Arcata, the proportion of revenue derived from the luminaire products segment decreased from 69.3% in 2007 to 50.3% in 2009. The gross profit margins of each of our three segments has also changed during the Track Record Period. The gross profit margin for the luminaire products segment has increased from 22.2% in 2007 to 27.2% for 2009, reflecting among other things, a combination of product pricing changes and increasing vertical integration in production since we made our acquisitions. The acquisition of World Through has contributed to the higher gross profit margin for the lamp products segment, which increased from 19.8% in 2007 to 29.1% in 2009. With respect to our lighting electronics products segment, we lowered our product prices as part of our strategy to drive sales, which has contributed to a decrease in gross profit margin in this segment from 39.2% in 2007 to 22.9% in 2009. In the future, as we continue to seek to refine our product mix and sales strategy, as well as enhance production vertical integration, we anticipate that our revenue, gross profit margin and net profit margin will continue to be affected accordingly. In addition, as part of our strategy, we plan to significantly increase the production of our standardised products, including lamps, lighting electronics products and certain luminaire products such as battens and lighting louvers. The implementation of our strategy may also affect our product and revenue mix as both the production cost and selling prices of these standardised products are typically lower.

- *NVC brand sales vs. non-NVC brand sales.* Historically, revenue derived from sales of NVC brand products has represented a significant majority of our total revenue. As a result of our acquisitions of World Through and Shanghai Arcata in 2008 and 2009, respectively, the proportion of our revenue derived from non-NVC brand sales increased significantly during the Track Record Period. As a percentage of revenue, non-NVC brand sales increased from 8.2% in 2007 to 37.4% in 2009. Historically, we generally derived significantly higher gross profit margins from sales of our NVC brand products as compared with non-NVC brand products. As a result of our acquisition of World Through, the overall gross profit margins of our non-NVC brand products increased from 19.8% in 2007 to 26.9% in 2009, primarily reflecting the consolidation of World Through's results. In the future, the primary focus of our growth strategy will continue to be driving the sales of our NVC brand products. If our strategy is effectively implemented, we expect that the proportion of our revenue derived from brand products sales to increase, which in turn will affect our gross profit margin and net profit margin.

- *Domestic sales vs. international sales.* Historically, we have derived revenue primarily from sales in the PRC. During the Track Record Period, the proportion of our total revenue derived from international sales increased from 8.5% in 2007 to 20.7% in 2009. We have generally experienced significantly higher gross profit margins from our domestic sales than international sales, reflecting among other things, our market position, brand recognition and the wide reach of the distribution network for our products in the PRC. As part of our strategy, we intend to continue to expand our international sales, which in turn may negatively affect our overall gross profit margin. However, if our international strategy proves successful, as our pricing power increases and the distribution network for our products matures, we expect the gross profit margin of our international sales to improve accordingly.

Performance of the NVC outlets and our ability to expand and manage our distribution network

In the PRC, we sell substantially all of our NVC brand products on a wholesale basis to our exclusive regional distributors. These distributors, in turn, sell our products to end customers through NVC outlets which are generally operated by third party outlet operators. We believe our growth has been driven partly by the addition of new NVC outlets and an increase in sales growth at the existing NVC outlets from 2007 to 2008. The number of the NVC outlets operated by our distributors and third party outlet operators, increased from 1,853 as at 31 December 2007 to 2,461 outlets as at 31 December 2009.

As part of our strategy, we intend to continue to grow sales nationally, including in smaller cities and rural areas in China. Accordingly, our results of operations will be affected by the ability of our distributors to expand the network of NVC outlets as well as the business performance of the NVC outlets. Both of these factors, in turn, will depend on our ability to effectively manage our distributors and monitor the performance of the NVC outlets.

Cost of raw materials and vertical integration

Raw materials represent the largest component of our cost of sales. In 2007, 2008 and 2009, our raw material costs as a percentage of revenue were 38.7%, 43.9% and 44.4%, respectively. To remain competitive, we must obtain sufficient quantities of certain raw materials in a timely manner and at acceptable prices from our suppliers. While the composition of raw materials used in the production of our products is highly diverse, certain key raw materials include phosphors and glass components. The costs of some of these key raw materials are affected by factors such as fluctuations in both domestic and international commodities markets. Fluctuations in the costs of raw materials and our ability to pass on any increase in the costs of these raw materials to our customers will therefore affect our cost of sales and gross profit margin. For example, in the second quarter of 2008, in response to rising raw material prices, we increased the selling prices of our luminaire products. As raw material prices experienced a general decline from the second half of 2008, we lowered the prices on some of our products in 2009 to reflect the decrease in raw materials prices.

The degree of vertical integration in our production also affects our revenue and profitability. Our cost of sales includes outsourced manufacturing cost, which is the cost of purchasing semi-finished products produced by other manufacturers used in the production of our products. During the Track Record Period, our outsourced manufacturing cost as a percentage of revenue decreased from 32.4% in 2007 to 14.2% in 2009. The

decrease in outsourced manufacturing cost as a percentage of revenue primarily reflected our acquisition of World Through, which mainly produced light tubes for energy-saving lamps, many of which are used in the production of our luminaire products. Since our acquisition, we have increasingly incorporated World Through including its subsidiaries' lamp products into our luminaire products, thereby enhancing vertical integration and contributing to an increase in our overall gross profit margin. As part of our strategy, we intend to seek other acquisition opportunities to continue to improve the level of vertical integration in our production.

Acquisitions

During the Track Record Period, we made two significant acquisitions, that of World Through in 2008 and Shanghai Arcata in 2009. As a result of these two acquisitions, we believe we are well-positioned to capture further growth as demand for energy-saving lighting products increases, and have become a more vertically integrated producer of complete lighting products. In addition, our profit and amortisation cost have also increased as a result of these acquisitions. In the future, we intend to continue seeking acquisition opportunities to complement our existing product lines, strengthen our distribution network and improve production. Our ability to effectively identify opportunities, complete transactions and integrate targets could significantly impact our results of operations.

Market position, competition and pricing

We believe our leading market position and brand have enabled us to maintain our pricing power, gain customer loyalty and expand our customer base. Our ability to maintain the position of our NVC brand will affect our profitability, market share and growth prospects. In addition, the lighting products industry is highly competitive. We compete with international brands, such as Osram, Philips and General Electric, in the mid- to high-end market, and other domestic brands in the low- to mid-end markets.

In addition, competition plays a role in our pricing. The retail and wholesale prices of lighting products are typically adjusted based on prevailing market conditions and our market position vis-a-vis those of our competitors. Historically, we sold a majority of our products to the distributors on a wholesale basis. From our experience, profit margins from sales to distributors have generally been more stable and less susceptible to market fluctuations, as compared to retail prices. However, we do adjust our wholesale prices from time to time to increase market share and enter into new markets overseas. Any adjustment in the prices of our products, which may reflect the combined effect of our market position, competitive positioning and pricing strategies, will continue to have an impact on our results of operations.

Growth of the PRC economy and the real estate sector

The demand for our products is significantly affected by macro-economic conditions in the PRC. In particular, demand for lighting products is affected by the growth of the commercial and residential real estate development industries in the PRC, which could in turn be affected by a number of factors, such as the strength of the commercial and residential property markets, the level of disposable income, consumer confidence, unemployment rate, interest rates, credit availability and volatility in the stock markets.

Since our establishment in 1998, the PRC economy has experienced significant growth, including in its real estate development sector. However, similar to other major economies of the world, the PRC economy has been adversely impacted by the recent financial crisis. The effect of the financial crisis was particularly strong in highly cyclical sectors such as real estate development. Our operating results were also impacted by the financial crisis. While the real estate sector in the PRC has recovered to a certain extent since the financial crisis, we expect that it will continue to be cyclical in the future. In particular, the real estate sector is highly susceptible to changes in government policies. We expect that the demand for our products and our operating results to continue to be affected by the real estate development sector and the general macro-economic growth in the PRC.

Factors affecting comparability of our results of operations

We completed two significant acquisitions in 2008 and 2009, as a result of which our results of operations for 2007, 2008 and 2009 may not be directly comparable to each other. In addition, we issued convertible redeemable preference shares and warrants to our pre-IPO investors in 2006 and 2008, which affected our net

profit during the Track Record Period. Upon completion of the Global Offering, these preference shares will convert into ordinary shares, and we expect they will no longer have an impact on our net profit.

Acquisitions

We completed the acquisitions of World Through on 30 August 2008 and Shanghai Arcata on 20 February 2009 and began consolidating their results since those respective dates. From the date of acquisition, World Through contributed US$7.2 million to our net profit for 2008. Assuming the acquisition had been completed by 1 January 2007, or the beginning of the Track Record Period, our revenue in 2007 and 2008 would have been US$196.4 million and US$302.5 million, respectively; and our net profit would have been US$23.8 million and US$20.7 million, respectively. From the date of acquisition, Shanghai Arcata contributed US$0.6 million to our net profit for 2009. Assuming the acquisition had been completed at the beginning of the Track Record Period, our revenue in 2007 and 2008 would have been US$140.3 million and US$269.4 million, respectively; and our net profit would have been US$12.5 million and US$18.2 million, respectively. These acquisitions have also led to an increase in the amortisation costs of intangible assets of US$0.5 million and US$3.0 million for 2008 and 2009, respectively. Please refer to Note 6 to the Accountants' Report in Appendix I to this prospectus for further details about the business combinations with World Through and Shanghai Arcata.

Issuances of preference shares and warrant

In August 2006, we issued to SAIF and SAIF Tianjin 505,051 and 50,505 Series A-1 Preference Shares, respectively, for an aggregate consideration of US$22.0 million. In October 2007, SAIF Tianjin transferred its 50,505 Series A-1 preference shares to SAIF. In August 2008, we issued 208,157 and 28,471 Series B preference shares to GS and SAIF for an aggregate consideration of US$41.6 million.

As part of SAIF's investment in 2006, we issued a warrant to SAIF to purchase up to 97,125 Series A-2 preference shares at an aggregate purchase price of US$5.0 million (US$51.48 per share), subject to certain adjustments. SAIF exercised its warrant in full in September 2008.

The issuances of these preference shares and the warrant affected our results in the Track Record Period in a number of respects, including:

- *Net fair value loss on convertible redeemable preference shares and warrant.* The preference shares have been accounted for as a financial instrument, with embedded derivative features split into host liability and derivative components according to their fair values. On issuance of the preference shares, the fair value of the embedded derivative is determined based on valuation, and the amount is carried as a current liability until extinguished upon conversion or redemption. The embedded derivative is re-measured at each balance sheet date and any gains or losses arising from a change in fair value are recognised in the consolidated income statements. In 2008 and 2009 our profits for the year were affected by the fair value changes of the conversion feature embedded preference shares. We recorded net fair value losses on our convertible redeemable preference shares of US$13.5 million in 2008 and US$15.8 million in 2009. As a result of a waiver entered into on 31 December 2009 (the "**Preference Shares Waiver Letter**"), the holders of our preference shares waived certain anti-dilution rights that gave rise to adjustments of the conversion price. Accordingly, as of 31 December 2009, the conversion features of these preference shares have been accounted for as an equity component, rather than as a derivative component. As a result, these preference shares were no longer subject to any fair value adjustments. With respect to the warrant, we recorded a fair value gain of US$253,000 in 2007 and a fair value loss of US$1.4 million in 2008. SAIF's warrant was converted into equity at the fair value of US$2.0 million in September 2008. Accordingly, we did not record any fair value change related to the warrant in 2009.

  - *Interest expense on preference shares.* The host instruments of the preference shares are carried as a liability at amortised cost calculated under the effective interest rate method. The effective interest rate to amortise the liability is 11.7%, 11.7%, 13.4% and 13.4% for Series A-1 preference shares for the year ended 31 December 2007, the period from 1 January 2008 to May 2008 and the period from 7 May 2008 to 31 December 2008 and for the year ended

31 December 2009, respectively, and 10.13% for Series B preference shares. We recorded interest expense for the preference shares of US$2.4 million, US$4.4 million and US$7.8 million for 2007, 2008 and 2009, respectively. As a result of the Preference Shares Waiver Letter, beginning on 31 December 2009, the holders of our preference shares waived the accrued interest portion of the original redemption price, thereby significantly reducing deemed interest to be recognized in future periods.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our operating results and financial position are based on our audited consolidated financial information, including the notes thereto, attached as Appendix I to this prospectus.

Preparation of our financial statements requires us to make estimates and judgments in applying our critical accounting policies which have a significant impact on the consolidated results that we report in our consolidated financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items such as revenue recognition, accounts and bills receivable. We base our estimates on historical experience and other assumptions which we believe to be reasonable under the relevant circumstances and we review our estimates and underlying assumptions on an ongoing basis. Our operating results and financial position are sensitive to the accounting methods, assumptions and estimates that underlie the preparation of the financial information. Actual results may differ from these estimates under different assumptions and conditions. We believe the following accounting policies involve the most significant judgment and estimates used in the preparation of our financial statements. For more details about our significant accounting policies, see Note 3 of the Accountants' Report as disclosed in Appendix I to this prospectus.

Goodwill and impairment of goodwill

Goodwill is initially measured at cost being the excess of the cost of the business combination over our share in the net fair value of the acquiree's identifiable assets and the cost of liabilities assumed. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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

We determine whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. For further information on how goodwill is measured and impaired, see Notes 3, 4 and 19 to the Accountants' Report in Appendix I to this prospectus.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

Property, plant and equipment

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

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

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

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

Assets under construction represent properties under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. These properties are reclassified to the appropriate category of property, plant and equipment as the case may be upon completion and when ready for use.

Intangible assets other than goodwill

Intangible assets other than goodwill include computer software, customer relationships, trademarks, patents, research and development costs and in-process research and development projects. Intangible assets acquired separately from a business combination are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition.

The useful lives of intangible assets are assessed to be either finite or indefinite.

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

Intangible assets with indefinite useful lives are tested for impairment at least annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed at least annually to determine whether indefinite life assessment continues to

be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

We determine the estimated useful lives for our intangible assets, including trademarks and customers relationships. We estimate the expected future cash flows from the assets to determine the useful lives of intangible assets.

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

Impairment of non-financial assets

We have to exercise judgment in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing (i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (iii) the appropriate key assumption to be applied in preparing cash flow projection including whether these cash flow injections are discounted using appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test significantly. For further information on how impairment of non-financial assets are measured and impaired, see Note 3 to the Accountants' Report in Appendix I to this prospectus.

Other financial assets

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

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

We assess whether a contract contains an embedded derivative when we first become a party to it and assess whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

We determine the classification of our financial assets after initial recognition and, where allowed and appropriate, re-evaluate this designation at the balance sheet date.

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

Our financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables, unquoted financial instruments, and derivative financial instruments.

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial assets

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

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

Fair value of financial instruments

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

Impairment of financial assets

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

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment

loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Financial liabilities

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

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

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

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

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

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

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

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

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

Convertible redeemable preference shares
Convertible redeemable preference shares with embedded derivative features are split into liability and derivative components according to their fair values for measurement purposes. On issuance of the preference shares, the fair value of the embedded derivative is determined based on valuation, and the amount is carried as a current liability until extinguished on conversion or redemption. The remainder of the proceeds are allocated to the liability component and are carried as a non-current liability on an amortised cost basis until extinguished upon conversion or redemption. The embedded derivative is re-measured at each balance sheet

date and any gains or losses arising from change in fair value are recognised in the consolidated income statements.

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

The following tables summarise the major methods and assumptions used in estimating the fair values of derivatives and the Warrant. The estimate of the fair value of the conversion features embedded in the convertible redeemable preference shares is measured based on the following key assumptions made by our senior management based on their best estimates.

i) Derivative

Year ended 31 December 2007

Expected volatility	33.41%
Option life	2.5 years
Expected dividends	—
Risk-free interest rate	3.06%
Total equity price of the Group	US$66,275,000

Year ended 31 December 2008

Expected volatility	67.53%
Option life	1.5 years
Expected dividends	—
Risk-free interest rate	1.09%
Total equity price of the Group	US$182,413,000

Year ended 31 December 2009

Expected volatility	63.03%
Option life	0.5 years
Expected dividends	—
Risk-free interest rate	1.38%
Total equity price of the Group	US$278,727,000

The fair value of the conversion option was US$13,528,000 and US$47,493,000 at 31 December 2008 and 2009, respectively. The fair value of the conversion option has been highly susceptible to changes in the equity price of our Group. For details about the sensitivity test of equity price, see Note 37(e) to the Accountants' Report in Appendix I to this prospectus.

As a result of the Preference Shares Waiver Letter, the holders of our preference shares waived certain anti-dilution rights that gave rise to adjustments of the conversion price. Accordingly, beginning on 31 December 2009, the conversion features of these preference shares have been accounted for as an equity component, rather than as a derivative component and there will no longer be fair value adjustment associated with these preference shares in our consolidated income statement.

ii) Warrant

The estimate of the fair value of the Warrant is measured using a binomial option price model based on the following key assumptions made by our senior management based on their best estimates lattice model.

	31 December 2007	1 September 2008
Expected volatility	33.41%	30.70%
Option life	2.5 years	1.83 years
Expected dividends	—	—
Risk-free interest rate	3.06%	2.34%
Total equity price of the group	US$66,275,000	US$166,860,000

The fair value of the Warrant was US$570,000 and US$1,988,000 as at 31 December 2007 and 1 September 2008, respectively. The fair value of the warrant was highly susceptible to the changes in our equity price. For details about the sensitivity test of equity price, please refer to Note 37(e) to the Accountants' Report in Appendix I to this prospectus.

Where equity price was determined by discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at each balance sheet date of the Track Record Period. Where other pricing models are used, inputs are based on market related data at each balance sheet date of the Track Record Period.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair values of derivative financial liabilities are reassessed at each balance sheet date with any movement recognised in the income statement. In estimating the fair values of derivative financial liabilities, we use an independent valuation which is based on various assumptions and estimates.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are reflected directly in the income statement.

Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for using the weighted average cost. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Provisions

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

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

Share-based payment transactions and recognition of share-based compensation costs

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair values of share options are determined by management using the

Black-Scholes valuation model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of shares of the Company, if applicable.

The directors have used the Black-Scholes valuation model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant judgment, such as the risk-free rate, dividend yield, expected volatility and expected life of options, is required to be made by the directors as the parameters for applying such valuation model. We have engaged LCH (Asia-Pacific) Surveyors Limited ("**LCH**"), an independent appraiser, to perform an appraisal of the fair value of the Company's common shares at the grant date.

The grant of equity instruments might be conditional upon satisfying specified vesting conditions, including the service period and performance conditions linked to financial performance measures. Significant management judgment is required to take into account the vesting conditions and adjust the number of equity instruments included in the measurement of share-based compensation costs. Determining the number of equity instruments that eventually vest requires our management to make assumptions regarding the profit forecast and likelihood of a successful initial public offering, and hence is subject to uncertainty. For more information on the costs of equity-settled transactions, recognition of expenses related to equity-settled transactions and share-based compensation, see Notes 3, 4 and 33 to the Accountants' Report in Appendix I to this prospectus.

Corporate income taxes

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

Deferred Income Tax

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

Deferred income tax liabilities are recognised for all taxable temporary differences, except: (a) where the deferred income tax liability arises the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (b) in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except: (a) where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (b) in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and deferred tax liabilities are offset, if a

legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Recognition of deferred tax liability for withholding taxes

The PRC Enterprise Income Tax Law, which became effective on 1 January 2008, states that the distribution of dividends by a foreign-invested enterprise established in China to its foreign investors, from its 2008 or thereafter earnings, shall be subject to withholding at a corporate income tax rate of 10%. We carefully evaluate the necessity of dividend distributions of our PRC subsidiaries out of profit earned after 1 January 2008 and make decisions on such dividend distribution based on our senior management's judgment.

DESCRIPTIONS OF SELECTED COMPONENTS OF RESULTS OF OPERATIONS

Revenue

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

Revenue by Product Segment

The following table sets forth our revenue by product segment (both prior to and after intersegment elimination) and revenue after intersegment elimination as a percentage of total revenue for the periods indicated.

		Year ended 31 December					
		2007		2008		2009	
		(US$'000)	% of revenue	(US$'000)	% of revenue	(US$'000)	% of revenue
Luminaire products	Revenue	90,143		152,965		153,799	
	Intersegment Elimination	—		—		—	
	Segment revenue	90,143	69.3%	152,965	59.7%	153,799	50.3%
Lamp products	Revenue	24,407		85,622		122,262	
	Intersegment Elimination	—		(5,675)		(4,214)	
	Segment revenue	24,407	18.8%	79,947	31.1%	118,048	38.6%
Lighting electronics products	Revenue	15,518		23,503		36,227	
	Intersegment Elimination	—		—		(2,304)	
	Segment revenue	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%

Revenue by NVC brand sales and non-NVC brand sales

The following table sets forth our revenue for NVC brand products and non-NVC brand products sales, after intersegment elimination, and each item as a percentage of total revenue for the periods indicated. Our non-NVC brand products primarily consist of ODM products.

	Year ended 31 December					
	2007		2008		2009	
	(US$'000)	% of revenue	(US$'000)	% of revenue	(US$'000)	% of revenue
NVC Brand						
Luminaire products	83,458	64.2%	137,918	53.8%	141,479	46.3%
Lamp products	20,361	15.7%	31,640	12.3%	32,792	10.7%
Lighting electronics products	15,475	11.9%	23,468	9.2%	17,016	5.6%
Subtotal	119,294	91.8%	193,026	75.3%	191,287	62.6%
Non-NVC Brand						
Luminaire products	6,685	5.1%	15,047	5.9%	12,320	4.0%
Lamp products	4,046	3.1%	48,307	18.8%	85,256	27.9%
Lighting electronics products	43	0.0%	35	0.0%	16,907	5.5%
Subtotal	10,774	8.2%	63,389	24.7%	114,483	37.4%
Total revenue	130,068	100.0%	256,415	100.0%	305,770	100.0%

Revenue by Geography

The table below sets forth our revenue for PRC and international sales, after intersegment elimination, and each item as a percentage of total revenue for the periods indicated.

	Year ended 31 December					
	2007		2008		2009	
	(US$'000)	% of revenue	(US$'000)	% of revenue	(US$'000)	% of revenue
PRC						
Luminaire products	80,954	62.2%	129,935	50.7%	134,677	44.0%
Lamp products	23,146	17.8%	58,812	22.9%	89,828	29.4%
Lighting electronics products	14,968	11.5%	22,759	8.9%	18,088	5.9%
Subtotal	119,068	91.5%	211,506	82.5%	242,593	79.3%
International						
Luminaire products	9,189	7.1%	23,030	9.0%	19,122	6.3%
Lamp products	1,261	1.0%	21,135	8.2%	28,220	9.2%
Lighting electronics products	550	0.4%	744	0.3%	15,835	5.2%
Subtotal	11,000	8.5%	44,909	17.5%	63,177	20.7%
Total revenue	130,068	100.0%	256,415	100.0%	305,770	100.0%

Cost of sales

Our cost of sales mainly consists of the cost of raw materials, outsourced manufacturing costs, direct and indirect labour costs and overhead. Our raw materials comprise a wide variety of materials, including phosphors and glass components. Outsourced manufacturing costs primarily include the cost of purchasing semi-finished products produced by other manufacturers used in the production of our products. Overhead costs primarily include water, electricity, depreciation and amortisation and others.

The following table provides the components of our cost of sales and each item as a percentage of total revenue for the periods indicated.

	Year ended 31 December					
	2007		2008		2009	
	(US$'000)	% of revenue	(US$'000)	% of revenue	(US$'000)	% of revenue
Raw material	50,386	38.7%	112,443	43.9%	135,669	44.4%
Outsourced manufacturing cost	42,164	32.4%	65,482	25.5%	43,312	14.2%
Labour	4,709	3.6%	11,077	4.3%	25,862	8.5%
Overhead	1,913	1.5%	4,505	1.8%	16,897	5.5%
Total cost of sales	99,172	76.2%	193,507	75.5%	221,740	72.5%

Gross Profit and Gross Profit Margin

Gross profit represents the difference of revenue and cost of sales. The table below sets forth our gross profits and gross profit margins by product segment, after intersegment elimination, for the periods indicated.

	Year ended 31 December					
	2007		2008		2009	
	(US$'000)	%	(US$'000)	%	(US$'000)	%
Luminaire products	19,970	22.2%	37,405	24.5%	41,841	27.2%
Lamp products	4,838	19.8%	17,324	21.7%	34,410	29.1%
Lighting electronics products	6,088	39.2%	8,179	34.8%	7,779	22.9%
Total	30,896	23.8%	62,908	24.5%	84,030	27.5%

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

	Year ended 31 December					
	2007		2008		2009	
	(US$'000)	%	(US$'000)	%	(US$'000)	%
Energy-saving product	8,193	16.8%	26,758	22.5%	50,063	27.2%
Light tubes for CFL	—	—%	6,310	24.3%	19,692	33.3%
T4/T5 batten[1]	5,130	18.3%	11,828	25.7%	14,728	28.8%
Compact fluorescent lamp (CFL)	1,628	11.6%	5,391	15.6%	9,806	22.3%
Electronic ballast	64	20.3%	53	5.0%	2,800	16.0%
HID lamp	1,085	29.6%	2,033	40.3%	1,522	36.3%
Fluorescent lamp	265	11.3%	756	21.2%	816	23.6%
LED products	21	7.0%	247	10.6%	348	13.9%
HID street lighting	—	—	140	25.8%	351	17.7%
Non-energy-saving products	22,703	27.9%	36,150	26.3%	33,967	27.9%
Total gross profit	30,896	23.8%	62,908	24.5%	84,030	27.5%

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.

Other income and gains

Our other income and gains mainly consist of government grants, trademark licence fees and distribution commission as well as rental income. Since 2008, we received government grants as an incentive for export sales, technology research and development and recruitment of local workers, as well as financial support for our expansion of production capacity for energy saving lamp products. These government grants are subject to the discretion of the relevant authorities and may not necessarily be recurring in nature. We licensed our trademark to a number of lighting products manufacturers in the PRC and we received three percent of the licencees' annual turnover as trademark licence fees. In addition, we received distribution commission from distributing our licencees' lighting products through our distribution network and receive six percent to eight percent of their income derived through our distribution network as distribution commission.

Selling and distribution costs

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

Administrative expenses

Our administrative expenses mainly consist of staff costs, amortisation and depreciation, research and development expenses, bad debt provisions, share-based compensation costs and others. Others include taxes, office expenses, audit fees, professional fees and other miscellaneous items. These taxes mainly include land use taxes and stamp duties in connection with our administrative functions.

Other expenses

Our other expenses mainly consist of loss on disposal of items of property, plant and equipment, net foreign exchange losses and donations.

Finance income

Our finance income mainly consists of interest income from bank deposits, loans and receivables, and other interest income.

Finance costs

Our finance costs represent interest expense on convertible redeemable preference shares and interest on bank loans. The host instrument of the preference shares are carried as a liability at amortised cost calculated under the effective interest rate method. As a result of the Preference Shares Waiver Letter, beginning on 31 December 2009, the holders of our preference shares waived the accrued interest portion of the original redemption price, thereby significantly reducing deemed interest to be recognized in future periods. For further information with respect to interest expense on convertible redeemable preference shares, please refer to "— Factors affecting comparability of results of operations".

Net fair value loss on convertible redeemable preference shares and warrant

Net fair value loss on convertible redeemable preference shares and warrant represents losses that we incurred related to the derivative component of Series A-1 and Series B preference shares and to a warrant that we issued in 2006. The Series A-1 preference shares were issued to SAIF Tianjin in 2006 and the Series B preference shares were issued to SAIF and to GS in 2008. We recorded net fair value losses from the derivative component of the Series A-1 and Series B preference shares of US$13.5 million in 2008 and US$15.8 million in 2009, primarily due to the increasing equity value of the Group resulting from its business expansion during the Track Record Period. The fair values of these preferences shares are determined by independent appraisers annually for as long as they remain outstanding and the conversion features embedded in the Series A-1 and Series B preference shares have both a liability component and an equity component. As a result of the Preference Shares Waiver Letter, the holders of our preference shares waived certain anti-dilution rights that gave rise to adjustments of the conversion price. Accordingly, as of 31 December 2009, the conversion features of these preference shares have been accounted for as an equity component, rather than as a derivative component, and as a result, these preference shares were no longer subject to any fair value adjustments. These preference shares will be converted to the Shares upon completion of the Global Offering. The fair value loss related to the warrant in 2008 is related to the warrant we issued to SAIF in 2006. The warrant was converted to equity in September 2008, and as a result, we did not record any fair value change related to the warrant in 2009.

For further information with respect to the convertible redeemable preference shares, please refer to "— Factors affecting comparability of results of operations" and Notes 8.6 and 30 to the Accountants' Report in Appendix I to this prospectus. For further information with respect to the warrant, please refer to "— Factors affecting comparability of results of operations" and Note 8.6 to the Accountants' Report in Appendix I to this prospectus.

Share of profits and losses of associates

This represents the profit or loss arising from our interests in our associates, Shanghai Arcata (in which we acquired an interest in November 2008) and Mianyang Leici in which we acquired a 35% equity interest in April 2007. On 20 February 2009, we completed the acquisition of Shanghai Arcata and following this completion accounted for it as a subsidiary.

Income tax charge

Income tax expenses represent our current income tax and deferred income tax. We are subject to income tax on an individual legal entity basis on profit arising in or derived from the tax jurisdictions in which companies within our Group are domiciled or operate. Our subsidiaries located in the PRC were subject to enterprise income tax ("**EIT**") at the statutory tax rates of 33% in 2007 and 25% in 2008 and thereafter under the then effective and current PRC income tax laws. Pursuant to the then effective relevant PRC income tax laws and regulations, some of our subsidiaries were entitled to a two-year EIT exemption followed by a three-year 50% EIT reduction holiday. In addition, Chongqing NVC was recognised as a western region development enterprise and enjoyed a lower tax rate of 15% in 2009. Sunny was recognised as a high-technology

enterprise and was entitled to 15% corporate income tax rate in 2008 and 2009. The table below sets forth the applicable tax rates for our PRC subsidiaries:

	Year ended 31 December		
	2007	2008	2009
Huizhou NVC	EIT exemption	12.5%	12.5%
Chongqing NVC	EIT exemption	EIT exemption	7.5%
Zhejiang NVC	33%	25%	25%
Jiangshan Phoebus	N/A	EIT exemption	12.5%
Zhangpu Phoebus	N/A	EIT exemption	12.5%
Sunny	N/A	15%	15%
Shanghai Arcata	N/A	N/A	EIT exemption

For further information with respect to our income tax expenses, please refer to Note 10 of the Accountants' Report in Appendix I to this prospectus.

DISCUSSION OF RESULTS OF OPERATIONS

Year ended 31 December 2009 compared with year ended 31 December 2008

Revenue

Our revenue increased by 19.2% from US$256.4 million in 2008 to US$305.8 million in 2009, primarily reflecting increased sales of our non-NVC brand products.

Sales of non-NVC brand products increased by 80.6% from US$63.4 million in 2008 to US$114.5 million in 2009. The increase of our non-NVC brand sales primarily reflected our consolidation of World Through's full-year results for 2009, and to a lesser extent, our acquisition of Shanghai Arcata in February 2009, which contributed to an increase in sales of non-NVC brand lighting electronics products. Sales of our NVC brand products decreased slightly by 0.9% from US$193.0 million in 2008 to US$191.3 million in 2009, which we believe primarily reflected decreased sales at NVC outlets in early 2009 as a result of the global economic downturn.

Our revenue from both domestic sales and international sales increased from 2008 to 2009, with international sales continuing to grow at a higher rate than domestic sales. Revenue from sales in the PRC increased by 14.7% from US$211.5 million in 2008 to US$242.6 million in 2009, primarily reflecting increased sales of non-NVC products. Our international sales increased by 40.7% from US$44.9 million in 2008 to US$63.2 million in 2009. This increase primarily reflected increased exports of lighting electronics products, as a result of our acquisition of Shanghai Arcata and also due to increased exports of energy saving lamp products since our acquisition of World Through.

Luminaire products

Revenue from luminaire products increased slightly from US$153.0 million in 2008 to US$153.8 million in 2009, primarily reflecting an increase in sales of T-5 lighting products.

Lamp products

Revenue from lamp products to external customers increased by 47.7% from US$79.9 million in 2008 to US$118.1 million in 2009. The increase in revenue from lamp products primarily reflected increased sales of our non-NVC brand lamp products both in the PRC and internationally. The increase in sales of lamp products primarily reflected our consolidation of World Through's full-year results in 2009, coupled with our increased vertical integration and production capacity for lamp products as a result of our acquisition of World Through.

Lighting electronics products

Revenue from lighting electronics products increased by 44.3%, from US$23.5 million in 2008 to US$33.9 million in 2009, primarily reflecting increased sales as a result of our acquisition of Shanghai Arcata, which significantly increased our production capability for lighting electronics.

Cost of sales

Our cost of sales increased by 14.6% from US$193.5 million in 2008 to US$221.7 million in 2009. The increase primarily reflected increased sales volume. As a percentage of revenue, our cost of sales decreased from 75.5% in 2008 to 72.5% in 2009. Our raw material cost as percentage of revenue increased from 43.9% in 2008 to 44.4% in 2009. Our outsourced manufacturing cost decreased by 33.9% from US$65.5 million in 2008 to US$43.3 million in 2009, and decreased as a percentage of revenue from 25.5% in 2008 to 14.2% in 2009. Our labour cost as a percentage of revenue increased from 4.3% in 2008 to 8.5% in 2009. The increase in our raw material and labour cost as a percentage of our revenue and the decrease in outsourced manufacturing cost as a percentage of revenue primarily reflected our consolidation of World Through's full-year results in 2009, coupled with (i) the increased vertical integration of our production following the acquisition of World Through and (ii) our consolidation of Shanghai Arcata's business.

Gross profit and gross profit margin

Gross profit increased by 33.6% from US$62.9 million in 2008 to US$84.0 million in 2009, primarily reflecting the increase in sales. Our gross profit from NVC brand products increased from US$51.6 million in 2008 to US$53.0 million in 2009 and our gross profit from non-NVC brand products increased from US$11.3 million in 2008 to US$31.0 million in 2009. Our gross profit from domestic sales increased from US$56.8 million in 2008 to US$73.1 million in 2009 and our gross profit from international sales increased from US$6.1 million in 2008 to US$10.9 million in 2009.

Our overall gross profit margin increased from 24.5% in 2008 to 27.5% in 2009, primarily reflecting the improved gross profit margins of our luminaire and lamp products.

Luminaire products

Gross profit from luminaire products increased by 11.9% from US$37.4 million in 2008 to US$41.9 million in 2009. The gross profit margin for our luminaire products increased from 24.5% in 2008 to 27.2% in 2009. The increase in gross profit margin from luminaire products primarily reflected lower raw material costs in early 2009.

Lamp products

Gross profit from lamp products increased by 98.6% from US$17.3 million in 2008 to US$34.4 million in 2009. The gross profit margin from lamp products increased from 21.7% in 2008 to 29.1% in 2009, primarily reflecting the effect of integrating World Through's business with our own for a full fiscal year in 2009, which significantly reduced our outsourced manufacturing costs.

Lighting electronics products

Gross profit from lighting electronics products decreased by 4.9% from US$8.2 million in 2008 to US$7.8 million in 2009. The gross profit margin for lighting electronics products decreased from 34.8% to 22.9%, primarily reflecting a general reduction in the selling prices of lighting electronics products in 2009 as part of our efforts to increase sales volume and gain market share. In addition, our gross profit margin was negatively affected by our consolidation of Shanghai Arcata's business, which operated with lower gross profit margins than our existing lighting electronics business.

Other income and gains

Our other income and gains increased by 52.7% from US$5.0 million in 2008 to US$7.7 million in 2009. The increase primarily reflected an increase in the distribution commission we received from licensees who distribute products through our distribution network, and to a lesser extent to increases in government grants and trademark licence fees. The increase in the distribution commission primarily reflected increases in both the number of product categories in which we charge a distribution commission and the number of licensees.

Selling and distribution costs

Our selling and distribution costs increased by 35.6% from US$15.2 million in 2008 to US$20.7 million in 2009. As a percentage of revenue, our selling and distribution costs increased from 5.9% in 2008 to 6.8% in 2009. The increase in selling and distribution costs primarily reflected increased advertising and promotion expenses, which increased by approximately US$4.0 million in 2009 as we increased our outdoor advertising and began to advertise through new channels, such as movie sponsorship.

Administrative expenses

Our administrative expenses increased from US$12.5 million in 2008 to US$26.6 million in 2009. As a percentage of revenue, administrative expenses increased from 4.9% in 2008 to 8.7% in 2009. The increase primarily reflected an increase in research and development costs, which reflected Sunny and Shanghai Arcata's research and development expenses as well as our US$3.3 million increase in investment in research and development for our existing business. The increase also reflected higher staff costs of approximately US$3.1 million, amortisation and depreciation expenses of approximately US$3.0 million, related to our acquisitions, and costs of approximately US$1.9 million in relation to the Global Offering.

Other expenses

Our other expenses decreased from US$0.7 million in 2008 to US$0.6 million in 2009. The decrease primarily reflected decreased donations and net foreign exchange losses, which were partially offset by a loss on the disposal of scrap materials in 2009.

Finance Income

Our finance income increased from US$0.6 million in 2008 to US$0.8 million in 2009, primarily due to an increase in interest income from bank deposits.

Finance costs

Our finance costs increased by 73.7% from US$5.0 million in 2008 to US$8.7 million in 2009. This increase was primarily due to the increase in interest expense on convertible redeemable preference shares.

Net fair value loss on convertible redeemable preference shares and warrant

In 2009, we recorded a US$15.8 million net fair value loss related to the derivative component of preference shares. In 2008, our net fair value loss related to the derivative component of these preference shares was US$13.5 million. We recorded a higher net fair value loss in 2009 due to the increase in the equity value of our Company as a result of the expansion of our business. The fair values as at 31 December 2008 and 2009 were determined by independent appraisers appointed by us. In 2008, we also recorded a fair value loss of US$1.4 million related to the warrant which was exercised by SAIF in 2008, and thus did not record any fair value change related to the warrant in 2009. For further information with respect to the convertible redeemable preference shares, see "— Factors affecting comparability of results of operations" and Notes 8.6 and 30 to the Accountants' Report in Appendix I to this prospectus.

Share of profits and losses of associates

We accounted for a share of profit from associates of approximately US$58,000 in 2009, an increase from approximately US$39,000 in 2008. The share of profit of associates in 2009 represents the profits that we derived from our interest in Mianyang Leici.

Income tax charge

We recorded an income tax charge of US$5.4 million in 2009, an increase from US$2.1 million in 2008. Our income tax charge increased due to the expiration of the full EIT exemptions for our subsidiaries Chongqing NVC, Jiangshan Phoebus and Zhangpu Phoebus.

Profit for the year

As a result of the foregoing, our profit for the year decreased from US$18.1 million in 2008 to US$14.7 million in 2009. Our net profit margin decreased from 7.0% in 2008 to 4.8% in 2009, primarily reflecting our accounting for an increased fair value loss related to the embedded derivatives of the preference shares, the expiry of certain tax exemption holidays for some of our subsidiaries and increased interest expense on our convertible redeemable preference shares.

Exchange differences on translation of foreign operations

Our exchange income on translation from foreign operations decreased from US$5.0 million in 2008 to US$0.1 million in 2009. This income primarily arises from the translation of the financial statements of the PRC subsidiaries which are denominated in RMB. The exchange rate of the Renminbi against the US Dollar remained relatively stable in 2009.

Profit for the year attributable to owners of the Company

As a result of the foregoing, profit for the year attributable to owners of the Company decreased from US$17.9 million in 2008 to US$12.8 million in 2009.

Profit for the year attributable to minority interests

Profit for the year attributable to minority interests increased from approximately US$119,000 in 2008 to approximately US$1.8 million in 2009.

Year ended 31 December 2008 compared with year ended 31 December 2007

Revenue

Our revenue increased by 97.1% from US$130.1 million in 2007 to US$256.4 million in 2008, primarily reflecting an increase in sales volume, which we believe in turn primarily reflected a combination of (i) our acquisition of World Through in 2008; (ii) increased sales at many of the existing NVC outlets; and (iii) an increase in the number of NVC outlets.

From 2007 to 2008, sales of both NVC brand and non-NVC brand products increased. Sales of our NVC brand products increased by 61.8% from US$119.3 million in 2007 to US$193.0 million in 2008, which we believe reflected a combination of increased sales at the NVC outlets and an increase in the number of NVC outlets. Sales of non-NVC brand products increased from US$10.8 million in 2007 to US$63.4 million in 2008, primarily due to our acquisition of World Through, which mainly supplies lamp products to leading international brands.

Our revenue from domestic sales and international sales increased from 2007 to 2008, with international sales growing at a higher rate than domestic sales. Revenue from sales in the PRC increased by 77.6% from US$119.1 million in 2007 to US$211.5 million in 2008, primarily reflecting the increase in the number of NVC outlets and the increase in the demand for our products in the PRC market. Our international sales increased from US$11.0 million in 2007 to US$44.9 million in 2008. This increase was largely due to the wider

distribution of our ODM products overseas as a result of the expansion of our overseas distribution network and to a lesser extent, the expansion of UK NVC.

Luminaire products

Revenue from luminaire products increased by 69.7% from US$90.1 million in 2007 to US$153.0 million in 2008, primarily reflecting an increase in sales volume. This increase primarily reflected a significant increase in the sales volume of commercial lighting and T-5 lighting products due to higher demand for these products. In addition, our revenue derived from outdoor lighting products also increased due to a change in our production and sales arrangement. Prior to 2008, we licensed our NVC brand to third parties and charged a trademark licence fee. Beginning in 2008, we began purchasing outdoor lighting products from these third parties for resale. Our international sales of luminaire products grew from US$9.2 million to US$23.0 million primarily due to the expansion of our overseas distribution network.

Lamp products

Revenue from lamp products to external customers increased from US$24.4 million in 2007 to US$79.9 million in 2008. The increase in revenue from lamp products primarily reflected (i) the expansion of our non-NVC brand energy-saving lamp products following the acquisition of World Through, (ii) the increase in sales of energy-saving lamp products under the NVC brand and (iii) the expansion of our distribution network. International sales of lamp products increased significantly from US$1.3 million in 2007 to US$21.1 million in 2008, primarily reflecting increased sales in, among other regions, the United States and Canada.

Lighting electronics products

Revenue from lighting electronics products, which in 2007 and 2008 was mainly derived from sales under our NVC brand, increased by 51.5%, from US$15.5 million in 2007 to US$23.5 million in 2008, primarily reflecting an increase in sales volume.

Cost of sales

Our cost of sales increased by 95.1% from US$99.2 million in 2007 to US$193.5 million in 2008. The increase primarily reflected an increased sales volume. As a percentage of revenue, our cost of sales decreased from 76.2% in 2007 to 75.5% in 2008. Our raw material cost as percentage of revenue increased from 38.7% in 2007 to 43.9% in 2008. Our outsourced manufacturing cost increased by 55.3% from US$42.2 million in 2007 to US$65.5 million in 2008, but decreased as a percentage of revenue from 32.4% in 2007 to 25.5% in 2008. Our labour cost as a percentage of revenue increased from 3.6% in 2007 to 4.3% in 2008. The increase in our raw material costs and labour cost as a percentage of revenue and the decrease in outsourced manufacturing materials as a percentage of revenue reflected the increased vertical integration of our production following the acquisition of World Through, as we significantly strengthened our in-house production capabilities for lamp products, thus reducing our need to purchase these products from third parties.

Gross profit and gross profit margin

Gross profit increased from US$30.9 million in 2007 to US$62.9 million in 2008, primarily reflecting an increase in sales. Our gross profit from NVC brand products increased from US$28.8 million in 2007 to US$51.6 million in 2008 and our gross profit from non-NVC brand products increased from US$2.1 million in 2007 to US$11.3 million in 2008. Our gross profit from domestic sales increased from US$28.6 million in 2007 to US$56.8 million in 2008 and our gross profit from international sales increased from US$2.3 million in 2007 to US$6.1 million in 2008.

Our overall gross profit margin increased from 23.8% in 2007 to 24.5% in 2008, reflecting an increase in the gross profit margins of luminaire products and lamp products, partially offset by a decrease in the gross profit margin of lighting electronics products.

Luminaire products

Gross profit from luminaire products increased by 87.3% from US$20.0 million in 2007 to US$37.4 million in 2008. The gross profit margin for our luminaire products increased from 22.2% in 2007 to 24.5% in 2008. In response to rising raw materials costs, we increased the price of our luminaire products in May 2008. In the second half of 2008, raw material costs experienced a general decline. Since we did not lower our product prices for the remainder of 2008, the decline in raw material costs contributed to an increase in our gross profit margins. In addition, our gross profit margin for our luminaire products also improved due to increased vertical integration upon the acquisition of World Through.

Lamp products

Gross profit from lamp products increased by 258.1% from US$4.8 million in 2007 to US$17.3 million in 2008. The gross profit margin from lamp products increased from 19.8% in 2007 to 21.7% in 2008, primarily reflecting the higher gross profit margin of World Through, the results of which we began consolidating on 30 August 2008 after completing our acquisition.

Lighting electronics products

Gross profit from lighting electronics products increased by 34.3% from US$6.1 million in 2007 to US$8.2 million in 2008. The gross profit margin for lighting electronics products decreased from 39.2% to 34.8%, primarily reflecting our decision in 2008 to lower the prices of our lighting electronics products as part of our efforts to drive sales and gain market share.

Other income and gains

Our other income and gains increased from US$2.4 million in 2007 to US$5.0 million in 2008. The increase was mainly due to our receiving government grants, and increases in trademark licence fees and distribution commission. The government grants mainly represented incentives related to export sales, research and development and local recruitment, as well as support for our expansion of the production capacity of certain products. The increase in trademark licence fees reflected the increase in our licensee's annual turnover. We also began to receive distribution commission from our licensees for distributing their lighting products through our distribution network in 2008.

Selling and distribution costs

Our selling and distribution costs increased by 29.0% from US$11.8 million in 2007 to US$15.2 million in 2008. As a percentage of revenue, our selling and distribution costs decreased from 9.1% in 2007 to 5.9% in 2008 due to increases in economies of scale and a change in our advertising strategies. The increase in selling and distribution costs mainly reflected an increase in freight and staff costs, partially offset by a decrease in our advertising and promotion expenses. The increase in freight and sales staff costs were associated with increased sales and the expansion of the distribution network of our products. The decrease in our advertising and promotion expenses was primarily due to the change in our advertising strategies in 2008. We decreased the amount of the advertising activities through television and outdoor advertising, but increased our participation in trade shows.

Administrative expenses

Our administrative expenses increased by 88.9% from US$6.6 million in 2007 to US$12.5 million in 2008. As a percentage of revenue, administrative expenses decreased from 5.1% in 2007 to 4.9% in 2008. The increase primarily reflected the expansion of our administrative operations in response to our growth, increased investments in our research and development and a write down of certain debts. Our amortisation and depreciation expenses also increased due to an increase in our asset base as a result of our acquisition of World Through.

Other expenses

Our other expenses increased from US$0.2 million in 2007 to US$0.7 million in 2008. As a percentage of revenue, our other expenses increased from 0.1% in 2007 to 0.3% in 2008. The increase was mainly due to the donations we made in 2008.

Finance Income
Our finance income decreased from US$0.8 million in 2007 to US$0.6 million in 2008, primarily due to decreases in interest income from bank deposits, interest income on loans and receivables from third parties and other interest income.

Finance costs
Our finance costs increased by 85.6% from US$2.7 million in 2007 to US$5.0 million in 2008. This increase was primarily due to the increase in interest expense on convertible redeemable preference shares.

Net fair value loss on convertible redeemable preference shares and warrant
In 2008, we recorded a US$13.5 million loss related to the derivative component of preference shares. In 2007, we did not a record any fair value gain or loss on these preference shares. The fair values as at 31 December 2007 and 2008 were determined by independent appraisers appointed by us. We also incurred a US$1.4 million fair value loss related to the warrant which we had issued to SAIF in 2006. For further information with respect to the convertible redeemable preference shares, see "— Factors affecting comparability of results of operations" and Notes 8.6 and 30 to the Accountants' Report in Appendix I to this prospectus.

Share of profits and losses of associates
We accounted for a share of profit from associates of approximately US$39,000 in 2008 as compared to a loss from an associate of approximately US$45,000 in 2007. We acquired a 26% equity interest in Shanghai Arcata in November 2008. The share of profits of associates in 2008 represents the profits that we derived from our interests in Mianyang Leici and Shanghai Arcata. The share of losses of associates in 2007 comprised our share of losses of Mianyang Leici.

Income tax charge
We recorded an income tax credit of approximately US$54,000 in 2007, as compared to an income tax charge of US$2.1 million in 2008. In 2007, we recognised an income tax credit due to the recognition of deferred tax assets arising from the deductible temporary differences existing in inventory and doubtful debt provisions and accruals which were coupled with tax holidays enjoyed by certain subsidiaries. In 2008, we had an income tax charge due to increased revenue related to increased sales and our acquisition of World Through, as well as to the expiration of the enterprise income tax exemption on one of our PRC subsidiaries, Huizhou NVC.

Profit for the year
As a result of the foregoing, our profit for the year increased from US$12.9 million in 2007 to US$18.1 million in 2008. Our net profit margin decreased from 9.9% in 2007 to 7.0% in 2008, primarily reflecting our recording a fair value loss related to the embedded derivatives and the interest expense on our convertible redeemable preference shares.

Exchange differences on translating foreign operations
Our exchange income on translation from foreign operations increased by 25.3% from US$4.0 million in 2007 to US$5.0 million in 2008, primarily due to the depreciation of the US Dollar against the RMB from 2007 to 2008. This income primarily arises from the translation of the financial statements of the PRC subsidiaries which are denominated in RMB.

Profit for the year attributable to owners of the Company
As a result of the foregoing, profit for the year attributable to owners of the Company increased by 39.5% from US$12.9 million in 2007 to US$17.9 million in 2008.

Profit for the year attributable to minority interests
Profit for the year attributable to minority interests increased more than threefold from approximately US$26,000 in 2007 to approximately US$119,000 in 2008.

CASH FLOW AND LIQUIDITY

Cash flows

We have historically met our working capital and other capital requirements principally with a combination of (i) cash generated from our operations, (ii) short-term bank borrowings, and (iii) issuances of convertible redeemable preference shares. The following table sets out selected cash flow data from our consolidated statements of cash flows for the years indicated.

	Year ended 31 December		
	2007	2008	2009
	(US$'000)	(US$'000)	(US$'000)
Net cash flows from/(used in) operating activities	(56)	14,057	42,073
Net cash flows used in investing activities	(2,738)	(36,766)	(25,048)
Net cash flows from financing activities	6,318	32,459	4,849
Net increase in cash and cash equivalents	3,524	9,750	21,874
Cash and cash equivalents at beginning of year	8,599	11,603	22,085
Effect of foreign exchange rate changes, net	(520)	732	75
Cash and cash equivalents at the end of the year	11,603	22,085	44,034

Cash flows from operating activities

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

Our net cash flows from operating activities was US$42.1 million in 2009, while our operating profit before working capital changes was US$57.3 million. The cash outflow of US$15.2 million mainly reflected the following working capital changes: (i) an increase of US$23.8 million in inventories and (ii) income tax paid of US$6.4 million, partially offset by an increase in trade and bills payable, other payables and accruals of US$18.4 million primarily due to (a) increased purchase of raw materials due to increased sales and (b) increased integration of World Through and Shanghai Arcata.

Our net cash flows from operating activities was US$14.1 million in 2008, while our operating profit before working capital changes was US$42.5 million. The cash outflow of US$28.4 million mainly reflected the following working capital changes: (i) an increase of US$28.6 million in trade and other receivables and prepayments primarily due to (a) our increased sales and (b) the consolidation of World Through's trade receivables into our Group; and (ii) a decrease of US$11.8 million in trade and bills payables, other payables and accruals due to our early settlement of trade and bills payables in order to obtain early settlement discounts from certain trade creditors, partially offset by a decrease of US$13.2 million in inventories primarily due to increased sales and also partially as a result of a sales promotion that we conducted at the year end of 2008.

Our net cash used in operating activities was approximately US$56,000 in 2007, while our operating profit before working capital changes was US$16.5 million. The cash outflow of US$16.5 million mainly reflected the following working capital changes: (i) an increase of US$10.8 million in trade and other receivables and prepayments primarily due to increased sales, and (ii) an increase of US$11.0 million in inventories primarily due to increased purchases of raw materials to meet the significant growth in the demand for our products, partially offset by an increase of US$5.3 million in trade and bills payables, other payables and accruals primarily due to increased purchase of raw materials and increase in payables to sub-contractors due to the increased sales of our products.

Cash flows from investing activities

Our cash used in investing activities mainly consists of purchases of property, plant and equipment, acquisitions of subsidiaries and other businesses net of cash acquired, and consideration for the purchase

of and proceeds from sales of other financial assets. Our cash inflow from investing activities mainly represents proceeds from the sale of non-current assets held-for-sale, decreases in time deposits and interest received.

In 2009, our net cash used in investing activities amounted to US$25.0 million. The net cash outflow was mainly due to (i) US$12.2 million for the purchase of property, plant and equipment related to our production facilities, and (ii) US$20.8 million being used in the purchase of subsidiaries and other businesses, net of cash acquired, which in 2009 primarily consisted of (a) the acquisition of Shanghai Arcata, Chongqing Lianxin Lighting Co., Ltd., Huizhou Huixin Hardware Co., Ltd. and Chongqing Tianyi and (b) a second cash payment for the acquisition of World Through.

In 2008, our net cash used in investing activities amounted to US$36.8 million. The net cash outflow was mainly due to (i) US$17.4 million being used in the purchase of subsidiaries and other business, net of cash acquired, which in 2008 primarily consisted of the acquisition of World Through, (ii) US$7.4 million for the purchase of property, plant and equipment related to our production facilities, (iii) US$4.9 million used as consideration for the purchase of certain short-term deposit products, and an (iv) increase in time deposits of US$8.7 million.

In 2007, our net cash used in investing activities amounted to US$2.7 million. Such outflow was mainly due to (i) the payment of US$7.9 million for purchase of property, plant and equipment, namely in connection with our production facilities and warehouses, and (ii) a decrease in time deposits of US$4.9 million, partially offset by interest received of US$0.7 million.

Cash flows from financing activities

Our cash inflow from financing activities mainly consisted of proceeds from the issue of Series B and Series A-2 preference shares, proceeds from new bank borrowings and contributions from our shareholders. Our cash used in financing activities consists of repayment of borrowings, bank loan interest paid, the issuance costs from the issue of ordinary shares and preference shares and professional fees paid for the IPO transaction.

In 2009, our net cash inflow from financing activities amounted to US$4.8 million. Such inflow was mainly due to (i) US$34.6 million in proceeds from new bank borrowings and (ii) the receipt of government grants of US$8.7 million. These were primarily offset by US$37.1 million in the repayment of bank borrowings.

In 2008, our net cash inflow from financing activities amounted to US$32.5 million. Such inflow was mainly due to the proceeds we received from the issue of Series B preference shares, which were US$41.6 million, and were issued on 27 August 2008. We also had inflows of US$8.0 million in proceeds from new bank borrowings and of US$5.0 million from the proceeds from the issue of Series A-2 preference shares. These were primarily offset by US$24.2 million in the repayment of bank borrowings.

In 2007, our net cash inflow from financing activities amounted to US$6.3 million. Such inflow was mainly due to the proceeds of new bank borrowings of US$14.9 million and capital contribution from minority shareholders of US$1.5 million, partially offset by the repayment of some bank borrowings of US$11.0 million.

Liquidity

Net current assets and working capital sufficiency

The table below sets out our current assets, current liabilities and net current assets as at the dates indicated.

	As at 31 December			As at 28 February
	2007	2008	2009	2010
	(US$'000)	(US$'000)	(US$'000)	(US$'000)
CURRENT ASSETS				
Inventories	20,958	21,727	47,567	51,091
Trade and other receivables	19,595	80,201	85,795	79,284
Prepayments	2,711	9,645	6,692	7,503
Available-for-sale financial assets	—	4,932	—	—
Cash and short-term deposits	12,221	31,402	47,292	36,469
Total current assets	**55,485**	**147,907**	**187,346**	**174,347**
CURRENT LIABILITIES				
Trade and bills payables	21,575	31,359	54,769	50,022
Other payables and accruals	10,364	52,444	41,864	30,975
Interest-bearing loans	4,111	8,117	6,093	2,012
Income tax payable	29	2,428	3,208	1,476
Government grants	—	224	—	—
Derivative financial instruments	570	13,528	—	—
Total current liabilities	**36,649**	**108,100**	**105,934**	**84,485**
NET CURRENT ASSETS	18,836	39,807	81,412	89,862

As at 31 December 2007, 2008 and 2009, our net current assets totalled US$18.8 million, US$39.8 million and US$81.4 million, respectively. As at 28 February 2010, our net current assets totalled US$89.9 million. As a result of the Preference Shares Waiver Letter, the conversion features of our preference shares have been accounted for as an equity component and the US$47.5 million in derivative financial instruments in current liabilities has been recognised as equity as at 31 December 2009. In light of our current liquidity position, and taking into account the net proceeds available to us from the Global Offering, banking facilities available to us and our projected cash generated from our operations, the Directors confirm that we have sufficient working capital for our present requirements and for the next 12 months from the date of this prospectus.

Capital Management

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

	As at 31 December		
	2007	2008	2009
	(US$'000)	(US$'000)	(US$'000)
Interest-bearing loans	4,111	8,410	6,386
Convertible redeemable preference shares	22,572	68,354	57,932
Total debt	26,683	76,764	64,318
Less: cash and short term deposits	(12,221)	(31,402)	(47,292)
Net debt	14,462	45,362	17,026
Total equity attributable to owners of the Company	51,018	103,654	164,192
Gearing ratio	28.3%	43.8%	10.4%

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

Our gearing ratio as at 31 December 2007, 2008 and 2009 was 28.3%, 43.8% and 10.4%, respectively. Upon completion of the Global Offering and the conversion of the preference shares issued to our pre-IPO investors into the Shares, we expect our gearing ratio to be reduced further.

Inventory analysis

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

	As at 31 December		
	2007	2008	2009
	(US$'000)	(US$'000)	(US$'000)
Raw materials	5,759	6,981	13,707
Work in progress	2,197	3,031	1,297
Finished goods	13,002	11,715	32,563
Total	**20,958**	**21,727**	**47,567**
Turnover of average inventory (days)[1]	56.6	40.3	57.0

Note:

(1) Average inventory equals inventory at the beginning of the period plus inventory at the end of the period, divided by two. Turnover of average inventory (in days) equals average inventory divided by cost of sales and then multiplied by 365. Inventory balances were US$9,776,000 as at 31 December 2006.

The amount of write down of inventories recognised as expenses during 2007 and 2009 was US$0.3 million and US$1.9 million, respectively. We reversed inventory write-downs of US$0.1 million in 2008. The reversal of the write-down was due to re-utilisation of slow-moving inventories that led to the increase in their net realisable value.

Our inventory turnover days were approximately 40.3 and 57.0 days in 2008 and 2009, respectively. The increase in the inventory turnover days primarily reflected an increase in finished goods from 31 December 2008 to 31 December 2009, which was affected by the global economic downturn.

Our inventory turnover days were approximately 56.6 and 40.3 days in 2007 and 2008, respectively. The decrease in the inventory turnover days was mainly due to growth in the demand for our products and to a sales promotion that we conducted at the year end of 2008.

As at 28 February 2010, approximately US$34.0 million, or 71.5% of our inventories as at 31 December 2009 were subsequently consumed or sold.

Trade and other receivables

The balance of trade receivables as at the respective year-end represented the outstanding amounts receivable by us from our customers who have been granted with credit periods. The following table sets forth our total trade receivables and trade receivable turnover days for the periods indicated.

	As at 31 December		
	2007	2008	2009
	(US$'000)	(US$'000)	(US$'000)
Trade Receivable:			
Within 3 months	11,056	48,632	59,252
4 to 6 months	1,663	6,544	4,407
7 to 12 months	33	1,226	1,073
1 to 2 years	89	44	595
Over 2 years	—	21	1
Trade receivables	12,841	56,467	65,328
Turnover of average trade receivable (days)[1]	27.4	50.3	74.4

Note:

(1) Average trade receivables equals trade receivables (before impairment) at the beginning of the period plus trade receivables at the end of the period, divided by two. Turnover of average trade receivables (in days) equals average trade receivables divided by revenue and then multiplied by 365. Trade receivables were US$6,274,000 as at 31 December 2006.

Our trade receivables represent proceeds receivable from the sale of goods. Our trading terms with our customers are mainly on credit, except for new customers where payment in advance is normally required. For the years ended 31 December 2007 and 2008, a credit term ranging from 30 to 90 days was granted to customers with approved credit. Since the fourth quarter of 2008, we have been purchasing one-year credit insurance to insure up to 90% of the uncollectible amount derived from our sales, provided that the aggregate compensation does not exceed RMB40.2 million for domestic sales and US$10 million for overseas sales. We have recognized nil and US$0.12 million in premium expense on credit insurance in 2008 and 2009, respectively, with the payment for the 2008 insurance policies being made in 2009. As at 31 December 2009, we have not filed any credit insurance claim. Since 1 January 2009, we have extended credit terms to range from 90 to 120 days. We seek to maintain strict control over our outstanding receivables and to establish a credit control management system. Overdue balances are reviewed regularly by senior management. Trade receivables are free of interest.

We impaired trade receivables of US$0.4 million, US$0.9 million, and US$1.9 million as at 31 December 2007, 2008 and 2009, respectively. The individually impaired trade receivables relate to customers that encountered unexpected financial difficulties and it was assessed that such receivables are not expected to be recovered. We do not hold any collateral or other credit enhancements over these balances. These balances were not covered by our credit insurance as these balances relate to sales made before the effective period of such insurance. The impairment in 2009 was mainly related to sales in 2008, and was further impaired in 2009 following review of the uncollected amounts by our management.

Our trade receivable balance increased from US$56.5 million as at 31 December 2008 to US$65.3 million as at 31 December 2009. The increase primarily reflected a combination of (i) an increase in sales during this period; (ii) the extension of higher credit lines to customers with superior credit profiles and (iii) the consolidation of Shanghai Arcata's trade receivables which had a fair value of approximately US$3.5 million into our group as a result of the acquisition.

Our trade receivable balance increased from US$12.8 million as at 31 December 2007 to US$56.5 million as at 31 December 2008. The increase was mainly due to (i) the increase in sales, (ii) the extension of higher credit lines with a number of customers in 2008 to customers with superior credit profiles as our business expanded

and (iii) the consolidation of World Through's trade receivables which had a fair value of approximately US$17.4 million into our Group as a result of the acquisition.

Our trade receivable turnover days increased from 50.3 days in 2008 to 74.4 days in 2009 primarily because (i) we increased the credit lines and credit periods granted to our customers following our purchase of credit insurance in the fourth quarter of 2008 and (ii) the receivables from the customers of Shanghai Arcata, which are generally longer and typically range from two to three months, with credit periods for some major customers extending to three to four months. These receivables are generally longer as Shanghai Arcata's business was mainly comprised of overseas ODM sales.

Our trade receivable turnover days increased from 27.4 days in 2007 to 50.3 days in 2008 was primarily because of our extension of our credit terms with our customers. The extension of these credit terms primarily reflected a combination of reduced credit risk as a result of our purchase of credit insurance in the fourth quarter of 2008, coupled with our ability to increase support for our customers as our business expands. The increase in trade receivable turnover days was also due to increased trade receivables in relation to our increased sales and the acquisition of World Through.

As at 28 February 2010, approximately US$45.1 million, or 69.0%, of our trade receivables outstanding as at 31 December 2009 were collected.

The following table sets forth a breakdown of our other receivables for the periods indicated.

	As at 31 December		
	2007	2008	2009
	(US$'000)	(US$'000)	(US$'000)
Receivables from third parties	4,726	13,716	9,777
Receivables from a director	—	5,118	4,866
Amounts due from other related parties	4,335	5,062	6,216
Provision	(2,307)	(162)	(392)
Net balance	6,754	23,734	20,467

Our other receivables decreased from US$23.7 million as at 31 December 2008 to US$20.5 million as at 31 December 2009. The decrease primarily reflected a decrease in advances to our distributors and suppliers. The balances of receivables from third parties also included advances that we made to our distributors and suppliers and loans provided to certain minority shareholders of World Through. Please refer to Note 21 of the Accountants' Report set forth in Appendix I to this prospectus for details on our receivables from third parties. See "Our Business — Legal Proceedings and Compliance" for information on the legality of the advances to distributors and suppliers.

Our other receivables increased from US$6.8 million as at 31 December 2007 to US$23.7 million as at 31 December 2008. The increase primarily reflected (i) US$5.1 million in receivables from a director, which represents an amount owed by a director of the Company pursuant to the share purchase agreement associated with World Through; and (ii) the increase of US$9.0 million in receivables from third parties.

Included in receivables from third parties is a loan which was originated by World Through to an individual who is independent from our Group, before we acquired World Through. The outstanding principal amount and interest accrued on the loan amounted to US$396,000 as at 31 December 2009. The loan's scheduled maturity date was 15 February 2008. The interest on the loan after the maturity date has not been recognized as interest income, since the recoverability of such loan has been deemed to be doubtful. We intend to enforce our security interest in a building, which we believe will be sufficient to offset the outstanding balance and interest owed under this loan. For more information, see Note 21(b) to the Accountants' Report in Appendix I to this prospectus.

Trade and bills payable

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

	As at 31 December		
	2007	2008	2009
	(US$'000)	(US$'000)	(US$'000)
Trade and bills payable to third parties	20,989	25,753	48,527
Trade payables to an associate	268	—	—
Trade payables to other related parties	318	5,606	6,242
	21,575	31,359	54,769
Turnover of average trade and bills payable (days)[1]	73.1	49.9	70.9

Note:

(1) Average trade and bills payables equal trade and bills payables at the beginning of the period plus trade and bills payables at the end of the period, divided by two. Turnover of average trade and bills payables (in days) equals average trade and bills payables divided by cost of sales and then multiplied by 365. Trade and bills payable were US$18,152,000 as at 31 December 2006.

Our trade and bills payable were US$21.6 million, US$31.4 million and US$54.8 million as at 31 December 2007, 2008 and 2009, respectively. We use trade and bills payable in connection with the purchases of raw materials that we use for our production process. Our trade and bills payable increased by 45.3% from 31 December 2007 to 31 December 2008, mainly due to our purchases of increased amounts of raw materials from third parties and to purchases of raw materials from related parties, Quzhou Aushite Illumination Co., Ltd., and Zhejiang Tonking. Our trade and bills payables to third parties are non-interest bearing and are normally settled on 30-day to 90-day terms. Our trade and bills payables increased by 74.7% from 31 December 2008 to 31 December 2009 primarily due to increased purchases of raw materials from third parties.

Our trade payables turnover days increased from 49.9 to 70.9 days from 31 December 2008 to 31 December 2009, mainly due to (i) an increase in the amount of trade and bill payables in connection with the expansion of our business; and (ii) the increase in our use of three-month promissory notes to fund our supply purchases. These promissory notes generally bore lower interest rates and have a three-month settlement period.

Our trade payables turnover days decreased from 73.1 to 49.9 days from 31 December 2007 to 31 December 2008, mainly due to our early settlement of certain trade and bills payables in order to receive early-settlement discounts from trade creditors.

As at 28 February 2010, approximately US$40.2 million, or 73.4%, of our trade and bills payable outstanding as at 31 December 2009 were paid.

Other payables and accruals

	As at 31 December		
	2007	2008	2009
	(US$'000)	(US$'000)	(US$'000)
Advances from customers	1,615	1,912	1,519
Accruals	3,821	3,815	6,951
Other payables to third parties	4,928	13,788	18,483
Other payables to related parties	—	32,929	14,911
	10,364	52,444	41,864

Other payables and accruals were US$10.4 million, US$52.4 million and US$41.9 million as at 31 December 2007, 2008 and 2009, respectively.

Our other payables and accruals decreased from US$52.4 million as at 31 December 2008 to US$41.9 million as at 31 December 2009. The decrease was mainly due to a decrease in other payables to related parties.

Our other payables and accruals increased from US$10.4 million as at 31 December 2007 to US$52.4 million as at 31 December 2008. The increase was mainly due to the combined effect of other payables to related parties of US$32.9 million in 2008, and increases in other payables to third parties of US$8.9 million. Our increase in balances due to third parties was related to borrowings as well as other payables and accruals acquired upon our acquisition of World Through. Our balances due to related parties primarily included cash consideration of US$26.0 million payable to Signkey for the acquisition of World Through that remained outstanding at 31 December 2008. It also included accrued dividends of approximately US$6.4 million with its subsidiaries distributed to Signkey by World Through before it was acquired by the Company.

INDEBTEDNESS

Borrowings

As at 28 February 2010, being the Latest Practicable Date for the purpose of the indebtedness statements, we had total borrowings of US$2.0 million. As at the same date, we had banking facilities of approximately US$118.6 million, of which approximately US$117.2 million had not been utilised. The following table sets out the breakdown of our borrowings as at the periods indicated.

		As at 31 December			As at 28 February
	Maturity	2007	2008	2009	2010
		(US$'000)	(US$'000)	(US$'000)	(US$'000)
Current					
Bank loans — unsecured		—	3,072	—	—
Bank loans — secured		4,111	5,045	6,093	2,012
Total		4,111	8,117	6,093	2,012
Non-current					
Loans from Government of Jiangshan City — unsecured	31 December 2011	—	293	293	—

Our total bank borrowings increased by 97.4%, from US$4.1 million as at 31 December 2007 to US$8.1 million as at 31 December 2008. We increased our bank borrowings to meet our working capital needs. Our total bank borrowings decreased by 24.9%, from US$8.1 million as at 31 December 2008 to US$6.1 million, as at 31 December 2009. The decrease primarily reflected our increasing use of promissory notes to fund our supply purchases. We used promissory notes as they generally bore lower interest rates than bank loans. As of 28 February 2010, our total bank borrowings amounted to US$2.0 million. As at the same date, our unutilised banking facilities amounted to approximately US$117.2 million.

Certain of our bank loans are secured by:

- certain of our buildings with aggregate carrying amounts of approximately US$10.7 million, US$18.5 million, US$10.7 million as at 31 December 2009, 2008 and 2007, respectively.
- certain of our land use rights with aggregate carrying amounts of approximately US$1.5 million, US$2.0 million and US$1.5 million as at 31 December 2009, 2008 and 2007, respectively.
- certain of our trade receivables with aggregate carrying amounts of approximately US$0.3 million and US$1.0 million as at 31 December 2009 and 2008, respectively.

We currently plan to incur a bank borrowing of approximately US$5.8 million in May 2010, primarily to repay certain indebtedness which we owe in relation to our purchase of World Through. See "Our History and Structure" for more information about our acquisition of World Through.

Off-Balance Sheet Arrangements

We do not have any outstanding derivative financial instruments, off-balance sheet guarantees or foreign currency forward contracts. We do not engage in trading activities involving non-exchange traded contracts.

Contingent liabilities

As at 31 December 2008, we had contingent liabilities of US$2.9 million which were associated with financial guarantees provided to our related companies against their bank loans that remained outstanding. As at 31 December 2009, all of these financial guarantees have been released as these bank loans have been repaid.

Capital commitments

As at 31 December 2009, we had capital commitments of US$9.0 million for the acquisition of fixed assets which were for the acquisition of plant, office and dormitories. In addition to operating lease commitments which are set forth below, we had the following commitments as at the dates indicated.

	As at 31 December		
	2007	2008	2009
	(US$'000)	(US$'000)	(US$'000)
Contracted but not provided for:			
Acquisition of 74% equity interest in Shanghai Arcata	—	2,225	—
Acquisition of operations of Chongqing Lianxin Lighting Co., Ltd.	—	6,846	—
Acquisition of fixed assets	960	1,537	8,981
	960	10,608	8,981

Operating lease commitments

We lease a number of properties under non-cancellable operating leases. The table below sets forth our future minimum rental payments under non-cancellable operating leases as at the dates indicated.

	As at 31 December		
	2007	2008	2009
	(US$'000)	(US$'000)	(US$'000)
Within one year	261	209	642
After one year but not more than five years	921	519	1,304
More than five years	2,679	104	418
	3,861	832	2,364

As a lessor, we lease plants under operating lease arrangements with lease terms ranging from two to twenty years. The terms of the leases generally also require the tenants to pay security deposits and provide for

periodic rent adjustments according to the then prevailing market condition. At each balance sheet date, we had total future minimum rental receivables under non-cancellable operating leases as follows.

	As at 31 December		
	2007	2008	2009
	(US$'000)	(US$'000)	(US$'000)
Within one year	422	747	381
After one year but not more than five years	1,289	1,859	798
More than five years	—	330	550
	1,711	2,936	1,729

Capital expenditure

We have historically funded our capital expenditures from cash generated from operations, bank loans and advances from related parties. Our capital expenditures primarily related to expenditures on plant, machinery and equipment, construction in progress and buildings prepaid and lease payments, goodwill, intangible assets (other than goodwill) investments in associates and long-term deferred expenditures. Our capital expenditures were US$8.2 million for 2007 and US$83.1 million for 2008. We incurred capital expenditures of approximately US$27.1 million in 2009 related to the relocation of our Zhejiang manufacturing facilities and to purchases of plant, machinery and equipment. We expect to have capital expenditures of approximately US$32.4 million related to our expansion plans in 2010.

We plan to finance our capital expenditures out of the net proceeds available to us from the Global Offering and cash generated from our operations. The budgeted amounts may vary from the actual amounts of capital expenditures for a variety of reasons, including without limitation changes in market conditions, our future results of operations, financial condition and cash flows, economic and political and other conditions in the PRC and internationally. There is no guarantee that any of the planned capital expenditures outlined above will proceed as planned. We may incur additional capital expenditures as we continue to expand.

Save as disclosed in this prospectus, as at the Latest Practicable Date, we did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptance or acceptance credits or any guarantees or other material contingent liabilities. We have not entered into any material off-balance sheet or derivatives transactions.

Our Directors have confirmed that there have been no material changes in the indebtedness, commitments and contingent liabilities of our Group as of the Latest Practicable Date.

RELATED PARTY TRANSACTIONS

Please refer to Note 35 to the Accountants' Report in Appendix I of this prospectus for more details.

PROPERTY INTERESTS

Details relating to our property interests are set out in Appendix IV of this prospectus. Disclosure of the reconciliation of the property interests of our Group and the valuation of such property interests under Rule 5.07 of the Listing Rules is set out below.

MARKET RISKS

We are, in the normal course of our business, exposed to various types of market risks as follows. Our risk management strategy aims to minimize the adverse effects of these risks on our financial performance.

Foreign currency risk

We have transactional currency exposure. Such exposure arises from sales by an operating unit in currencies other than the unit's functional currency. Our PRC entities sell their products to overseas customers. The sales are predominantly conducted in US dollars. As a result, we are exposed to movements in the exchange rate

between the US dollar and the RMB. We do not use foreign currency forward exchange contracts to hedge the currency exposure arising from individual transactions. We have conducted a sensitivity analysis to determine our exposure to changes in foreign currency exchange rates. Our profit before tax would have increased or decreased by US$0.5 million, US$0.7 million and US$0.5 million if the RMB would have weakened or strengthened with a reasonable possible change and other variables held constant for the years ended 31 December 2007, 2008 and 2009, respectively. Please refer to Note 37 to the Accountants' Report in Appendix I of this prospectus for more details.

Commodity price risk

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

Liquidity risk

We monitor our risk of having a shortage of funds by considering the maturity of our financial instruments, financial assets and liabilities and projected cash flows from operations. Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing borrowings. Based on contractual undiscounted payments, our financial liabilities were US$65.3 million, US$182.3 million and US$160.1 million as at 31 December 2007, 2008 and 2009, respectively. As at 31 December 2009, we had interest-bearing loans and convertible redeemable preference shares. Our directors have reviewed our working capital and capital expenditure requirements and determined that we have no significant liquidity risk. Please refer to Note 37 to the Accountants' Report in Appendix I of this prospectus for the maturity profile of our financial liabilities.

Credit risk

The major concentration of credit risk arises from our exposure to a substantial number of trade receivables and other receivables from debtors. We have policies in place to ensure that the sales of products are made to customers with an appropriate credit limit, and we have strict control over credit limits of other receivables. Cash and short-term deposits are mainly deposited with registered banks in China. We have also policies that limit our credit exposure to any financial institutions. The carrying amounts of trade and other receivables, cash and short-term deposits included in the consolidated balance sheet represent our maximum exposure to credit risk in relation to our financial assets. We have no other financial assets which carry significant exposure to credit risk. In 2008, we entered into a number of insurance contracts with China Export & Credit Insurance Corporation to insure 90% of the uncollectible amount derived from our sales between the period from 1 November 2008 to 31 October 2009 subject to a maximum amount of uncollectible of RMB40.2 million for domestic sales and US$10 million for overseas sales. In 2009, we entered into a number of insurance contracts with China Export & Credit Insurance Corporation to insure 85% and 90% of the uncollectible amount derived from our sales between the period from 1 November 2009 to 31 October 2010 subject to a maximum uncollectible amount of US$3.7 million for domestic sales and US$10 million for overseas sales. We purchased such insurance in order to minimize our exposure to credit risk as we expand our business. We plan to renew such insurance contracts as they become due.

Equity Price Risk

Our group is exposed to equity price risk arising from changes in our own equity price to the extent that our own equity instruments underlie the fair values of derivatives. As at the balance sheet date we are exposed to this risk through the conversion rights attached to the Warrant, Series A and Series B preference shares issued by us as disclosed in Note 30 to the Accountants' Report located in Appendix I to this prospectus.

At 31 December 2007 and 2008 it is estimated that an increase/(decrease) of 5% in our own equity price (for the conversion option of certain preference shares and warrant) as applicable, with all other variables held constant, would have increased/decreased our profit after tax and retained profits as follows:

	Year ended 31 December	
	2007	2008
	(US$'000)	(US$'000)
Change in the relevant equity price risk variable:		
Increase	(95)	(2,129)
Decrease	88	2,579

In addition, it is estimated that an increase or decrease of 5% in our own equity price would increase or decrease other components of equity by US$0.3 million as at 31 December 2008.

As at 31 December 2009, there was no derivative financial instrument.

PROFIT FORECAST FOR THE SIX MONTHS ENDING 30 JUNE 2010

The following sets forth certain forecasted data for our Company for the six months ending 30 June 2010, which should be read in conjunction with Appendices II and III to this prospectus:

Forecasted consolidated profit attributable to owners of the Company[(1)(2)]	not less than US$17.4 million (approximately HK$135.1 million)
Unaudited pro forma forecast earnings per Share[(2)(3)]	0.64 US cents (approximately 4.97 HK cents)

Notes:

(1) The bases and assumptions on which the above profit forecast has been prepared are summarised in Appendix III to this prospectus. We have undertaken to the Hong Kong Stock Exchange that our interim report for the six months ending 30 June 2010 will be audited pursuant to Rule 11.18 of the Listing Rules.

(2) Solely for your convenience, the above US dollar/cent amounts are converted into Hong Kong dollar/cent amounts at the exchange rate of HK$1.00 to US$0.12877. You should not construe such conversion as a representation that the US dollar/cent amounts could actually be converted into Hong Kong dollar/cent amounts at the rate indicated, or at all.

(3) The calculation of the unaudited pro forma forecast earnings per Share is based on the forecast consolidated profit attributable to owners of the Company for the six months ending 30 June 2010, adjusted for interest expenses accrued for convertible redeemable preference shares as these preference shares shall be converted into ordinary shares of the Company upon the listing of the Company, and on the assumptions that the Company had been listed since 1 January 2010 and a total of 2,910,152,000 Shares were in issue during the six months ending 30 June 2010.

DISTRIBUTABLE RESERVES

As at 31 December 2009, we had a reserve of US$66,320,000 available for distribution to the shareholders of our Company.

DIVIDEND POLICY

We did not declare or pay any dividend during the years ended 31 December 2007, 2008 and 2009. Subject to the relevant law and our Articles of Association, we, through a general meeting, may declare dividends in any currency but no dividend shall be declared in excess of the amount recommended by our Board. Our Articles of Association provide that dividends may be declared and paid out of our profit, realised or unrealised, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of a share premium account or any other fund or account which can be authorised for this purpose in accordance with the Cayman Companies Law.

Future dividend payment will also depend upon the availability of dividends received from our subsidiaries in the PRC. PRC laws requires that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions. The PRC laws also requires foreign investment enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries in the PRC may also be restricted if they incur debts or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries in the PRC may enter into in the future.

The amount of dividend eventually declared and distributed to our Shareholders will also depend upon our earnings and financial performance, operating requirements, then capital commitments and requirements and other conditions that our Directors may deem relevant or appropriate.

DISCLOSURE UNDER RULES 13.13 to 13.19 OF THE LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, there was no circumstance which would give rise to a disclosure requirement under Rule 13.13 to 13.19 of the Listing Rules.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The unaudited pro forma adjusted consolidated net tangible assets of our Group has been prepared, on the basis of the notes set forth below, for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 December 2009. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true and fair picture of the financial position of our Group.

	Audited consolidated net tangible assets of our Group attributable to the owners of our Company as at 31 December 2009[1]	Estimated net proceeds from the Global Offering[2]	Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of our Company as at 31 December 2009[3]	Unaudited pro forma adjusted consolidated net tangible assets per share	
	(US$'000)	(US$'000)	(US$'000)	US$[4]	HK$[5]
Based on an Offer Price of HK$2.03 per share	77,380	174,414	251,794	0.087	0.68
Based on an Offer Price of HK$2.90 per share	77,380	249,432	326,812	0.112	0.87

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2009 is based on the consolidated net assets attributable to owners of the Company of US$164,192,000 as at 31 December 2009 extracted from the Accountants' Report set out in Appendix I to this prospectus, with an adjustment for intangible assets including goodwill with an aggregate balance of US$86,812,000 as at 31 December 2009.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$2.03 or HK$2.90 per Share, being the low or high end of the stated offer price range, and the 693,913,000 new shares offered in the Global Offering, taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme, after deduction of the underwriting fees and related expenses payable by the Company. The estimated net proceeds from the Global Offering are converted from HK$ into US$ at an exchange rate of HK$1.00 to US$0.12877.

(3) The Group's property interests as at 28 February 2010 have been valued by Savills Valuation and Professional Services Limited, an independent property appraiser, and the relevant property valuation report is set out in Appendix IV "Property Valuation". The above unaudited consolidated pro forma adjusted net tangible assets do not take into account the surplus attributable to the Group arising from the revaluation of the Group's property interest amounting to approximately US$7,470,000. The revaluation surplus was not incorporated in the Group's financial statements for the year ended 31 December 2009. If the valuation surplus was recorded in the Group's financial statements, additional annual depreciation/amortisation of approximately US$123,000 would be charged against the consolidated income statement for the year ended 31 December 2009.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 2,910,152,000 Shares in issue immediately following the completion of the Global Offering without taking into account any Shares which may be issued upon exercise of the Over-allotment Option and any shares which may be issued upon the exercise of options under the Pre-IPO Share Option Scheme.

(5) The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into HK$ at an exchange rate of HK$1.00 to US$0.12877.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since 31 December 2009, being the date on which our latest audited financial statements were made up.