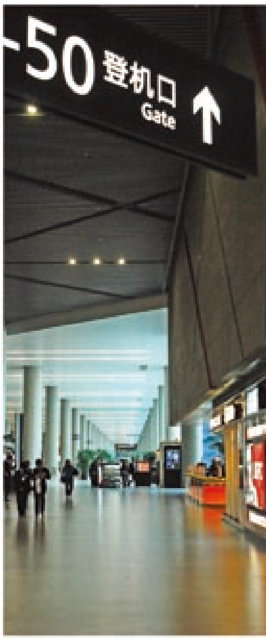
2010 ANNUAL REPORT





雷士照明

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

(Incorporated in the Cayman Islands with Limited Liability)

Stock Code: 2222

Contents

Corporate Information

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

Corporate Information

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

Company Profile

NVC Lighting Holding Limited (the “Company”, together with its subsidiaries hereinafter referred to as the “Group”) is a leading supplier of lighting products in China, which is engaged in the design, development, production, marketing and sale of a wide variety of lighting products including lamp products, luminaire products and lighting electronics products. According to the statistics of China Association of Lighting Industry, we were the largest domestic brand lighting product supplier in China in 2009 in terms of revenue. Our products are sold through the national sales network of 36 exclusive regional distributors and 2,810 NVC outlets covering 31 provinces, municipalities and autonomous regions in China. Our production bases in China are located in Guangdong, Chongqing, Zhejiang and Shanghai and we have established two research and development centres in Huizhou (in Guangdong) and Shanghai. We have set up operation agencies in more than 30 countries and regions around the world.

We have maintained a rapid growth since its establishment in 1998 and supplied highly efficient, energy-saving, healthy, comfortable lighting products through our own research and development system and continuous innovations. Our products serve many fields including commercial, building and office. We have been a market leader, especially in the commercial lighting sector. On 20 May 2010, the Company was listed on the Main Board of the Stock Exchange (stock code: 02222).

As a professional lighting enterprise, our lighting products and solutions were selected and used by a number of famous projects and brands, including well-known projects such as the 2008 Beijing Olympic Games, Shanghai World Expo, Tianjin Subway, Wuhan-Guangzhou Highspeed Railway and Shanghai Hongqiao Transport Hub, etc. and also by world-class hotels such as Hilton, Sheraton and Intercontinental, and famous automotive brands such as Bentley, BMW and Toyota as well as garment brands such as Metersbonwe, Septwolves and K-Boxing. We also became a supplier of lighting products for the 2010 Guangzhou Asian Games.

“To become a world brand and the best player in the industry” is our ultimate goal. The Group has devoted itself to beautifying the commercial and living space with artificial lighting and protecting the ecological environment with environmental friendly and energy-saving lighting products. Therefore, we have been vigorously promoting the research and development and applications of advanced lighting technologies accomplishing its brand beliefs and commitments with excellence and expertise.

Financial Highlights

For the year ended 31 December

	2010 US$'000	2009 US$'000	2008 US$'000	2007 US$'000
Revenue	**471,725**	305,770	256,415	130,068
Gross profit	**137,253**	84,030	62,908	30,896
Gross profit margin *(Note 1)*	**29.1%**	27.5%	24.5%	23.8%
Profit before tax	**82,316**	20,110	20,171	12,822
Profit margin before tax *(Note 1)*	**17.4%**	6.6%	7.9%	9.9%
Profit for the year *(Note 2)*	**73,894**	14,690	18,068	12,876
Net profit margin *(Note 1)*	**15.7%**	4.8%	7.0%	9.9%
Profit for the year attributable to:				
Owners of the Company	**71,338**	12,843	17,949	12,850
Non-controlling interests	**2,556**	1,847	119	26

Note 1: Gross profit margin equals to gross profit divided by revenue；Profit margin before tax equals to profit before tax divided by revenue; net profit margin equals to profit for the year divided by revenue.

Note 2: Profit for the year represents profit before netting off profit for the year attributable to non-controlling interests.

As at 31 December

	2010 US$'000	2009 US$'000	2008 US$'000	2007 US$'000
Non-current assets	**186,796**	168,368	150,790	66,463
Current assets	**440,002**	187,346	147,907	55,485
Current liabilities	**99,177**	105,934	108,100	36,649
Net current assets	**340,825**	81,412	39,807	18,836
Total assets less current liabilities	**527,621**	249,780	190,597	85,299
Non-current liabilities	**31,358**	82,062	85,264	32,703
Total equity	**496,263**	167,718	105,333	52,596
Including:				
Equity attributable to owners of the Company	**492,261**	164,192	103,654	51,018
Non-controlling interests	**4,002**	3,526	1,679	1,578
Current ratio *(Note 1)*	**4.44**	1.77	1.37	1.51

Note1: Current ratio equals to current assets divided by current liabilities.

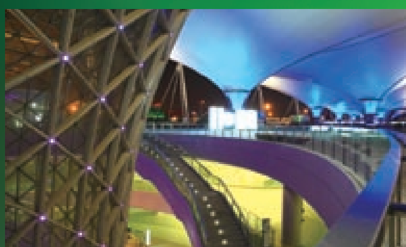
Major Events in 2010

January

Solely sponsored the global release of the epic film "Confucius"

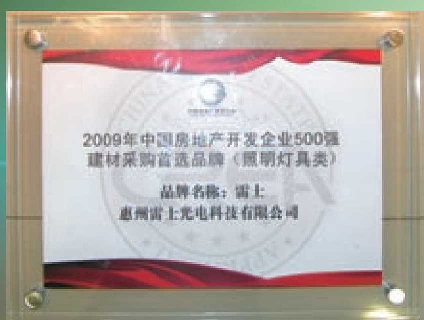
March

Mr. Wu Changjiang, Chairman of the Board, was awarded "Top Ten Economic Figures of the Year" which was selected by government institutions including Guangdong Development and Reform Commission



Completed its contracted lighting projects for Shanghai World Expo

April



Ranked No.1 lighting brand in the "List of Preferred Brands for Building Materials Selected by China's Top 500 Real Estate Developers「中國房地產開發企業500強建材採購首選品牌榜」" released by China Real Estate Appraisal Centre

Won a bid to supply 8,000,000 government subsidized high-efficient lighting products

May

Successfully listed on the Main Board of the Stock Exchange

Major Events in 2010

June

Ranked No.1 valuable lighting brands in the "List of China's 500 Most Valuable Brands"

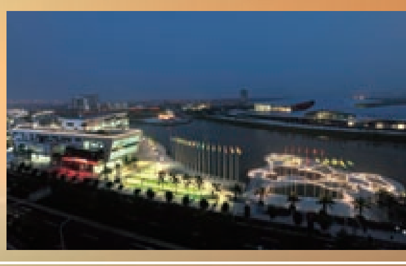
July

The first in the industry to declare the phrase-out of incandescent lamps

September

The unveiling of the state-approved lighting lab and the opening of the lighting experience hall

October



Successfully completed the lighting projects for the Guangzhou Asian Games

November

Enlisted in China's First Demonstration Project for LED Lighting

December

Awarded "2010 Excellent Listed Enterprise" by Capital Weekly

Awarded "2010 CCTV Chinese Brands of the Year" by China Central Television

Chairman's Statement

Dear shareholders:

On behalf of the board of directors ("the Board") of NVC Lighting Holding Limited ("the Company"), I am pleased to present the first annual report of the Company and its subsidiaries (collectively the "Group") after its listing on the Main Board of the Hong Kong Stock Exchange.

2010 was a fruitful year full of opportunities and challenges for the Group. The world economy began to recover from the financial crisis and China's economy maintained a rapid growth momentum which in turn boosted a fast growth in the lighting industry. The concept of developing a low-carbon economy has made energy-saving low-carbon products, including lighting products, the focal point of the society. During the Reporting Period, the Group put great efforts in the brand building of NVC and in enhancing its sales, production and product research and development capability, and achieved a fast growth in results. The Group was successfully listed on the Main Board of the Stock Exchange on 20 May 2010, which will enable us to accelerate the pace of corporate development, optimize the structure of corporate governance and strengthen our leading position in the industry.

Optimistic Prospects for Lighting Industry

In 2010, China successfully hosted two big events, namely, the Shanghai World Expo and the Guangzhou Asian Games, which to a great extent boosted the demand in the lighting industry. Meanwhile, a number of major infrastructure projects such as high-speed railways and airports were completed, these along with the progressive advancement of China's urbanization, brought significant market opportunities to China's lighting industry.

Energy-saving and environmental protection are the key issues that the PRC central government has placed great emphasis on, and are included in China's seven major strategic new industries. The Chinese government continues to implement the national program of promoting highly efficient and energy-saving lighting products, and encourages the use of fluorescent lamp and luminaire products. In November 2010, the government launched a demonstration program of the applications of LED lighting products. As a result, energy-saving lighting products are being now widely accepted and purchased by society as a whole and this leads to an increase in the demand for the Group's LED and energy-saving products.

Compared to 2009, the overseas markets also showed a healthy growth in demand for lighting products. This is because overseas markets have begun to recover from the financial crisis with a number of major projects commencing construction and consumers' spending power gradually picking up. With the 2012 London Olympic Games drawing near and major construction projects increasing in the UK as well as the consolidation of the lighting industry, new business opportunities will emerge in these markets from which the Group will be benefited.

The Results Hit Another Record High

The Group proactively seized the opportunities brought by the growth of the lighting market and achieved outstanding operating results during the Reporting Period. Total revenue of the Group increased by 54.3% compared to last year to reach US$471,725,000 and gross profit from sales increased by 63.3% to US$137,253,000, while profit before tax surged by 309.3% to US$82,316,000. Profit attributable to owners of the Company for the year increased significantly by 455.5% to US$71,338,000. Basic earnings per share were 2.69 US cents. To reward our shareholders' long-term support for the Company, the Board has recommended a final dividend of 3 HK cents per share for the year ended 31 December 2010.

Expansion of Sales Network

For years, the Group has committed itself to expanding the domestic sales network and has relied on these sales channels to introduce its brand to consumers and ultimate users, aiming to bring them distinguished brand experiencing, and this has become our development strategy. As at 31 December 2010, the Group had a total of 2,810 sales outlets, representing an increase of 349 outlets as compared to the end of 2009. This sales network covered 31 provincial capitals, 264 municipal-level cities, 1,154 counties and county-level cities and 402 towns or townships. The average area of unit outlet is 119 m^2, representing a growth of 11%.

The Group also made significant progress in overseas sales channels expansion. During the Reporting Period, the Group successfully developed the Brazil market and the Qatar market. We also established NVC brand recognition in existing markets such as Australia and South Africa and had undertaken indoor lighting projects for the Durban Airport of South Africa. The Group further expanded its sales channels in the Middle-east and Southeast Asia through opening NVC outlets and authorized counters and also established 7 NVC outlets in India. The number of customers NVC UK serves increased from 50 at the beginning of 2010 to 200 at the end of 2010. Among the total sales in the UK, the portion from Edmonson, UK's largest electric appliances distributor, accounted for approximately 50%. At the same time, NVC UK has been included in the supplier list of Edmonson and the Buying Group, the fourth largest electric appliances distributor in the UK.

Marketing Strategy

During the Reporting Period, the Group adopted two domestic marketing campaigns by means of targeted professional promotion and mass promotion. For professional promotion, the Group focused mainly on establishing and consolidating its NVC brand image as a "Lighting Environment Expert" (光環境專家) and launched nationwide professional marketing activities. The theme of the mass promotion activities was "Light-Energy saving Action" (光芒•節能行動) which was in line with the market focus of energy-saving and helped to promote the sales of products. Furthermore, the Group's sponsor of the Chinese film "Confucius" and one of the suppliers of lighting products for the 2010 Guangzhou Asian Games significantly enhanced the NVC brand recognition during the Reporting Period. According to the estimation of the World Brand Lab, the value of our brand far exceeds that of its competitors in the industry. This will create a favourable environment for the Group's domestic sales and boost a rapid growth in sales.

In terms of overseas marketing, for markets in which the Group had relatively matured sales channels and partners with strong distribution capability, the Group focused on producing high-quality products and services and assisting our partners. For medium-sized markets with unorganised sales channels in which our partners had to develop their own sales channels, the Group adopted designing unified products to attract customers through the professional image of the NVC outlets and our professional products.

Research and Development

During the Reporting Period, the Group spared no efforts in the development and research of products and achieved remarkable results. The Group's research and development centre located in Shanghai successfully passed the certification of Keuring Elektrotechnische Materialen (KEMA), a Netherlands-based international certification assessment organization. For having participated in one of the research subjects sponsored by the State 863 Program, i.e. the "Semiconductor Lighting Subject" (半導體照明專項), the Group received a research subsidy of RMB170,000 granted by China's central government. During the Reporting Period, the Group applied for 38 new patents, 27 of which have been approved and granted patent certificates. The Group also published 4 articles in domestic and foreign academic journals and at important seminars.

Future Prospects

Looking ahead, along with the increasing attention to energy saving and environmental protection across the world and the popularization of LED products in the lighting industry, the lighting industry will have a brighter future and greater growth potential. Since its establishment, the Group has been focusing on its sustainable development strategy on developing energy-efficient lighting products, and has adapted well to the changes in the market and technology, achieving remarkable results. Upon completion of its strategic transformation started in 2006, the Group has begun to enter into a full-scale development period, striving to build a complete industrial chain for the development of energy-efficient lighting industry.

According to the "CPC Central Committee's Proposals for Formulating the 12th Five-Year Plan for China's Economic and Social Development" (中共中央關於制定國民經濟及社會發展第十二個五年規劃的建議) passed at the Fifth Plenary Session of the 17th CPC Central Committee, energy-saving and environmental-friendly industry and new energy industry are among the newly emerging industries which will be given first priority to development across the world. In the meantime, the urbanization process will also become an important driver for the development of lighting enterprises in the future. The Group expects that China's central government will continue to implement the program of energy-saving and emission reduction, which will drive the growth of green lighting projects in 2011. On the other hand, the continuous progress of urbanization and industrialization and the acceleration of the construction of new rural areas will further boost the demand for lighting products and create greater development potential for the industry. Meanwhile we will enhance construction of our distribution channels, further expand the coverage of our distribution network, penetrate deeper into existing markets and explore new distribution models as well.

The implementation of the central government's 4-trillion-yuan stimulus package plan which was started in 2009 will be entering upon its third year, a number of major projects will have been completed one after another and the lighting projects will be started, which will bring opportunities to the lighting industry directly. Moreover, as the Professional Engineering Customers and key accounts have stronger demand for lighting solutions, the Group will focus on developing key accounts chain stores, large engineering projects, industrial lighting projects and display lighting projects, to consolidate NVC's brand position as a "Lighting Environment Expert" (光環境專家) in the industry and further expand its market share.

In overseas market, the Group will adopt a development strategy which centres mainly on promoting the sales of NVC brand products supplemented by the production of famous brand products on an ODM/OEM basis. The Group will strongly promote the sales of NVC brand products in the mainstream outlets in the UK, and use the successful experience there to promote products in North American or European markets. The Group will also focus on developing the emerging markets in India, Brazil, the Middle East and Africa, and appoint a number of its own experienced executives to develop these markets so as to control the sales channels in the local market. In terms of OEM/ODM business, the Group will continue to provide service to key multinational enterprises and establish a long-term partnership with them, aiming to take advantage of economies of scale and participate in the development trend of products and technologies.

The Group has been committed to its philosophy and goal of "Becoming a World Brand and the Best Player in the Industry". The Group will continue to make further progress in manufacturing energy-saving and low-carbon products with its professionalism and dedication and commit to creating a beautiful, comfortable, safety and energy-efficient lighting environment for a wide variety of customers.

Appreciation

During the Reporting Period, the various achievements made by the Group were attributable to the dedication of all staff. I hereby wish to express appreciation to the fellow members of the Board and all our staff for the devotion and unconditional support. At the same time, I also wish to express my deepest gratitude to the long-term support of our shareholders, customers and suppliers. The Group will commit itself to achieving sustainable business growth and creating excellent results, and will successfully achieve the operation goal for 2011.

Wu Changjiang
Chairman

Hong Kong, 23 March 2011

Management Discussion and Analysis

Overall Business Review

During the Reporting Period, the Group generated revenue of US$471,725,000, representing an increase of 54.3% from US$305,770,000 for the year ended 31 December 2009, and recorded gross profit of US$137,253,000, representing an increase of 63.3% from US$84,030,000 for the year ended 31 December 2009. The Group's profit before tax amounted to US$82,316,000, representing an increase of 309.3% from US$20,110,000 for the year ended 31 December 2009. And the profit attributable to the owners of the Company for the year was US$71,338,000, representing an increase of 455.5% from US$12,843,000 for the year ended 31 December 2009.

Market Review

Looking back over 2010, the global economy gradually bottomed out from recession and began its recovery, which was exemplified by the rapid growth of the PRC economy throughout the year. According to the data released by National Bureau of Statistics on 20 January 2011, the preliminarily estimated gross domestic production in 2010 reached RMB39,798.3 billion, an increase of 10.3% compared to 2009. Despite the impact of macro control policies, the real estate industry, which is closely related to the lighting industry, has maintained a steady growth. The total investment in real estate development for the year was RMB4,826.7 billion, representing a growth of 33.2%.

In 2010, China was the host of two successful international events, namely, the Shanghai World Expo and the Guangzhou Asian Games. China once again was in the international spotlight as in the 2008 Beijing Olympic Games. These two big events have greatly boosted the rapid growth of many industries including the lighting industry. Meanwhile, proactive fiscal policies and the RMB4 trillion of investments instigated by the Chinese government since the financial crisis in 2008 began to bear fruit. A number of completed projects such as high-speed railways and airports, along with the progressive advancement of China's urbanisation have created numerous market opportunities for China's lighting industry. From January to October 2010, the industrial output of China's lighting industry achieved a growth of 29.8% compared to the first ten months of 2009, and large-scale lighting enterprises (with an annual turnover of RMB5 million or above from their principal businesses) produced an aggregate of 15.49 billion lamps, representing an increase of 22.6% compared to the first ten months of 2009, and produced an aggregate of 1.85 billion luminaire products and lighting devices, representing a growth of 24% compared to the first ten months of 2009. (Source: China Association of Lighting Industry)

Due to the influence of the UN Climate Change Conference held in Copenhagen in December 2009, the concept of developing a low carbon economy has been one of the focal points in 2010. Low carbon products including lighting products have drawn great attention from society. The Chinese government continued its national program of promoting high efficiency and energy-saving lighting products, and promoted the use of fluorescent lamp and luminaire products. In November 2010, the government also launched the demonstration program for the application of LED lighting products. As a result, energy-saving lighting products are being widely accepted and purchased by society as a whole.

Business Review

During the Reporting Period, benefiting from the favourable environment associated with the economic recovery, the Group successfully took advantage of the market opportunities with effective business strategies including promoting the brand profile of NVC and furthering its sales, production and product research and development efforts, with a view of maintaining the Group's leading position in the lighting industry and delivered outstanding results which were better than the industrial average. The Group was successfully listed on the Main Board of the Stock Exchange on 20 May 2010, symbolising a new milestone for the Group's further development.

Sales and distribution

In terms of NVC brand sales in the PRC market during the Reporting Period, the Group retained its original 36 exclusive regional distributors and aggressively expanded its sales network with a net increase of 349 outlets (of which 62 were established in provincial capitals, 42 in municipal cities, 181 in counties or county-level cities and 64 in towns or townships). As at 31 December 2010, the Group had a total of 2,810 outlets, covering 1,851 cities of different sizes (31 in provincial capitals with a 100% coverage rate, 264 in municipal cities with a 91.35% coverage rate, 1,154 in county and county-level cities with a 58.43% coverage rate and 402 in towns or townships with a 1.18% coverage rate). The Group has enlarged the shopping area of the NVC outlets, unified and upgraded their exterior appearance, improved the management efficiency of NVC outlets and aggressively expanded their market share. The Group is also committed to developing new products, improving the price-to-performance ratio of its products and diversifying the product portfolio as well as developing large Professional Engineering Customers and key accounts (both operated by exclusive regional distributors). During the Reporting Period, the Group had 76 large Professional Engineering Customers (representing a total transaction value of US$35.0 million when aggregated with other customers) and 92 key accounts (such as BOSIDENG chain stores, Red Star Macalline and Semir chain stores, representing a total transaction value of US$57.9 million when aggregated with other customers) each with a transaction value exceeding RMB1 million, respectively. In order to promote the NVC brand through diversified channels, the Group has established "Lighting Environment Experience Halls" in Huizhou (where the Group is headquartered) and some other cities such as Beijing, Shanghai and Nanjing to demonstrate physically the concept of the NVC "Lighting Environment". Furthermore, in the bidding for the 2010 government subsidised energy-saving lighting products, the Group, as one of the finalists for the first time, won a bid to supply 8 million units of energy-saving lighting products and achieved sales of US$21.6 million, and the Group's products were selected to be among those in the country's first application and demonstration program of LED lighting.

In terms of non-NVC brand sales in the PRC market, the Group mainly provides energy-saving lamp tubes and accessories to energy-saving lighting manufacturers. Benefiting from the implementation of "low-carbon economies, energy-saving and emission reduction" policies promulgated by the Chinese government, in order to grasp such opportunities, the Group has accelerated its pace on improving technologies and continued to develop new customers.

Management Discussion and Analysis

In terms of NVC brand sales in the international market, the Group continued to develop new customers and strengthened the development of its sales channels. With respect to emerging markets such as Asian and African countries and other regions, the Group has adopted strategies with reference to its China model to develop new distributors. With respect to the markets with well- established channels such as Europe and the USA and other regions, the Group has accelerated its pace in brand building and cooperated with experienced channel operators. For example, UK NVC has gradually switched to the wholesaling of NVC brand products from the sole OEM sales model and successfully cooperated with a number of well-known local electrical appliances chain stores, whereby NVC brand products gained access to the main stream channels.

In terms of the non-NVC brand sales in the international market, the Group promoted its sales through ODM and continued to develop new customers. The Group has strengthened its long-term cooperation relationship with customers by implementing differentiated sales strategies for different customers in different markets, and has developed high-performance products and improved the price-to-performance ratio so as to meet the demands of different customers.

Production

The Group has five production bases, including Huizhou in Guangdong Province, Wanzhou District in Chongqing, Jiangshan city in Zhejiang Province and Qingpu District in Shanghai, with an aggregate floor area of approximately 266,165 square meters. In 2010, the Group added a total of seven production lines for energy-saving lights and one production line for lighting electronic products. The breakdown of the production of each production base is as follows:

	Luminaire production facilities		Lamp production facilities		Lighting electronic production facilities
Location	Huizhou City Guangdong Province	Wanzhou District Chongqing	Jiangshan City, Zhejiang Province (1)	Jiangshan City, Zhejiang Province (2)	Qing Pu District Shanghai
Date of commencement of production	November 1998	December 2006	September 1994	September 2007	March 2006
Design capacity (units) as at 31 December 2010	75,000,000	60,000,000	234,867,500	77,064,000	9,000,000
Actual production (units) as at 31 December 2010	67,790,162	52,598,024	189,201,275	63,846,973	7,409,485
Average utilisation rate as at 31 December 2010	90.4%	87.7%	80.6%	82.8%	82.3%
Standardised hours of operation	8 hours	8 hours	12 hours	8 hours	8 hours
Increase in design capacity as compared with the previous year	25.0%	39.5%	9.2%	42.7%	33.3%
Increase in production as compared with the previous year	36.9%	48.1%	10.7%	35.8%	68.2%

In addition, the Group has also established a production base in energy-saving light tubes in Zhangpu, Fujian province. The design capacity and actual production for the year of 2010, calculated on the basis of 24 hours per day, were 54.48 million and 41.12 million units, respectively, and the average utilisation rate was 75.5%.

Notes:

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

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

Product research and development

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

During the Reporting Period, the Group invested a total of US$5,120,000 in research and development, representing 1.1% of the Group's total revenue. The Group developed a total of over 30 products, including various LED, HID and lighting electronic products. In December 2010, the laboratory of the Shanghai research and development centre of the Group passed the certification of Keuring Elektrotechnische Materialen (KEMA), a Netherlands-based international certification assessment organisation, and received the certificate on 18 January 2011. During the Reporting Period, the Group applied for 38 new patents, 27 of which have been approved and granted.

As at 31 December 2010, the Group had a workforce in research and development of 279, of which 98 were based in our Huizhou research and development centre, 62 were based in our Shanghai research and development centre and the others were based in various production bases.

Quality control

During the Reporting Period, Huizhou NVC, a subsidiary of the Group, passed the AAAA-class "Good Behavior Standardised Enterprise" Certification in Guangdong, representing the highest honour for all enterprises. It also passed the inspection and review on laboratories undertaken by China National Accreditation Service for Conforming Assessment（中國合格評定國家認可委員會）, and received the relevant certificate on 4 August 2010. The Group's T5 lamp tubes passed the Certification of China Quality Certification Centre（中國節能產品認證）. By jointly investing RMB700,000, the Group's Zhejiang production base and Philips established the Mercury Chemical Analysis Laboratory. The laboratory is in a leading position in respect of the quantitative detection of mercury.

As at 31 December 2010, we had a workforce of 657 in quality control.

Brand promotion

Our Group enjoys high brand recognition in the PRC. We believe that a successful brand is vital to the development of the Group. Only a successful brand can make it possible for our Group to differentiate itself from its competitors in the widely dispersed but highly competitive PRC lighting market. During the Reporting Period, the Company committed itself to promoting the brand value and seized the opportunities presented by its listing on the Main Board of the Stock Exchange and winning projects at the Shanghai World Expo and the Guangzhou Asian Games to promote the NVC brand name with a combination of advertisements, media reports, event sponsorship and community charities. For example, the Group sponsored "The 21st Century Lodging Industry Summit" in conjunction with "The 7th China Lodging Industry 'Gold Pillow' Award Ceremony" and the "Real Estate Chart Award". The NVC brand was the winner of the "Top Brand Cooperator for China Real Estate Industry" and the "Special Prize for Driving Force in Promotion of Green Energy Cause", and our Chairman Mr. Wu Changjiang was awarded the "Outstanding Contribution Individual in China's Lighting Environment Industry". By carrying out a series of activities such as setting up "Lighting Environment Experience Halls" in some cities such as Huizhou (where the Group is headquartered), Beijing, Shanghai and Nanjing, and our continued participation in the Champion Alliance program, the Group has effectively promoted its brand.

In terms of the international brand market, the product demand increased steadily with the turnaround of economies of various countries. During the Reporting Period, to raise the public awareness of NVC products, the Group participated in various overseas promotional activities, such as the Middle East Electricity Power Exhibition in February, the Building Materials Exhibition in Brazil in March, the Frankfurt Construction Lighting Exhibition in April, the Building Materials Exhibition in Israel in May and the South Africa 1st Lighting Exhibition in August.

Financial Review

Revenue

Revenue represents the invoiced value of the goods sold, net of sales returns and allowances. For the year ended 31 December 2010, the Group recorded revenue of US$471,725,000, representing an increase of 54.3% as compared with US$305,770,000 recorded in the year ended 31 December 2009. Of which, revenue of NVC brand products in the PRC market increased by 65.1%, primarily attributable to our continuous improvement and perfection of our distribution channels with a net increase of 349 outlets, the expansion of unit outlet area, and the increase of unit outlet sales. In addition, we also continued to develop new Professional Engineering Customers and key accounts, which together contributed an aggregate of US$92,881,000 in sales revenue. Sales of NVC brand products in the international market amounted to US$27,602,000, representing a growth of 203.0% as compared to the year ended 31 December 2009, which was mainly attributable to the global economic recovery.

Revenue by product segment

The following table sets forth the revenue by product segment (luminaire, lamp and lighting electronics) for the years indicated and the growth rate of each segment.

	Year ended 31 December		
	2010 **US$'000**	2009 US$'000	Growth rate
Luminaire products	**258,300**	153,799	67.9%
Lamp products	**157,624**	118,048	33.5%
Lighting electronics products	**55,801**	33,923	64.5%
Total	**471,725**	305,770	54.3%

During the Reporting Period, the sales of luminaire products increased by 67.9%, which was mainly attributable to our improvement of our distribution channels and increased number of outlets, meanwhile, we also continued to develop new Professional Engineering Customers and key accounts. The sales of lamp products increased by 33.5%, with NVC brand lamp products increasing by 65.7% and non-NVC brand lamp products increasing by 21.1%, which benefited from the global economic recovery, energy-saving and emission reduction policies and increased promotion of energy-saving lamp products by the Company. The sales of lighting electronics products increased by 64.5%, mainly benefiting from the increase in combined sales with luminaire products and lamp products.

Revenue by NVC brand sales and non-NVC brand sales

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

	Year ended 31 December	
	2010 **US$'000**	2009 US$'000
NVC brand		
Luminaire products	**246,680**	141,479
Lamp products	**54,345**	32,792
Lighting electronic products	**27,303**	17,016
Subtotal	**328,328**	191,287
Non-NVC brand		
Luminaire products	**11,620**	12,320
Lamp products	**103,279**	85,256
Lighting electronic products	**28,498**	16,907
Subtotal	**143,397**	114,483
Total	**471,725**	305,770

Management Discussion and Analysis

Revenue by geography

The table below sets forth the Group's revenue from PRC and international sales for the years as indicated and the growth rate of each item.

	Year ended 31 December		
	2010	2009	Growth rate
	US$'000	US$'000	
Revenue from PRC sales			
Luminaire products	**224,765**	134,677	66.9%
Lamp products	**118,342**	89,828	31.7%
Lighting electronics products	**29,008**	18,088	60.4%
Subtotal	**372,115**	242,593	53.4%
Revenue from international sales			
Luminaire products	**33,535**	19,122	75.4%
Lamp products	**39,282**	28,220	39.2%
Lighting electronics products	**26,793**	15,835	69.2%
Subtotal	**99,610**	63,177	57.7%
Total	**471,725**	305,770	54.3%

During the Reporting Period, the Group achieved high revenue growth in both PRC sales and international sales compared with the year ended 31 December 2009, while international sales had a higher growth rate over PRC sales. Revenue from PRC sales increased by 53.4%, of which the NVC brand products' revenue increased by 65.1% to US$300,726,000 in the year ended 31 December 2010 from US$182,176,000 for the year ended 31 December 2009, and the non-NVC brand products' revenue increased by 18.2% to US$71,389,000 in the year ended 31 December 2010 from US$60,417,000 for the year ended 31 December 2009. Revenue from international sales increased by 57.7%, of which the NVC brand products' revenue increased by 203.0% to US$27,602,000 in the year ended 31 December 2010 from US$9,111,000 for the year ended 31 December 2009, and the non-NVC brand products' revenue increased by 33.2% to US$72,008,000 in the year ended 31 December 2010 from US$54,066,000 for the year ended 31 December 2009.

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

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

	Year ended 31 December	
	2010	2009
	US$'000	US$'000
Energy-saving products	**283,964**	183,810
Non-energy-saving products	**187,761**	121,960
Total	**471,725**	305,770

Cost of sales

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

	Year ended 31 December			
	2010		2009	
	US$'000	**% of Revenue**	US$'000	% of Revenue
Raw materials	**232,644**	**49.3%**	135,669	44.4%
Outsourced manufacturing costs	**44,620**	**9.5%**	43,312	14.2%
Labour costs	**36,469**	**7.7%**	25,862	8.5%
Overhead	**20,739**	**4.4%**	16,897	5.5%
Total cost of sales	**334,472**	**70.9%**	221,740	72.5%

During the Reporting Period, the Group's cost of sales increased by 50.8%. Such increase primarily reflected the increase in sales volume. The Group's cost of sales as a percentage of revenue decreased to 70.9% in the year ended 31 December 2010 from 72.5% for the year ended 31 December 2009, resulting in an increase in gross profit margin from 27.5% to 29.1%. This reflected our efforts to improve our manufacturing efficiency and enhance the vertical integration of products and economies of scale.

Management Discussion and Analysis

Gross profit and gross profit margin

Gross profit is calculated by revenue less cost of sales.

During the Reporting Period, gross profit increased by US$53,223,000 or 63.3% to US$137,253,000 from US$84,030,000 for the year ended 31 December 2009, primarily reflecting the increase in sales volume and gross profit margin. The Group's gross profit and gross profit margin by segment are as follows:

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

	Year ended 31 December			
	2010		2009	
	US$'000	**(%)**	US$'000	(%)
Luminaire products	**82,319**	**31.9%**	41,841	27.2%
Lamp products	**43,603**	**27.7%**	34,410	29.1%
Lighting electronics products	**11,331**	**20.3%**	7,779	22.9%
Total	**137,253**	**29.1%**	84,030	27.5%

During the Reporting Period, gross profit from luminaire products increased by 96.7% to US$82,319,000 from US$41,841,000 for the year ended 31 December 2009. Gross profit margin for luminaire products increased to 31.9% in the year ended 31 December 2010 from 27.2% for the year ended 31 December 2009. This increase in gross profit margin for luminaire products was mainly attributable to technological innovation and the rapid rise in the gross profit margin of fast-moving T4 and T5 batten products.

During the Reporting Period, gross profit from lamp products increased by 26.7% to US$43,603,000 from US$34,410,000 for the year ended 31 December 2009. Gross profit margin for lamp products decreased to 27.7% in the year ended 31 December 2010 from 29.1% for the year ended 31 December 2009. This decrease mainly reflected the price reduction made on non-NVC brand products to respond to market changes.

During the Reporting Period, gross profit from lighting electronics products increased by 45.7% to US$11,331,000 from US$7,779,000 for the year ended 31 December 2009. Gross profit margin for lighting electronics products decreased to 20.3% in the year ended 31 December 2010 from 22.9% for the year ended 31 December 2009, mainly due to two general price reductions made on lighting electronics products under the NVC brand in April and September 2009 which resulted in lower sale prices of these products in 2010 as compared to those in 2009.

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

	Year ended 31 December			
	2010		2009	
	US$'000	**(%)**	US$'000	(%)
NVC brand	**108,085**	**32.9%**	53,229	27.8%
Non-NVC brand	**29,168**	**20.3%**	30,801	26.9%
Total	**137,253**	**29.1%**	84,030	27.5%

During the Reporting Period, NVC brand products generated a gross profit of US$108,085,000, representing an increase of 103.1% from US$53,229,000 for the year ended 31 December 2009, and gross profit margin increased by 5.1%, which was mainly attributable to the rapid growth in the gross profit margin of battens products; non-NVC brand products generated a gross profit of US$29,168,000, representing a decrease of 5.3% from US$30,801,000 for the year ended 31 December 2009, and gross profit margin decreased by 6.6%, which was mainly attributable to the price reduction of certain lamp products and the impact of changes in product mix.

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

	Year ended 31 December			
	2010		2009	
	US$'000	**(%)**	US$'000	(%)
Gross profit from PRC sales:				
Luminaire products	**74,719**	**33.2%**	37,872	28.1%
Lamp products	**35,675**	**30.1%**	30,035	33.4%
Lighting electronics products	**7,212**	**24.9%**	5,195	28.7%
Subtotal	**117,606**	**31.6%**	73,102	30.1%
Gross profit from international sales:				
Luminaire products	**7,600**	**22.7%**	3,969	20.8%
Lamp products	**7,928**	**20.2%**	4,375	15.5%
Lighting electronics products	**4,119**	**15.4%**	2,584	16.3%
Subtotal	**19,647**	**19.7%**	10,928	17.3%
Total	**137,253**	**29.1%**	84,030	27.5%

Management Discussion and Analysis

During the Reporting Period, PRC sales generated a gross profit of US$117,606,000, representing an increase of 60.9% from US$73,102,000 for the year ended 31 December 2009, of which NVC brand products generated gross profit of US$101,117,000, representing an increase of 95.6% from US$51,692,000 for the year ended 31 December 2009 and non-NVC brand products generated gross profit of US$16,489,000, representing a decrease of 23.0% from US$21,410,000 for the year ended 31 December 2009.

During the Reporting Period, international sales generated gross profit of US$19,647,000, representing an increase of 79.8% from US$10,928,000 for the year ended 31 December 2009, of which NVC brand products generated gross profit of US$6,968,000, representing an increase of 353.4% from US$1,537,000 for the year ended 31 December 2009 and non-NVC brand products generated gross profit of US$12,679,000, representing an increase of 35.0% from US$9,391,000 for the year ended 31 December 2009.

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

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

	Year ended 31 December			
	2010		2009	
	US$'000	**(%)**	US$'000	(%)
Energy-saving products	**86,487**	**30.5%**	50,063	27.2%
Light tubes for CFL	**17,603**	**24.5%**	19,692	33.3%
T4/T5 battens	**39,925**	**41.6%**	14,728	28.8%
Compact fluorescent lamps (CFL)	**17,262**	**27.3%**	9,806	22.3%
Electronic ballasts	**4,670**	**15.6%**	2,800	16.0%
HID lamps	**3,306**	**43.3%**	1,522	36.3%
Fluorescent lamps	**1,576**	**27.3%**	816	23.6%
LED products	**1,908**	**23.2%**	348	13.9%
HID street lighting	**237**	**23.1%**	351	17.7%
Non-energy-saving products	**50,766**	**27.0%**	33,967	27.9%
Total gross profit	**137,253**	**29.1%**	84,030	27.5%

During the Reporting Period, the Group recorded a gross profit margin of 30.5% for the energy-saving products, representing an increase of 3.3% as compared with that of 27.2% for the year ended 31 December 2009. This was mainly due to: (1) technological innovation on luminaire products resulting in higher gross profit margins for T4/T5 battens products; and (2) a larger proportion of products with higher profit margin sold in the government purchase of energy-saving products.

Other income and gains

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

	Year ended 31 December	
	2010	2009
	US$'000	US$'000
Government grants	**3,587**	1,644
Trademark licence fees	**3,228**	2,249
Distribution commission	**4,210**	2,406
Gain of scraps and materials	**861**	656
Rental income	**500**	423
Exchange gain, net	**673**	–
Others	**270**	281
Total	**13,329**	7,659

Selling and distribution costs

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

During the Reporting Period, selling and distribution costs were US$36,347,000, representing an increase of 76.0% as compared with US$20,654,000 in the year ended 31 December 2009, accounting for 7.7% (2009: 6.8%) of the Company's revenue. The increase in selling and distribution costs was primarily attributable to increased advertising costs, freight costs and staff costs.

Administrative expenses

Administrative expenses mainly consist of staff costs, amortisation and depreciation, research and development expenses, bad debt provision, IPO transaction costs, equity-settled share option expenses and others. Others mainly include taxes, office expenses, audit fees and other professional fees, and other miscellaneous items. These taxes mainly include land use tax and stamp duty in connection with our administrative functions.

During the Reporting Period, administrative expenses were US$30,097,000, representing an increase of 13.2% from US$26,588,000 for the year ended 31 December 2009. This increase was primarily attributable to higher research and development expenses and labour costs. The proportion of administrative costs to revenue decreased to 6.4% in 2010 from 8.7% in the year ended 31 December 2009.

Other expenses

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

Other expenses in 2010 were US$1,291,000 as compared to US$633,000 for the year ended 31 December 2009.

Finance income

Finance income mainly consists of interest income from bank deposits and other interest income.

Finance costs

Finance costs represent interest expense accrued on convertible redeemable preference shares and interest on bank loans. The host liability instrument of the convertible redeemable preference shares was carried as a liability at amortised cost calculated using the effective interest rate method. The interest expense on the convertible redeemable preference shares in the year ended 31 December 2010 were US$1,315,000 as compared to US$7,763,000 for the year ended 31 December 2009. As a result of the Company's initial public offering, these convertible redeemable preference shares were entirely converted into ordinary shares and the accrual of interest is no longer required after the initial public offering.

Net fair value loss on convertible redeemable preference shares

According to the terms of preference shares, preference shares will be automatically converted into ordinary shares on the date of the successful listing of the Company's shares. Before conversion into ordinary shares, a net fair value loss of US$15,780,000 on the derivative component of the preference shares and the modification of terms of Series A-1/B preference shares was recorded in 2009, primarily due to higher equity value resulting from the Group's business expansion in 2009. At 31 December 2009, holders of our preference shares agreed to waive their respective rights to adjust the conversion price applicable to the preference shares. As a result, the conversion feature of the Series A-1/B preference shares was accounted for as equity starting from 31 December 2009. Therefore, there was no adjustment to the fair value of the derivatives of preference shares in 2010.

Share of profits of an associate

This item represents the Group's share of the net profit of an associate, Mianyang Leici, for the year ended 31 December 2010.

Income tax expense

Income tax expense represents our current income tax and deferred income tax. The Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies are domiciled and operated. Further information on the tax rates is provided in note 9 to the financial statement on page 135 to page 137 of this annual report.

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

	Year ended 31 December	
	2010	2009
	US$'000	US$'000
Current income tax	**10,150**	6,119
Deferred income tax	**(1,728)**	(699)
Total tax expense for the year	**8,422**	5,420

During the Reporting Period, income tax charged for the Group was US$8,422,000, representing an increase of 55.4% from US$5,420,000 for the year ended 31 December 2009. The increase of income tax charge was partly due to more profit derived from the higher sales revenue made by subsidiaries in 2010, and partly due to the expiry of the full EIT exemptions for Shanghai Arcata.

Net profit for the year (including profit attributable to non-controlling interests)

Due to the factors mentioned above, our net profit (including profit attributable to non-controlling interests) for the year was US$73,894,000 as compared to US$14,690,000 for the year ended 31 December 2009.

Exchange differences on translation of foreign operations

Our exchange differences on translation of foreign operations increased to US$8,374,000 in the year ended 31 December 2010 from US$128,000 for the year ended 31 December 2009. This difference primarily arose from the translation of the financial statements of the PRC subsidiaries which are denominated in RMB.

Management Discussion and Analysis

Profit attributable to owners of the Company for the year

Due to the factors mentioned above, profit attributable to owners of the Company increased to US$71,338,000 in the year ended 31 December 2010 from US$12,843,000 for the year ended 31 December 2009.

Profit attributable to non-controlling interests for the year

Profit attributable to non-controlling interests increased to US$2,556,000 in the year ended 31 December 2010 from US$1,847,000 for the year ended 31 December 2009.

Cash Flow and Liquidity

Cash flows

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

	Year ended 31 December	
	2010	2009
	US$'000	US$'000
Net cash flows from operating activities	**36,878**	42,073
Net cash flows used in investing activities	**(89,135)**	(25,048)
Net cash flows from financing activities	**187,702**	4,849
Net increase in cash and cash equivalents	**135,445**	21,874
Cash and cash equivalents at beginning of year	**44,034**	22,085
Effect of foreign exchange rate changes, net	**3,287**	75
Cash and cash equivalents at end of year	**182,766**	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 goods purchased and costs and expenses relating to operating activities.

Our net cash flows from operating activities were US$36,878,000 in the year ended 31 December 2010, while our operating cash inflows before changes in working capital were US$95,352,000. The changes in working capital included (i) an increase of US$19,306,000 in inventories; (ii) an increase of US$37,624,000 in trade receivables, other receivables and prepayments; (iii) income tax paid amounting to US$9,916,000; and (iv) an increase of US$8,372,000 in trade and bills payables, as well as other payables and accruals.

Our net cash flows from operating activities were US$42,073,000 in the year ended 31 December 2009, while our operating cash inflows before changes in working capital were US$57,317,000. The changes in working capital included (i) an increase of US$23,776,000 in inventories; (ii) an increase of US$3,496,000 in trade receivables, other receivables and prepayments; (iii) income tax paid amounting to US$6,399,000; and (iv) an increase of US$18,427,000 in trade and bills payable as well as other payables and accruals.

Cash flows used in investing activities

Our cash flows used in investing activities mainly consist of payment for purchases of property, plant and equipment, acquisitions of subsidiaries and other businesses (net of cash acquired) and investment in term deposits. In the year ended 31 December 2010, our net cash flows used in investing activities amounted to US$89,135,000. The net cash outflows were mainly due to (i) payment of US$27,208,000 for the purchase of property, plant and equipment and intangible assets other than goodwill; (ii) payment of the remaining consideration balance of US$7,736,000 for the acquisition of World Through; and (iii) an increase of US$56,148,000 in term deposits.

In the year ended 31 December 2009, our net cash flows used in investing activities amounted to US$25,048,000. The net cash outflows mainly represented our payment of US$15,736,000 for the acquisition of property, plant and equipment, intangible assets other than goodwill and land use rights, our payment of US$20,777,000 for acquisition of subsidiaries and other businesses (net of cash acquired) and a decrease of US$6,059,000 in term deposits.

Cash flows from financing activities

Our cash inflows from financing activities mainly consist of the proceeds from issue of new share in the initial public offering and upon the exercise of share options, proceeds from new bank loans and receipt of government grant. Our cash flows used in financing activities consist of repayment of bank loans, bank loan interest paid, payment of listing expenses including share issue costs and dividends paid.

In the year ended 31 December 2010, our net cash inflows from financing activities amounted to US$187,702,000. Such cash inflows were mainly from (i) the proceeds of US$205,799,000 from the issuance of new shares; (ii) the proceeds of US$23,834,000 from new bank loans; and (iii) the receipt of government grants of US$10,802,000. The cash inflows were partly offset by US$30,412,000 for the repayment of bank loans, US$2,223,000 for the payment of dividends to a non-controlling shareholder of a subsidiary, US$7,355,000 for the payment of interim dividends and payment of listing expenses including share issue costs of US$11,460,000.

In the year ended 31 December 2009, our net cash inflows from financing activities amounted to US$4,849,000. Such cash inflows were mainly from the proceeds of US$34,589,000 from new bank loans and the receipts of government grants of US$8,712,000. The cash inflows were partly offset by US$37,138,000 for repayment of bank loans.

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 end of the Reporting Period.

	31 December	
	2010	2009
	US$'000	US$'000
CURRENT ASSETS		
Inventories	**68,591**	47,567
Trade and other receivables	**119,503**	85,795
Prepayments	**8,494**	6,692
Short-term deposits	**60,648**	3,258
Cash and cash equivalents	**182,766**	44,034
Total current assets	**440,002**	187,346
CURRENT LIABILITIES		
Trade and bills payables	**51,297**	54,769
Other payables and accruals	**44,438**	41,864
Interest-bearing loans	**–**	6,093
Income tax payable	**3,442**	3,208
Total current liabilities	**99,177**	105,934
NET CURRENT ASSETS	**340,825**	81,412

As at 31 December 2010 and 31 December 2009, net current assets of the Group totalled US$340,825,000 and US$81,412,000, respectively, and our current ratio was 4.44 and 1.77, respectively. Liquidity was better than that as at 31 December 2009, mainly attributable to the proceeds from the global offering available to us and the repayment of interest-bearing loans. In light of our current liquidity position, and the net proceeds available to the Company from the global offering, banking facilities available and our projected cash inflow generated from operations, the Directors believe that we have sufficient working capital for our present requirements and for the next 12 months.

Capital management

The following table presents our gearing ratios as at the end of the Reporting Period.

	31 December	
	2010	2009
	US$'000	US$'000
Interest-bearing loans	**–**	6,386
Convertible redeemable preference shares	**–**	57,932
Total debt	**–**	64,318
Less: cash and short-term deposits	**(243,414)**	(47,292)
Net debt	**(243,414)**	17,026
Total equity attributable to owners of the Company	**492,261**	164,192
Gearing ratio	**0.0%**	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 corresponding adjustments, taking into consideration changes in economic conditions, our future capital requirements, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities. We manage our capital through monitoring our gearing ratio (which is calculated as net debt divided by the total equity attributable to the owners of the Company). Net debt are the balance of interest-bearing loans and convertible redeemable preference shares, less cash and short-term deposits.

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

Management Discussion and Analysis

Inventory analysis

The balance of inventories represented our balance of stock of raw materials, work in progress and finished goods as at the end of the Reporting Period. We monitor our inventories on a regular basis. The following table sets out our inventories balance as at the end of the Reporting Period, as well as the turnover of average inventories (in days) for the years indicated.

	31 December	
	2010	2009
	US$'000	US$'000
Raw materials	**19,885**	13,707
Work in progress	**1,053**	1,297
Finished goods	**47,653**	32,563
Total	**68,591**	47,567
Turnover of average inventories (in days) [1]	**63.4**	57.0

[1] Average inventories equal to the inventories at the beginning of the year plus inventories at the end of the year (after provision for impairment of inventories), divided by two. Turnover of average inventories (in days) equals to the average inventories divided by the cost of sales and then multiplied by 365.

During the year ended 31 December 2010, the amount of the write-down of inventories recognised was US$178,000.

During the years ended 31 December 2010 and 2009, our inventory turnover days were around 63.4 days and 57 days, respectively.

Trade and other receivables

The balance of trade and bills receivables represented the outstanding amounts receivable by us from customers who have been granted with credit periods. The following table sets forth our total trade and other receivables as at the end of the Reporting Period and the turnover of average trade and bills receivables (in days) for the years indicated.

	31 December	
	2010	2009
	US$'000	US$'000
Trade and bills receivables	**112,583**	67,186
Provision	**(2,181)**	(1,858)
	110,402	65,328
Other receivables	**9,361**	20,859
Provision	**(260)**	(392)
	9,101	20,467
Total	**119,503**	85,795
Turnover of average trade and bills receivables (in days) [(1)]	**69.5**	74.4

(1) Average trade and bills receivables equal to the trade and bills receivables (before impairment) at the beginning of the year plus trade and bills receivables at the end of the year, divided by two. Turnover of average trade and bills receivables (in days) equals to the average trade and bills receivables divided by revenue and then multiplied by 365.

Trade and bills receivables represent proceeds receivable from the sale of goods. Our trading terms with our customers are mainly on credit, except for new customers where payment in advance is normally required. We have been purchasing one-year credit insurance to insure up to 90% of any uncollectible amount derived from our overseas sales, provided that the aggregate amount of compensation does not exceed US$15 million for overseas sales. The credit insurance contracts for our domestic sales are currently under renewal. We have extended credit periods up to the range from 90 to 120 days. We seek to maintain strict control over our outstanding receivables and has established a credit control management system. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

Our trade receivables increased from US$65,328,000 as at 31 December 2009 to US$110,402,000 as at 31 December 2010. The increase was primarily attributable to increased sales, particularly in the second half of 2010.

Management Discussion and Analysis

Capital expenditure

We have funded our capital expenditure from cash generated from operations and bank loans as well as proceeds from the global offering. Our capital expenditure primarily related to expenditure on property, plant and equipment, prepaid land lease payments, acquisition of subsidiaries, intangible assets (other than goodwill), investment in an associate and long-term deferred expenditure. Our capital expenditure in the year ended 31 December 2010 amounted to US$27,264,000, of which US$8,160,000 was invested in machinery and equipment mainly for the expansion of production lines, and US$12,379,000 on construction in progress mainly for relocation and construction of the new Sunny industrial complex.

Trade and bills payables

The following table sets forth the total amounts of our trade and bills payables as at the end of the Reporting Period and the turnover of average trade and bills payables (in days) for the years indicated.

	31 December	
	2010	2009
	US$'000	US$'000
Trade and bills payables to third parties	**48,076**	48,527
Trade payables to related parties	**3,221**	6,242
Total	**51,297**	54,769
Turnover of average trade and bills payables (in days) [1]	**57.9**	70.9

(1) Average trade and bills payables equal to the trade and bills payables at the beginning of the year plus trade and bills payables at the end of the year, 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.

Turnover days of trade and bills payables was reduced in the year ended 31 December 2010 mainly due to the acceleration of payments to suppliers so as to obtain higher discounts.

Interest-bearing loans

As at 31 December 2010, we had no interest-bearing loans. On the same date, we had unutilised bank facilities of approximately RMB130,000,000.

	31 December	
	2010	2009
	US$'000	US$'000
Current portion		
Bank loans – secured	–	6,093
Subtotal of current portion	–	6,093
Non-current portion		
Loans (unsecured) – Jiangshan municipal government	–	293
Subtotal of non-current portion	–	293
Total	–	6,386

Pledge of assets

As at 31 December 2010, we had no pledged assets except for trade receivables with a carrying amount of approximately US$6,372,000 (31 December 2009: carrying amount of approximately US$293,000) pledged to secure bank facilities. As at 31 December 2009, buildings with a carrying amount of approximately US$10,717,000, land use rights with a carrying amount of approximately US$1,489,000 and trade receivables with a carrying amount of approximately US$293,000 were pledged as security for bank facilities.

Convertible redeemable preference shares

The Company issued the convertible redeemable preference shares to investors on 1 August 2006 and 27 August 2008. Pursuant to the Preference Share Purchase Agreement, the holders of the preference shares may convert their preference shares into ordinary shares or have them redeemed at a specified price when certain conditions are met. Given the nature of the preference shares and the requirements of the International Financial Reporting Standards, the Company accounted for these preference shares (except for series A-2 preference shares accounted for as equity) as liabilities before they were converted or redeemed providing for the corresponding interest incurred, and recognised the movement in fair value in accordance with their nature and terms. According to the terms set out in the Preference Share Purchase Agreement, the preference shares shall be converted into ordinary shares on the basis of one preference share for one ordinary share immediately after the completion of the Global Offering by the Company, and the Company shall reclassify all liability components of the preference shares to equity after the listing of the Company's shares. There were outstanding liability component of convertible redeemable preference shares with an amount of US$57,932,000 as at 31 December 2009, which were eliminated on 20 May 2010 after conversion into ordinary shares (being reclassified to equity).

Off-balance Sheet Arrangement

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

Contingent Liabilities

As at 31 December 2010, the Group had no material contingent liabilities.

Capital Commitments

As at 31 December 2010, we had capital commitments of US$65,184,000 for the construction of property, plant and equipment, acquisition of intangible assets (other than goodwill) and land use rights. The details are set out below:

	31 December	
	2010	2009
	US$'000	US$'000
Contracted but not provided for		
Acquisition of property, plant and equipment	**10,997**	8,981
Authorised but not contracted for		
Acquisition of property, plant and equipment	**52,872**	33,181
Acquisition of other intangible assets	**811**	–
Acquisition of land use rights	**504**	489
Total	**65,184**	42,651

In addition to the capital commitments mentioned above, we had the following operating lease commitment as at the end of the Reporting Period.

Operating Leases Commitments

As at 31 December 2010, we have entered into some non-cancelable operating leases. The table below sets forth our future minimum rental payments under non-cancelable operating leases as at the end of the Reporting Period.

	31 December	
	2010	2009
	US$'000	US$'000
Within one year	**495**	642
After one year but not more than five years	**858**	1,304
More than five years	**225**	418
Total	**1,578**	2,364

As a lessor, we lease plant and office premises under operating lease arrangements with lease terms ranging from one to five years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. As at the end of the Reporting Period, we had total future minimum lease receivables under non-cancelable operating leases as follows:

	31 December	
	2010	2009
	US$'000	US$'000
Within one year	**399**	381
After one year but not more than five years	**325**	798
More than five years	**–**	550
Total	**724**	1,729

Merger and Acquisition

For the year ended 31 December 2010, no acquisition or disposal of subsidiaries or associates was made by the Group.

Significant Investment

For the year ended 31 December 2010, the Group had no significant investment. Save as disclosed in the prospectus of the Company dated 7 May 2010 and in subsequent events in the Report of Directors set below, the Group did not have any plan for significant investment as at 31 December 2010.

Market Risks

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

Foreign currency risk

We have transactional currency exposure. Such exposure arises from sales by an operating unit in currencies other than its functional currency. Sales of products by our PRC entities to overseas customers are predominantly conducted in US dollars. As a result, we are exposed to fluctuations in the exchange rate between the US dollar and the RMB. We have conducted a sensitivity analysis to determine our exposure to the changes in foreign currency exchange rates. If RMB appreciates or depreciates against U.S. dollar by 5% within a reasonable and possible range for the year ended 31 December 2010 while other variables remain unchanged, our profit before tax would increase or decrease by approximately US$1,948,000, respectively.

Commodity price risk

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

Liquidity risk

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

Credit risk

The major concentration of credit risk arises from our exposure to a substantial number of trade receivables and other receivables from debtors. We have policies in place to ensure that the sales of products are made to customers with an appropriate credit limit, and we have strict control over credit limits of other receivables. Our cash and short-term deposits are mainly deposited with registered banks in China. We also have policies that limit our credit exposure to any financial institutions. The carrying amounts of trade and other receivables, short-term deposits and cash and cash equivalents 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 2010, we entered into one-year insurance contracts with China Export & Credit Insurance Corporation to cover up to 90% of the uncollectible amount of our overseas sales for the period from 1 November 2010 to 31 October 2011 provided that the aggregate amount of compensation does not exceed US$15 million for overseas sales. The credit insurance contracts for domestic sales are currently under renewal. We purchased such insurance in order to minimise our exposure to credit risk as we expand our business. We plan to renew such insurance contracts as they become due.

Employees

As at 31 December 2010, the Group had approximately 9,988 employees (31 December 2009: 10,375). During the Reporting Period, relevant staff cost was US$54,337,000 (including share option expense of US$744,000), while our staff cost was US$39,832,000 (including share option expense of US$74,000) for the year ended 31 December 2009. The Group regularly reviews remuneration and benefits of its employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including pension scheme and housing funds contributions, discretionary incentive and share option schemes.

Directors and Senior Management

Executive directors

Mr. WU Changjiang (吳長江), aged 44, is our chairman, chief executive officer and an executive Director. Mr. Wu is our founder and is primarily responsible for the overall corporate strategies and management of our Group. Mr. Wu has more than 16 years of experience in the lighting products industry. He was the general manager in Huizhou Minghui Electrical Equipment Co., Ltd. (惠州明暉電器有限公司) from 1994 to 1997 and Bao'anqu Shajing Shasi Hengyu Lighting Plant (寶安區沙井沙四恒裕燈飾製品廠) from 1997 to 1998. Mr. Wu graduated from Northwestern Polytechnical University (西北工業大學) with a bachelor's degree in aircraft manufacturing in 1988. He also received an EMBA degree from China New Entrepreneur Development Program (國研•斯坦福中國企業新領袖培養計劃項目) in 2008, a joint program sponsored by the Chinese government and Stanford University.

Mr. WU Jiannong (吳建農), aged 48, is an executive Director of the Company. With over 16 years of experience in the lighting products industry, he is primarily responsible for the production management of our lamp products. Mr. Wu Jiannong has been the general manager of Zhejiang Jiangshan Sunny Electronics Co., Ltd. (浙江江山三友電子有限公司), a subsidiary of our Company, since 1994 and its chairman since 2000. Prior to that, he worked in Jiangshan Chemical Plant (江山化工總廠) (now Zhejiang Jiangshan Chemical Co., Ltd. (浙江江山化工股份有限公司)) from 1978 to 1994 where he held various management positions responsible for production and technology development. Mr. Wu Jiannong has been a delegate to the Jiangshan Municipal People's Congress (江山市人民代表大會), Zhejiang Province since 2003 and chairman of Jiangshan Municipal Lighting Industry Association (江山市電光源行業協會) and deputy chairman of Jiangshan Municipal Federation of Industry and Commerce (江山市工商聯合會) since December 2007.

Mr. MU Yu (穆宇), aged 38, is an executive Director and a vice president of the Company, primarily responsible for our production process management. He has over 11 years of experience in production management. Mr. Mu served as a mould designer in the Ministry of Space Industry's 061 Base 3409 Plant (航天工業部061基地3409廠) (now Guizhou Space Kaihong Technology Co., Ltd. (貴州航天凱宏科技有限責任公司)) from 1995 to 1997 and a mechanical engineer in Dongguan Changhong Hardware Co., Ltd (東莞長鴻五金製品有限公司) from 1997 to 1999. He has been with our Group since 1999 and has been responsible for overall production planning and manufacturing management since 2002. From 1999 to 2002, he was a manager of our engineering department in Huizhou. Mr. Mu received a bachelor's degree in mechanics from the Guizhou Industry College (貴州工學院) in 1995 and completed the Advanced Management Program at the School of Economics and Management of Tsinghua University (清華大學經濟管理學院) in 2004.

Non-executive directors

Mr. XIA Lei (夏雷), aged 51, is a non-executive Director of the Company. He joined our Group in April 2006 as a vice president responsible for our Group's investment activities and resigned from the position in 2009. He has over 19 years of experience in corporate management. From 1988 to 1991, he was an assistant researcher in the China Academy of Railway Sciences (中國鐵道科學研究院). He held various management positions in China International Enterprises Co-operative Corporation (中國國際企業合作公司) from 1991 to 2000 and held the position of chief engineer from 1998 to 2000. He was the chief executive officer of China Zhongtian Venture Capital Investment Co., Ltd. (中國中天創業投資有限公司) from 2000 to 2005. He obtained the qualification of senior engineer (高級工程師) from the Ministry of Agriculture of the PRC in 1996.

Mr. YAN Andrew Y (閻焱), aged 52, is a non-executive Director of the Company. Mr. Yan joined our Group in October 2006. He joined SAIF Partners in 2001 and is currently the managing partner of SAIF Partners. Mr. Yan obtained his bachelor's degree in airplane design from Nanjing Aeronautics Institution (now Nanjing University of Aeronautics and Astronautics (南京航空航天大學)) in 1982. Mr. Yan also received a master's degree in international political economy from Princeton University in 1989. Currently, Mr. Yan acts as directors for a numbers of listed companies including:

- independent non-executive director of China Resources Land Limited (listed on the Hong Kong Stock Exchange);
- independent non-executive director of Fosun International Limited (listed on the Hong Kong Stock Exchange);
- non-executive director of Digital China Holdings Ltd (listed on the Hong Kong Stock Exchange);
- director of Acorn International Inc. (listed on the New York Stock Exchange);
- independent director of Giant Interactive Group Inc. (listed on the New York Stock Exchange);
- director of ATA Inc. (listed on the NASDAQ Global Market);
- director of Eternal Asia Supply Chain Management Ltd. (listed on the Shenzhen Stock Exchange);.
- director of Global Education & Technology Group Ltd. (listed on the NASDAQ Global Market);
- non-executive director of MOBI Development Co., Ltd. (listed on the Hong Kong Stock Exchange); and
- non-executive director of China Huiyuan Juice Group Limited (listed on the Hong Kong Stock Exchange).

Directors and Senior Management

In addition, Mr. Yan held directorships in various listed companies including:

- independent non-executive director of Stone Group Holdings Limited (listed on the Hong Kong Stock Exchange) from 2001 to 2009;
- independent non-executive director of China Oilfield Services Limited (listed on the Hong Kong Stock Exchange) from 2002 to 2009;
- director of Shanda Interactive Entertainment Limited (listed on the NASDAQ Global Market) from 2003 to 2005;
- independent director of Eastern Communications Co., Ltd. (listed on the Shanghai Stock Exchange) from 2003 to 2006; and
- director of China Digital TV Holdings Co., Ltd. (listed on the New York Stock Exchange) from 2004 to 2008.

Mr. LIN Ho-Ping (林和平), aged 38, is a non-executive Director of the Company. Mr. Lin joined our Group in October 2006. He joined SAIF Partners in 2001 and is currently a general partner and a managing director of SAIF Partners. Prior to joining SAIF Partners, Mr. Lin was a vice president in the investment banking division at Credit Suisse First Boston (Hong Kong) Limited, which he initially joined in 1997 with Donaldson, Lufkin & Jenrette (acquired by Credit Suisse First Boston), and he was an associate in Sullivan & Cromwell LLP from 1994 to 1997. From December 2005 to June 2008, Mr. Lin served as a member of the supervisory board of Mania Technologies AG, a company incorporated in Germany and listed on the Frankfurt Stock Exchange. Mr. Lin is currently a director of China TransInfo Technology Corp., a company listed on the NASDAQ Global Market. Mr. Lin graduated from Stanford University with a bachelor's degree in economics in 1991 and from Harvard University with a Juris Doctor law degree in 1994. Mr. Lin was admitted to the State Bar of California in 1994.

Ms. HUI Ming Yunn, Stephanie (許明茵), aged 36, is a non-executive Director of the Company. Ms. Hui joined our Group in August 2008. Ms. Hui has over 15 years of experience in private equity investment. She is currently a managing director of Goldman Sachs (Asia) L.L.C. Ms. Hui worked for Goldman Sachs & Co. in New York from 1995 to 1997 and Goldman Sachs (Asia) L.L.C. from 1997 to 1998. Ms. Hui returned to Goldman Sachs (Asia) L.L.C. in 2000 after obtaining an MBA degree from Harvard University. She currently serves as a non-executive director of China Nepstar China Drugstore Ltd., a company listed on the New York Stock Exchange and a director of Shenzhen Hepalink Pharmaceutical Co. Ltd., a company listed on the Shenzhen Stock Exchange. Ms. Hui graduated from Harvard University with a bachelor's degree in biology in 1995 and an MBA degree in 2000.

Independent non-executive directors

Mr. Alan Russell POWRIE, aged 60, is an independent non-executive Director of the Company. From 1982 until his retirement in September 2000, Mr. Powrie was a partner of Deloitte Touche Tohmatsu, Hong Kong. From October 2000 to May 2001 and again from January 2002 to May 2002, Mr. Powrie worked as a consultant and senior advisor to Deloitte Touche Tohmatsu, China, while based in Beijing. Mr. Powrie joined Deloitte Haskins & Sells (now Deloitte Touche Tohmatsu) in 1971 and worked with that firm in the United Kingdom, United States, Hong Kong and China. Mr. Powrie was a director of Hurray! Holding Co. Ltd., a company listed on the NASDAQ Global Market, from 2004 to 2009. Mr. Powrie obtained a bachelor of laws degree from the University of Edinburgh in 1971 and is a member of the Institute of Chartered Accountants of Scotland and the Hong Kong Institute of Certified Public Accountants.

Mr. Karel Robert DEN DAAS, aged 60, is an independent non-executive Director of the Company. Mr. Den Daas was the chairman of Philips lighting businesses in North America from 2006 to 2009 and the chief executive officer of Philips Business Unit Professional Luminaries and Business Unit Lamps in North America during that period. He was the chief operating officer of Philips global lamps business from 2003 to 2006. Prior to that, he held various management positions within Philips lighting including product manager indoor of Philips Lighting France from 1983 to 1985, senior product manager of Philips Lighting Canada from 1985 to 1988 and general manager of Philips Lighting from 1988 to 1991. Mr. Den Daas was the president and chief executive officer of Philips lighting for Asia Pacific from 1999 to 2001. He then became the chief executive officer of Philips Business Unit Lamps for Europe, Middle East and Africa from 2001 to 2003. Mr. Den Daas has been a director of Valmont Industries, Inc., a company listed on the New York Stock Exchange since October 2004. Mr. Den Daas obtained his bachelor's degree in business economics from Erasmus University in 1973. He also obtained a doctoral degree in business economics from Erasmus University in Rotterdam, the Netherlands in 1977 and completed the Advanced Management Programme of INSEAD Fontainebleau in France in 1986. Mr. Den Daas is a Governor of National Electrical Manufacturers Association (a trade organisation in the US).

Mr. WANG Jinsui (王錦燧), aged 72, is an independent non-executive Director of the Company. Mr. Wang has been the president of the Fourth and Fifth Council of China Illuminating Engineering Society (中國照明學會) ("CIES") since 2003 and the vice president and secretary-general of the Third Council of CIES from 1999 to 2003. Mr. Wang also served as a member of the Board of Administration of International Commission on Illumination (CIE) since 2003. Prior to that, he was head of various departments (including international cooperation and human resources/education departments) in the Ministry of Light Industry (國家輕工業部) of the PRC and China National Council of Light Industry (中國輕工總會) since 1990. From 1985 to 1990, he was the first secretary in the PRC embassy in the UK. Before that, he was a professor in Beijing University of Technology (北京工業大學). Mr. Wang graduated in mechanic engineering from Tsinghua University (清華大學) in 1963.

Directors and Senior Management

Senior Management

Mr. WU Changjiang (吳長江), aged 44, is the chief executive officer of our Company. His biographical details are set out above under the paragraph headed "Executive Directors".

Mr. MU Yu (穆宇), aged 38, is a vice president of our Company. His biographical details are set out above under the paragraph headed "Executive Directors".

Mr. YIN Kang (殷慷), aged 41, is a senior vice president of our Company and is responsible for domestic sales, marketing and products management. Mr. Yin has over 19 years of experience in the lighting products industry. Before joining us in 2007, he held various positions including lecturer of Dept. of Light Sources and Illuminating Engineering, Fudan University (復旦大學光源與照明工程系) from 1992 to 1995 and engineering director and lighting products director of Philips Lighting China from 1995 to 2007. He obtained a master of science degree in metrology studies in 1992 and an MBA degree in 2000 from Fudan University (復旦大學).

Mr. ZHANG Qingyu (張清宇), aged 42, is a vice president of our Company and is responsible for international sales and marketing. Mr. Zhang has over 11 years of experience in the lighting products industry. Before joining us in 2007, Mr. Zhang held various positions including logistic director and sales director of the lighting department of Philips Lighting Electronics (Shanghai) Co., Ltd. (飛利浦電子貿易服務（上海）有限公司) from 2002 to 2006 and Philips (China) Investment Co., Ltd. (飛利浦（中國）投資服務有限公司) from 1997 to 2002. Mr. Zhang obtained an MBA degree from China Europe International Business School (中歐國際工商學院) in 1996.

Mr. TAN Ying (談鷹), aged 43, is a vice president and chief financial officer of our Company. Before joining us in 2006, he was the financial accountant in Goodman Fielder Ingredients Limited from 1999 to 2000 and the financial director in Shenzhen New World Sunlong Tech Co., Ltd. (深圳新世界翔龍網絡技術有限公司) and Shenzhen Sun Long Communication Co., Ltd (深圳市翔龍通訊有限公司) from 2000 to 2006. Mr. Tan received an MBA degree from University of Manchester in 2007. He is a fellow member of the Financial Service Institute of Australia.

Mr. WANG Minghua (王明華), aged 35, is a vice president of our Company and is responsible for human resources, administration and information technology departments. He has over 11 years of experience in corporate management. He joined our Group in 2005 as the assistant to the chief executive officer and was appointed to the current position in 2006. Prior to joining us, he was a deputy manager responsible for marketing in Zhengzhou Hongyuan Trading Co., Ltd. (鄭州宏苑經貿有限公司) from 1998 to 2001 and a senior consultant responsible for marketing, finance and corporate image system in Guangdong Boaosi Enterprise Design Co., Ltd. (廣東博奧司企業設計有限公司) from 2002 to 2005. Mr. Wang received an MBA degree from Inter American University in 2009.

Mr. WU Changyong (吳長勇), aged 41, is a general manager responsible for procurement and logistics management. He has over 12 years of experience in the lighting products industry. He first joined our Group in 1998 as a procurement manager of Huizhou NVC. From 2003 to 2005, he was the general manager in Huizhou Sophie Lighting Co. Ltd. (惠州索菲照明有限公司). In 2006, he re-joined us and was responsible for logistics management. Mr. Wu Changyong received an MBA degree from Chongqing College of Master of Business Administration (重慶工商管理碩士學院) in 2008, and is now studying for doctoral degree in Business Administration in Victoria University of Switzerland. Mr. Wu Changyong is Mr. Wu Changjiang's brother.

Directors and Senior Management

Mr. WANG Shaoling (王邵靈), aged 44, is a general manager of the Company and is responsible for product planning and research and development. He has over 20 years of experience in corporate management. Since Mr. Wang joined our Group in 2006, he has been a general manager in charge of research and development in Huizhou NVC. Prior to joining us, he was a general manager in Huizhou Zhongda Technology Co., Ltd. (惠州眾大科技有限公司) from 2001 to 2006 and Huizhou Xinli Plastic Mould Co., Ltd. (惠州新力塑膠模具有限公司) from 1988 to 2001. Mr. Wang is a member of the Fifth Luminaire Products Expert Committee of China Illuminating Engineering Society (中國照明學會). He graduated from Northwestern Polytechnical University (西北工業大學) with a bachelor's degree in mechanics in 1988.

Mr. ZHOU Xiang (周詳), aged 42, is the general manager of our research and development centre in Shanghai. He has 20 years of experience in research and development of lighting products. Prior to joining us in 2007, he was a technician in Shanghai Electron Tubes No. 2 Plant (上海電子管二廠) from 1990 to 1992 and an engineer in Shanghai Yaming Lighting Plant Co., Ltd. (上海亞明燈泡廠有限公司) from 1992 to 1994. He was a production manager and engineering technology manager in Philip-Yaming Lighting Co., Ltd. (飛利浦亞明照明有限公司) from 1994 to 2003 and the chief engineer and group manager in Philip (China) Investment Co., Ltd. (飛利浦（中國）投資有限公司) from 2004 to 2007. Mr. Zhou received an MBA degree from Maastricht School of Management, Netherlands in 2004.

Mr. YANG Wenbiao (楊文彪), aged 37, is a vice president of the Company and is responsible for the strategic development and investments and merger & acquisitions of the Company. He has 12 years of experience in the lighting industry. Before joining NVC in 1999, he was the sales representative of Swire Guangdong Coca-Cola Limited (廣東太古可口可樂有限公司) and the sales leader of Shenzhen Sware Software Technology Co., Ltd. (深圳思維爾軟件科技有限公司). Mr. Yang obtained a bachelor's degree from Business School of Sun Yat-Sen University (中山大學管理學院) in 1995. Mr. Yang also received an MBA degree from Graduate School at Shenzhen, Tsinghua University (清華大學深圳研究生院).

Mr. JIANG Jianming (姜建明), aged 40, is a vice president of the Company and is responsible for the management of lamps manufacturing. Mr. Jiang has been the manufacturing manager of Zhejiang Jiangshan Sunny Electronics Co., Ltd. (浙江江山三友電子有限公司), a subsidiary of our Company, since 1994 and its general manager since 2003. Prior to that, he has worked in Jiangshan Ferroalloy Plant (江山鐵合金廠) from 1991 to 1994. He has over 16 years of experience in lamps manufacturing. With invention of 13 utility patents on energy-saving lamps and related technologies, he has been awarded with Jiangshan Science and Technology Progress Award and Quzhou Science and Technology Progress Award for four times. He has concurrently held various positions including CPPCC member of Jiangshan city, Zhejiang Province, member of the standing committee of Jiangshan Association for Science & Technology and vice president of Jiangshan Electric Lighting Industry Association (江山市電光源行業協會). Mr. Jiang received an MBA degree from Hong Kong Financial Services Institute in 2008.

Joint Company Secretaries

Ms. LO Yee Har, Susan (盧綺霞), aged 52, was appointed as a joint company secretary on 24 March 2010. Ms. Lo is a director of the corporate services division of Tricor Services Limited and a fellow member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. She has over 25 years of experience in corporate advisory services. Prior to joining Tricor Services Limited, Ms. Lo served as a director of the company secretarial department of Tengis Limited (now known as "Tricor Tengis Limited"). Ms. Lo has provided various secretarial and corporate services to many listed companies.

Ms. KAM Mei Ha, Wendy (甘美霞), aged 43, was appointed as a joint company secretary on 24 March 2010. Ms. Kam is a senior manager of the corporate services division of Tricor Services Limited. Prior to joining Tricor Services Limited, Ms. Kam served as a manager of the company secretarial department of Tengis Limited (now known as "Tricor Tengis Limited"). Ms. Kam has more than 18 years of experience in company secretarial industry, and has provided services to companies ranging from private companies to public companies listed on the Hong Kong Stock Exchange. Ms. Kam is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. She graduated from the City Polytechnic of Hong Kong (currently the City University of Hong Kong).

The Board of Directors is pleased to present this report together with the audited consolidated financial statements of the Group for the year ended 31 December 2010 (the "Financial Statements").

Principal Activities

The Company was redomiciled from the British Virgin Islands to the Cayman Islands on 30 March 2010 and incorporated as an exempted company with limited liability. The Group's operations are conducted mainly through the direct and indirect subsidiaries of the Company. The Group is principally engaged in the design, development, production, marketing and sale of a variety of lighting products including three principal product categories, namely, luminaire products, lamp products and lighting electronics products. During the Reporting Period, there is no significant change for the Group's principal activities. The analysis of the principal activities of the Group during the year ended 31 December 2010 is set out in the consolidated income statement of the Financial Statements on page 77.

Results and Appropriations

The results of the Group for the Reporting Period are set out in the Financial Statements on page 77 to page 84 of this annual report.

Declaration of Final Dividend

The Board proposed to declare a final dividend of HK3 cents per share for the year ended 31 December 2010. Upon Shareholders' approval at the forthcoming annual general meeting, the final dividend will be payable on or around Friday, 29 July 2011 to the Shareholders whose names appear on the register of members of the Company at close of business on Friday, 24 June 2011. Based on the 3,064,213,000 shares in issue as at 31 December 2010, it is expected that the final dividend payable will amount to approximately HK$91,926,000 (equivalent to approximately US$11,811,000). No shareholder has waived or agreed to waive any dividends.

Closure of Register of Members

The Register of Members will be closed from Tuesday, 21 June 2011 to Friday, 24 June 2011 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the rights to receive the final dividend and attend the annual general meeting, all transfer of shares accompanied by share certificates and transfer forms must be lodged with the Company's Branch Share Registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Monday, 20 June 2011.

Use of Net Proceeds Received from the Initial Public Offering

On 20 May 2010, net proceeds received from the initial public offering, including the exercise of Over-allotment Option, after deducting related expenses, were approximately HK$1.467 billion. We did not change the purposes of the proceeds from the global offering as set out in the prospectus of the Company dated 7 May 2010, namely, approximately 30% will be used for our expansion plans both in the PRC and the international markets; approximately 25% will be used for the continual implementation of our branding strategies and enhancement of our sales network (particularly in overseas markets); approximately 25% will be used for capital expenditures; approximately 10% will be used for enhancing our research and development efforts; and the remaining net proceeds of approximately 10% will be used for working capital and other general corporate purposes.

Financial Highlights

A summary of the audited results and of the assets and liabilities of the Group for the last four Reporting Periods is set out on page 5 of this annual report.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the Reporting Period are set out in Note 13 to the Financial Statements on page 141 to page 143 of this annual report.

On 28 February 2010, the Company conducted a valuation of its properties pursuant to Rule 5.01 of the Listing Rules, and included the same in the prospectus of the Company dated 7 May 2010. However, the Company did not account for according to the valuation results. As referred in the prospectus, the values of properties held for own use and held under construction in the PRC were RMB328 million and RMB36.7 million, respectively. Had such assets been accounted for according to their valuation values for the year ended 31 December 2010, the additional depreciation expenses charged to the consolidated income statement for the year ended 31 December 2010 would have been US$130,000.

Bank Loans and Other Borrowings

Details of bank loans and other borrowings are set out in Note 26 to the Financial Statements on page 165 of this annual report. As at 31 December 2010, the Group had no bank loans or other borrowings.

The Group did not grant any loans to any entities, nor did it offer any financial assistance to its associates or make any guarantee for the facilities granted to its associates.

Share Capital

Details of movements in the share capital of the Company for the Reporting Period are set out in Note 29 to the Financial Statements on page 171 to page 172 of this annual report.

Reserves

Details of movements in the reserves of the Group for the Reporting Period are set out in the consolidated statement of changes in equity on page 81 to page 82 of this annual report.

The Group's reserves for distribution refer to share premium and retained earnings. In the opinion of the Directors, as at 31 December 2010, the Group had reserves available for distribution to its Shareholders of US$461,311,000 (2009: US$144,357,000).

Public Float

As of the date of this annual report, based on the information publicly available to the Company and to the best of the Board's knowledge, the Company has maintained the percentage of public float as prescribed in the Listing Rules for the Reporting Period and at any time before the date of this annual report.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association or applicable laws of the Cayman Islands where the Company was incorporated.

Directors

The Directors of the Company during the Reporting Period are as follows:

Executive Directors

Wu Changjiang *(Chairman)*	appointed on 2 March 2006
Wu Jiannong	appointed on 27 August 2008
Mu Yu	appointed on 1 October 2006

Non-executive Directors

Xia Lei	appointed on 1 October 2006
Yan Andrew Y	appointed on 4 October 2006
Lin Ho-Ping	appointed on 4 October 2006
Hui Ming Yunn, Stephanie	appointed on 27 August 2008

Independent Non-executive Directors

Alan Russell POWRIE	appointed on 27 April 2010
Karel Robert DEN DAAS	appointed on 27 April 2010
Wang Jinsui	appointed on 27 April 2010

Directors' Biographies

Directors' Biographies are set out in the "Directors and Senior Management" on page 38 to page 44 of this annual report.

Directors' Service Contracts

The relevant information on directors' service contracts is set out in the section headed "Appointment and Re-election of Directors" in the "Corporate Governance Report" on page 68 of this annual report.

Confirmation of Independence from the Independent Non-executive Directors

The Company has received from each of the independent non-executive Directors, namely Alan Russell POWRIE, Karel Robert DEN DAAS and WANG Jinsui, the annual confirmation letter of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that the independent non-executive Directors have been independent from their respective date of appointment to 31 December 2010 and remain independent as of the date of this annual report.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares or Debentures

As at 31 December 2010, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in the Listing Rules were recorded as follows:

a. Long positions in the Company

Name of Director	Class of shares	Capacity/ Nature of interest	Number of shares/ share options	Percentage of the total shares issued
Wu Changjiang	Share options *(Note 1)*	Beneficial owner	30,476,000 (L) *(Note 2)*	0.99%
	Ordinary shares	Beneficial owner	65,630,000 (L)	2.14%
	Share options *(Note 1)*	Deemed interests	38,891,000 (L) *(Note 3)*	1.27%
	Ordinary shares	Deemed interests	8,750,000 (L) *(Note 3)*	0.29%
	Ordinary shares	Interest of a controlled corporation	650,000,000 (L) *(Note 4)*	21.21%
Wu Jiannong	Share options *(Note 1)*	Beneficial owner	375,000 (L)	0.012%
	Ordinary shares	Interest of a controlled corporation	326,930,000 (L) *(Note 5)*	10.67%
Mu Yu	Share options *(Note 1)*	Beneficial owner	97,000 (L)	0.003%
	Share options *(Note 1)*	Deemed interests	38,891,000 (L) *(Note 6)*	1.27%
	Ordinary shares	Deemed interests	8,750,000 (L) *(Note 6)*	0.29%
Xia Lei	Share options *(Note 1)*	Beneficial owner	533,000 (L)	0.017%
Yan Andrew Y	Share options *(Note 1)*	Beneficial owner	26,749,000 (L)	0.87%
Lin Ho-Ping	Share options *(Note 1)*	Beneficial owner	26,749,000 (L)	0.87%

Notes:

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

(2) (L) represents long position.

(3) These share options and shares are held by Eastern Galaxy Trust, a discretionary trust of which Mr. Wu Changjiang is one of the beneficiaries, and therefore he is deemed to be interested in the entire share options held by the trust. But in fact, pursuant to the Pre-IPO Share Option Scheme as approved on 15 October 2006 and revised on 23 December 2009 and 24 March 2010, respectively, by the Board of the Company, only 52,434,000 out of these share options held by the trust (the original number of which are 139,450,000 share options) were actually allocated to Mr. Wu Changjiang. The trust exercised a portion of such share options on 12 July 2010 and was allocated 89,621,500 shares. Subsequently on 22 July 2010, out of these 89,621,500 shares, the trust transferred 52,434,000 shares to Mr. Wu Changjiang, 8,750,000 shares to Mr. Mu Yu and 28,437,500 shares to other beneficiaries within the trust respectively. In addition, the trust further exercised the remaining share options on 13 September 2010 and 17 September 2010 respectively and was allocated a total of 10,937,500 shares. And the trust has transferred all these 10,937,500 shares to other beneficiaries within the trust on 17 September and 22 September 2010 respectively.

(4) These shares are held by NVC Inc. which is 100% beneficially owned by Mr. Wu Changjiang, therefore, Mr. Wu Changjiang is deemed to have all the interests in the number of shares held by NVC Inc. in the Company.

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

(6) These share options and shares are held by Eastern Galaxy Trust, a discretionary trust of which Mr. Mu Yu is one of the beneficiaries, and therefore he is deemed to be interested in the entire share options held by the trust. But in fact, pursuant to the Pre-IPO Share Option Scheme as approved on 15 October 2006 and revised on 23 December 2009 and 24 March 2010, respectively, by the Board of the Company, only 8,750,000 out of these share options held by the trust (the original number of which are 139,450,000 share options) were actually allocated to Mr. Mu Yu. And the trust has exercised a portion of such share options on 12 July 2010 and was allocated 89,621,500 shares. Subsequently on 22 July 2010, out of these 89,621,500 shares, the Trust transferred 8,750,000 shares to Mr. Mu Yu, 52,434,000 shares to Mr. Wu Changjiang and 28,437,500 shares to other beneficiaries within the trust respectively. In addition, the trust further exercised the remaining share options on 13 September 2010 and 17 September 2010 respectively and was allocated a total of 10,937,500 shares. And the trust has transferred all these 10,937,500 shares to other beneficiaries within the trust on 17 September 2010 and September 22 respectively.

b. Long positions in the associated corporations of the Company

Name of Director	Capacity/ Nature of Interests	Name of associated corporation	Registered capital of the associated corporation	Interest in the registered capital of the associated corporation	Percentage of Interests in the registered capital of the associated corporation
Wu Jiannong	Interest of a controlled corporation *(Note 1)*	Zhejiang NVC *(Note 2)*	RMB 20,000,000 *(Note 3)*	RMB 9,800,000	49%

Notes:

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

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

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

Save as disclosed above, as at 31 December 2010, none of the Directors or chief executives of the Company have or are deemed to have interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2010, so far as the Directors and chief executives are aware, the following shareholders (other than Directors or chief executives of the Company) had 5% or more interests or short positions in the issued shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Capacity/ Nature of Interest	Class of shares	Number of shares/ share options	Percentage of the total shares issued
SB Asia Investment Fund II L.P.	Beneficial owner	Ordinary shares	681,152,000 (L) *(Note 1)*	22.23%
NVC Inc.	Beneficial owner	Ordinary shares	650,000,000 (L)	21.21%
Signkey Group Limited	Beneficial owner	Ordinary shares	326,930,000 (L)	10.67%
GS Direct, L.L.C.	Beneficial owner	Ordinary shares	208,157,000 (L) *(Note 2)*	6.79%
		Share options *(Note 3)*	500,000 (L) *(Note 2)*	0.016%
The Goldman Sachs Group, Inc.	Interest of a controlled corporation	Ordinary shares	208,157,000 (L) *(Note 2)*	6.79%
		Share options *(Note 3)*	500,000 (L) *(Note 2)*	0.016%

Notes:

(1) (L) represents long position.

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

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

Save as disclosed above, as at 31 December 2010, so far as the Directors are aware that no other persons (except the Directors and chief executives) or corporations had 5% or more interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be maintained by the Company pursuant to Section 336 of the SFO.

Share Option Scheme and Pre-IPO Share Option Scheme

(a) Share Option Scheme

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

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

The subscription price for the Shares the subject of the options shall be no less than the highest of (a) the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of grant; (b) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five Stock Exchange business days immediately preceding the date of grant; and (c) the nominal value of a share upon its issue. The amount payable by a grantee on acceptance of a grant of options is US$1.00. Life of the Share Option Scheme is the date of the tenth anniversary of the adoption of the Share Option Scheme. Further details of the Share Option Scheme are set out in the prospectus of the Company dated 7 May 2010.

During the Reporting Period, no option has been granted under the Share Option Scheme.

(b) Pre-IPO Share Option Scheme

The Company adopted the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") as approved by the Board on 15 October 2006 and amended on 23 December 2009 and 24 March 2010. The purpose of the Pre-IPO Share Option Scheme is to assist the Company in attracting, retaining and motivating key employees, Directors, consultants and strategic suppliers. The Pre-IPO Share Option Scheme will be terminated on 15 October 2016. The Company may at any time amend or terminate the Pre-IPO Share Option Scheme as advised by the Board at its discretion. The termination of the Pre-IPO Share Option Scheme has no effect on the outstanding share options granted under the Pre-IPO Share Option Scheme. Any such outstanding share options shall continue in effect in accordance with their terms and conditions and the terms and conditions of the Pre-IPO Share Option Scheme. The extent to which any eligible person is entitled to be granted options pursuant to the Pre-IPO Share Option Scheme is to be determined in the sole discretion of the Board, provided, however, that the number of shares issued to or reserved for issuance to any one person pursuant to the options and other stock option plans or share compensation arrangements shall not exceed 3% of the number of shares in issue (on a fully-diluted basis), including those shares of the Company which are issuable upon the exercise or conversion of outstanding securities of the Company, including the options previously granted under the Pre-IPO Share Option Scheme and any options granted under other stock options, stock option plans or other share compensation arrangements which the Company may issue or establish in addition to the Pre-IPO Share Option Scheme. The aggregate number of shares subject to the Pre-IPO Share Option Scheme is 240,429,000 shares, representing 8.11% of the issued share capital of the Company following the IPO.

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

In the event that the Board allows a grantee to exercise an option granted under this Pre-IPO Share Option Scheme by delivering shares previously owned by such grantee and unless otherwise expressly provided by the Board, any shares delivered which were initially acquired by the grantee from the Company (upon exercise of a share option or otherwise) must have been owned by the grantee at least six months as at the date of delivery. The Company will not be obligated to deliver any shares unless and until it receives full payment of the exercise or purchase price therefore and any related withholding obligations and any other conditions to exercise or purchase have been satisfied. Unless otherwise expressly provided, the Board may at any time eliminate or limit a grantee's ability to pay the purchase or exercise price of any option granted under this Pre-IPO Share Option Scheme by any method other than cash payment to the Company. The Board may take all actions necessary to alter the method of option exercise and the exchange and transmittal of proceeds with respect to grantees resident in the PRC not having permanent residence in a country other than the PRC in order to comply with applicable PRC foreign exchange and tax regulations. Further details of the Pre-IPO Share Option Scheme are set out in the prospectus of the Company dated 7 May 2010.

Report of Directors

As at 31 December 2010, details of outstanding options granted under the Pre-IPO Share Option Scheme are as follows:

Name of the grantee	Class of shares	Relationship with the Group	Number of shares to be issued under the Pre-IPO Share Option Scheme	Number of shares outstanding as at 31 December 2010	Date of grant	Expiry date	Exercise price (HK$ per share)	Percentage of the number of shares outstanding as at 31 December 2010 to the total shares issued
Wu Changjiang	Share options	Director	52,434,000 *(Note 1)*	– *(Note 1)*	15 October 2006	15 October 2016	0.31	
			30,476,000	30,476,000	24 March 2010	24 March 2015	2.1	0.99%
Wu Jiannong	Share options	Director	375,000	375,000	24 March 2010	24 March 2020	0.4	0.012%
Mu Yu	Share options	Director	10,000,000 *(Note 2)*	1,250,000 *(Note 2)*	1 January 2007	1 January 2017	0.4	0.041%
			97,000	97,000	24 March 2010	24 March 2016	2.1	0.0032%
Xia Lei	Share options	Director	533,000	533,000	24 March 2010	24 March 2015	2.1	0.0174%
Yan Andrew Y	Share options	Director	26,217,000	26,217,000	15 October 2006	15 October 2016	0.31	0.86%
			532,000	532,000	24 March 2010	24 March 2015	2.1	0.0174%
Lin Ho-Ping	Share options	Director	26,217,000	26,217,000	15 October 2006	15 October 2016	0.31	0.86%
			532,000	532,000	24 March 2010	24 March 2015	2.1	0.0174%
GS Direct L.L.C.	Share options	shareholder	500,000	500,000	24 March 2010	24 March 2015	2.1	0.0163%
Others (including senior management)	Share options	Employees and others	12,000,000	12,000,000	15 January 2007	15 January 2017	0.75	0.39%
			10,591,000	10,591,000	1 March 2007	1 March 2017	0.75	0.35%
			54,425,000	15,050,000	1 January 2007	1 January 2017	0.4	0.49%
			12,500,000	12,500,000	24 March 2010	24 March 2016	2.1	0.41%
			1,000,000	1,000,000	24 March 2010	25 June 2017	2.1	0.03%
			1,000,000	1,000,000	24 March 2010	8 February 2017	2.1	0.03%
			1,000,000	1,000,000	24 March 2010	31 December 2016	2.1	0.03%
Total			240,429,000	139,870,000				4.56%

Notes:

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

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

During the Reporting Period, the fair value of new share options granted under the Pre-IPO Share Option Scheme (totaling 48,545,000 shares) was US$1,965,000. For further details, please refer to note 31 to the audited consolidated financial statements below and the prospectus of the Company dated 7 May 2010.

During the Reporting Period, out of the share options granted under the Pre-IPO Share Option Scheme, 100,559,000 share options were exercised, but none was cancelled or lapsed. The exercised share options are as follows:

Exercise date	Number of share options exercised	Exercise price	Average closing price for the five trading days preceding the date of exercise
12 July 2010	52,434,000	HK$0.31	HK$2.534
12 July 2010	37,187,500	HK$0.4	HK$2.534
13 September 2010	9,625,000	HK$0.4	HK$3.704
17 September 2010	1,312,500	HK$0.4	HK$3.874

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in sections headed "Share Option Scheme" and "Pre-IPO Share Option Scheme" above, during the Reporting Period, the Company or any of its subsidiaries was not a party to any arrangement which would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate. None of the Directors or any of their spouses or children under the age of 18 was granted any right to subscribe for the shares or debentures of the Company or any other corporate body or had exercised any such right.

Purchase, Sale or Redemption of Shares

Other than the shares issued under the Pre-IPO Share Option Scheme adopted by the Company, as approved by the Board of Directors on 15 October 2006 and amended on 23 December 2009 and 24 March 2010, respectively, neither the Company nor its subsidiaries have purchased, sold or redeemed any of the Company's listed securities from 20 May 2010 on which the shares of the Company were listed to 31 December 2010.

Interests of Directors and Controlling Shareholders in Competing Business

Save for those disclosed by the Company in its prospectus dated 7 May 2010, during the Reporting Period, none of the Directors or their respective associates (as defined under the Listing Rules) of the Company was interested in any business which competes or is likely to compete with the businesses of the Group.

The Company has received an annual confirmation letter from Mr. Wu Changjiang, in which it is confirmed that Mr. Wu Changjiang and his associates have been in compliance with the provisions of the non-competition deed entered into between the Company and Mr. Wu Changjiang on 21 April 2010 (the "Non-competition Deed").

The independent non-executive Directors of the Company have reviewed the compliance with the Non-competition Deed based on information and confirmation provided by Mr. Wu Changjiang and his associates (as defined under the "Listing Rules"), and were satisfied that Mr. Wu Changjiang and his associates have duly complied with the Non-competition Deed.

Controlling Shareholders and Their Pledge of Shares

For the Reporting Period, the Company did not have any controlling shareholder.

Continuing Connected Transactions

During the Reporting Period, save as disclosed below, the Group had not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.45 of the Listing Rules.

The Group has entered into transactions with certain connected persons ("Connected Persons", as defined under Chapter 14A of the Listing Rules), some of which constituted non-exempt continuing connected transactions under the Listing Rules (the "Continuing Connected Transactions"). With respect to those Continuing Connected Transactions, the Stock Exchange has granted a waiver from strict compliance with the announcement requirement under Rule 14A.47 of the Listing Rules and the independent shareholders' approval requirement under Rule 14A.48 of the Listing Rules (where applicable). Further details of these Continuing Connected Transactions are set out below and in the chapter headed "Relationship with Our Largest Shareholder and Founder and Connected Transactions" in the prospectus of the Company dated 7 May 2010 and the Company's announcements dated 24 December 2010 and 10 March 2011.

Exempt Continuing Connected Transactions

Framework trademark licensing agreement

We entered into a framework trademark licensing agreement dated 20 April 2010 with Sheng Di Ai Si, Chongqing Enlin and Shandong NVC, which are associates (as defined under the Listing Rules) of Mr. Wu Changjiang, an executive Director and substantial shareholder (as defined under the Listing Rules) of our Company, pursuant to which we grant to each licensee a non-exclusive and non-transferrable right to use our registered trademarks including "NVC", "雷士", "NVC 雷士" and "光環境專家" in the PRC. The trademark licence fees and consulting fees are three percent of each licensee's sales (including value added tax) of products using licensed trademarks. The term of this framework agreement is three years commencing on the Listing Date or until the expiration date of the licensed trademarks, whichever period is shorter.

The maximum aggregate annual amounts of trademark licence fees receivable by us under the framework trademark licensing agreement for the years ended 31 December 2010, 2011 and 2012 are US$3.27 million, US$4.57 million and US$6.40 million, respectively.

Due to better-than-expected sales of these companies, the actual trademark licence fees charged by the Company to these companies is expected to exceed the annual cap disclosed in the Prospectus dated 7 May 2010, therefore, the Company revised the annual cap related to the trademark licence fees charged to these companies on 24 December 2010 to re-comply with the relevant provisions under Chapter 14A of the Listing Rules and made an announcement accordingly.

During the Reporting Period, the actual amount of trademark licence fees received by us under the framework trademark licensing agreement was US$3.179 million which did not exceed the revised annual cap.

Framework distribution management agreement

In connection with the framework trademark licensing agreement, in the ordinary course of our business, we entered into a framework distribution management agreement dated 20 April 2010 with Sheng Di Ai Si and Shandong NVC, which are associates (as defined under the Listing Rules) of Mr.Wu Changjiang, an executive Director and substantial shareholder (as defined under the Listing Rules) of our Company, pursuant to which Sheng Di Ai Si and Shandong NVC sell residential luminaire products produced by them through our distribution network and pay us six to eight percent of their respective sales through our distribution network as distribution commission. The distribution commission has been agreed following arm's length negotiations and have been reviewed by our non-interested Directors. The term of the framework agreement is three years commencing on the Listing Date.

The maximum aggregate annual amounts of distribution commission receivable by us under the framework distribution management agreement for the years ended 31 December 2010, 2011 and 2012 are US$4.90 million, US$6.86 million and US$9.60 million, respectively.

Due to better-than-expected sales of these companies, the actual distribution commission charged by the Company to these companies is expected to exceed the annual cap disclosed in the prospectus dated 7 May 2010, therefore, the Company revised the annual cap of the distribution commission related to these companies on 24 December 2010 to re-comply with the relevant provisions under Chapter 14A of the Listing Rules and made an announcement accordingly.

During the Reporting Period, the actual amount of distribution commission received by us under the framework distribution management agreement was US$4.21 million which did not exceed the revised annual cap.

Framework raw material purchase agreement

In the ordinary course of our business, we entered into a framework raw material purchase agreement dated 20 April 2010 with Chang Xin Hardware, which is an associate (as defined under the Listing Rules) of Mr.Wu Changjiang, an executive Director and substantial shareholder (as defined under the Listing Rules) of our Company, pursuant to which we have agreed to purchase and Chang Xin Hardware agreed to sell (on a non-exclusive basis) raw materials including hardware and lacquer produced by Chang Xin Hardware. Under the framework raw material purchase agreement, the quality, quantity and technical standards of the raw materials delivered by Chang Xin Hardware must meet our requirements. Under the Framework raw material purchase agreement, the prices charged by Chang Xin Hardware will be agreed following arm's length negotiations between the relevant parties with reference to the prevailing market rates. The term of the framework agreement is three years commencing on the Listing Date.

The maximum aggregate annual amounts payable by us to Chang Xin Hardware under the framework raw material purchase agreement for the years ended 31 December 2010, 2011 and 2012 are US$3.07 million, US$3.07 million and US$3.22 million, respectively.

During the Reporting Period, the actual amount paid by us to Chang Xin Hardware under the framework raw material purchase agreement was US$2.599 million.

Framework property lease agreement

We entered into a framework property lease agreement dated 20 April 2010 with Zhejiang NVC and Jiangshan Youhe, which are associates (as defined under the Listing Rules) of Mr. Wu Jiannong, an executive Director and substantial shareholder (as defined under the Listing Rules) of the Company. Under the framework property lease agreement, the rent we charge will be agreed following arm's length negotiations between the relevant parties with reference to the prevailing market rates. The term of the lease granted under this agreement is 20 years commencing on the Listing Date.

The maximum aggregate annual amounts of rents receivable by us under the framework property lease agreement for the years ended 31 December 2010, 2011 and 2012 are US$0.23 million, US$1.14 million and US$1.60 million respectively.

During the Reporting Period, the actual amount of rents receivable by the Company under the framework property lease agreement was US$246,000, exceeding the annual cap disclosed in the prospectus dated 7 May 2010 due to more than expected space rented by these companies from the Company. Therefore, the Company revised the annual caps of rents related to these companies on 10 March 2011 to re-comply with the relevant provisions under Chapter 14A of the Listing Rules and made an announcement accordingly.

Framework research and development agreement

We have, in the ordinary course of our business, entered into a framework research and development agreement dated 20 April 2010 with Jiangshan Youhe, which is an associate (as defined under the Listing Rules) of Mr. Wu Jiannong, an executive Director and substantial shareholder (as defined under the Listing Rules) of the Company, pursuant to which Jiangshan Youhe will develop and produce samples of new equipment for producing fluorescent lamp tubes for us. The term of this framework agreement is three years commencing on the Listing Date.

The maximum aggregate annual amounts of consultation expense for research and development payable by us under the framework research and development agreement for the years ended 31 December 2010, 2011 and 2012 are US$1.46 million, US$1.46 million and US$1.46 million, respectively.

During the Reporting Period, the actual amount of consultation expense for research and development paid by us under the framework research and development agreement was US$314,000.

Framework transportation service agreement

We entered into a framework transportation service agreement dated 20 April 2010 with Jiangshan Liming, which is an associate (as defined under the Listing Rules) of Mr. Wu Jiannong, an executive Director and substantial shareholder (as defined under the Listing Rules) of the Company, pursuant to which Jiangshan Liming is responsible for the transportation of goods such as products and recycling packages for Sunny and Jiangshan Phoebus. The term of this framework transportation service agreement is three years commencing on the Listing Date.

The maximum aggregate annual amounts of transportation service fees payable by us under the framework transportation service agreement for the years ended 31 December 2010, 2011 and 2012 are US$1.04 million, US$2.05 million and US$2.90 million, respectively.

Due to better-than-expected sales of the Company in the Reporting Period, the actual amount of transportation service fees payable by the Company under the framework transportation service agreement was US$1,267,000, exceeding the annual cap disclosed in the prospectus dated 7 May 2010. Therefore, the Company revised the annual cap of the transportation service fees related to Jiangshan Liming on 10 March 2011 to re-comply with the relevant provisions under Chapter 14A of the Listing Rules and made an announcement accordingly.

Framework equipment purchase agreement

We entered into a framework equipment purchase agreement dated 20 April 2010 with Hangzhou Tongren and Jiangshan Youhe, which are associates (as defined under the Listing Rules) of Mr. Wu Jiannong, an executive Director and substantial shareholder (as defined under the Listing Rules) of the Company, pursuant to which we purchase manufacturing equipment and software from these two suppliers. Hangzhou Tongren also provides us with maintenance services in respect of the equipment and software we purchase from them. The term of this framework agreement is three years commencing on the Listing Date.

The maximum aggregate annual amounts payable by us under the framework equipment purchase agreement for the years ended 31 December 2010, 2011 and 2012 are US$5.96 million, US$3.76 million and US$3.76 million, respectively.

During the Reporting Period, the actual amount paid by us under the framework equipment purchase agreement was US$1.714 million.

Non-Exempt Continuing Connected Transactions

Framework contract manufacturing agreement

We entered into a framework contract manufacturing agreement dated 20 April 2010 with Chongqing En Wei Xi, which is an associate (as defined under the Listing Rules) of Mr. Wu Changjiang, an executive Director and substantial shareholder (as defined under the Listing Rules) of the Company, pursuant to which Chongqing En Wei Xi, as a contract manufacturer, produces and supplies to us outdoor luminaires based on our design and technical standards and labels those outdoor luminaires with our brands. Under the framework contract manufacturing agreement, the prices charged by Chongqing En Wei Xi will be agreed following arm's length negotiations between the relevant parties with reference to the prevailing market rates. The term of this framework contract manufacturing agreement is three years commencing on the Listing Date. According to this agreement, Chongqing En Wei Xi is not permitted to cooperate with other contract manufacturing clients whose products are identical or similar to ours during the contract period. Chongqing En Wei Xi has been manufacturing the lighting products exclusively for the Group but it is not obliged to do so.

The maximum aggregate annual amounts payable to Chongqing En Wei Xi under the framework contract manufacturing agreement for the years ended 31 December 2010, 2011 and 2012 are US$4.39 million, US$6.59 million and US$9.88 million, respectively.

During the Reporting Period, the actual amount paid by us to Chongqing En Wei Xi under the framework contract manufacturing agreement was US$2.05 million.

Framework raw material purchase agreement

We entered into a framework raw material purchase agreement dated 20 April 2010 with World Bright and Quzhou Aushite, which are associates (as defined under the Listing Rules) of Mr. Wu Jiannong, an executive Director and substantial shareholder (as defined under the Listing Rules) of the Company, pursuant to which we have agreed to purchase (on a non-exclusive basis) raw materials, i.e. glass tubes from World Bright and phosphor powder from Quzhou Aushite. Under the framework raw material purchase agreement, the quality, quantity, technical standards of the raw materials delivered by these suppliers must meet our standards as set out in the sub-contract for each purchase and the prices charged by these suppliers will be agreed following arm's length negotiations between the relevant parties with reference to the prevailing market rates. The term of this framework agreement is three years commencing on the Listing Date.

The maximum aggregate annual amounts payable by us to World Bright and Quzhou Aushite under the framework raw material purchase agreement for the years ended 31 December 2010, 2011 and 2012 are US$14.12 million, US$15.54 million and US$17.09 million, respectively.

During the Reporting Period, the actual amount paid by us to World Bright and Quzhou Aushite under the framework raw material purchase agreement was US$10.483 million.

Framework finished products purchase agreement

In the ordinary course of our business, we entered into a framework finished products purchase agreement dated 20 April 2010 with Zhejiang NVC, which is our 51%-owned subsidiary and an associate (as defined under the Listing Rules) of Mr. Wu Jiannong, an executive Director and substantial shareholder (as defined under the Listing Rules) of the Company, pursuant to which we purchase energy-saving lamps that we in turn sell to our customers. This framework agreement was entered into since our Directors are of the view that the prices charged by Zhejiang NVC are competitive. The prices charged by Zhejiang NVC will be agreed following arm's length negotiations between the relevant parties with reference to the prevailing market rates. The term of the framework agreement is three years commencing on the Listing Date.

The maximum aggregate annual amounts payable by us to Zhejiang NVC under the framework finished products purchase agreement for the years ended 31 December 2010, 2011 and 2012 are US$27.31 million, US$40.96 million and US$61.45 million, respectively.

During the Reporting Period, the actual amount payable by us to Zhejiang NVC under the framework finished products purchase agreement was US$19.776 million.

Framework sale and purchase agreement

In the ordinary course of our business, we entered into a framework sale and purchase agreement dated 20 April 2010 with Zhejiang NVC, which is our 51%-owned subsidiary and an associate (as defined under the Listing Rules) of Mr. Wu Jiannong, an executive Director and substantial shareholder (as defined under the Listing Rules) of the Company, pursuant to which Zhejiang NVC agreed to purchase (on a non-exclusive basis) semi-finished lamp products produced by Jiangshan Phoebus, Zhangpu Phoebus and Sunny for further processing. Under the framework sale and purchase agreement, the prices charged by Jiangshan Phoebus, Zhangpu Phoebus and Sunny will be agreed following arm's length negotiations between the relevant parties with reference to the prevailing market rates. The term of the framework agreement is three years commencing on the Listing Date.

The maximum aggregate annual amounts payable by us to Zhejiang NVC under the framework sale and purchase agreement for the years ended 31 December 2010, 2011 and 2012 are US$20.49 million, US$30.74 million and US$46.11 million, respectively.

During the Reporting Period, the actual amount paid by us to Zhejiang NVC under the framework sale and purchase agreement was US$15.321 million.

Pursuant to rule 14A.37 of the Listing Rules, the above Continuing Connected Transactions have been reviewed by the independent non-executive Directors of our Company, who confirmed that these Continuing Connected Transactions were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or on terms no less favourable to us than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of the shareholders of our Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued a letter containing a conclusion that in his opinion the continuing connected transactions disclosed by the Group above have no non-compliance with Listing Rule 14A.38. A copy of the auditor's letter has been submitted by the Company to the Stock Exchange.

Save as disclosed above, in the Reporting Period, none of the Group's continuing connected transactions has exceeded the caps specified in the prospectus and the revised caps specified in the announcements of the Company dated 24 December 2010 and 10 March 2011.

Directors' Interests in Contracts of Significance

Save as the continuing connected transactions disclosed above, no contract to which the Company, or any of its subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at any time during the Reporting Period or at the end of the year.

Remuneration Policy

The Group's remuneration policy is to compensate our employees based on their performance, and qualifications and our results of operations.

The emoluments of our directors and senior management are determined by our Remuneration Committee with reference to our results of operations, their individual performance and the comparable market statistics.

The Company was not aware of any arrangement under which a Director has waived or agreed to waive any emoluments. Details of the remuneration of the Directors and the Group's five highest-paid individuals are set out in Note 8 to the Financial Statements.

Housing Fund and Pension Scheme

According to the relevant PRC laws and regulations, the Group's subsidiaries operating in the PRC are required to participate in the housing fund and the defined contribution retirement plans operated by local governments. Under these plans, the Group is required to pay to the defined contribution plans based on a certain percentage of the remuneration its employees.The only obligation of the Group with respect to the housing fund and pension scheme is to make the required contributions under the scheme. Contributions made under the housing fund and pension scheme is charged in the income statement as incurred.

The Company may not utilize any forfeited contributions in order to make less contributions than the current amounts.

During the Reporting Period, the Group's contributions to the housing fund and pension scheme were US$6.3 million. Details of the Group's contributions to the housing fund and pension scheme are set out in Note 7.7 and note 8(a) to the Financial Statements.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

Donations

During the Reporting Period, the Group made donations of approximately US$177,000.

Major Customers and Suppliers

During the Reporting Period, the sales to our top five customers and the largest customer accounted for approximately 22.28% and 5.72% of our total sales respectively. The purchases of goods and services from our top five suppliers and the largest supplier accounted for approximately 12.47% and 3.08% of our total purchases respectively.

None of our Directors or any of their associates or any shareholders (which to the best knowledge of our Directors owned more than 5% of our Company's issued share capital) had a material interest in our top five largest customers or suppliers.

Compliance with the Code on Corporate Governance Practices

From 20 May 2010 (being the listing date of the shares of the Company) up to 31 December 2010, the Company has complied with the Code on Corporate Governance, except for Provision A.2.1 of the Code, which requires that the roles of chairman and chief executive officer should be separated and should not be performed by the same person. Please refer to Corporate Governance Report on page 66 to page 74 of this annual report for further details.

Model Code for Securities Transactions

The Company has adopted the Model Code as its code of conduct regarding Directors' securities transactions. Specific enquiry has been made to all Directors, and the Directors have confirmed that they have complied with all relevant requirements as set out in the Model Code during the period from 20 May 2010 on which the shares of the Company were listed to 31 December 2010, the details are set out in the Corporate Governance Report on pages 72 of this annual report.

Subsequent Events

A resolution was approved by the Board on 23 March 2011, pursuant to which the Company intends to invest US$1,020,000 in cash to establish a subsidiary in India with Mr. Zhang Xiao (the product supervisor of Huizhou NVC) and two other third parties. The Company will own 51% equity interests in the subsidiary. The subsidiary will be engaged in the trading of lighting products. The Company will finance this investment with internal resources. The lighting industry in India has achieved an average annual growth rate of about 15%, far higher than its GDP growth rate (8%). India has accelerated the development of infrastructure, and this market has shown its huge size and potential with the emergence of large commercial establishments, well-known brand chain stores and high-end residential communities. The lighting products in India have the features of simple product mix, low-end product images, and weak product manufacturing and application level; the market has no unified brand image or unified channel synergy, and is mainly based on the business model of buy low and sell high. By virtue of its experiences in Mainland China and overseas markets, width of product lines and brand advantages, the Company has laid a solid foundation for integrating and building a distribution channel with unified image in Indian market, so as to achieve its expected sales in India.

Auditor

The Financial Statements have been audited by Ernst & Young ("E&Y"), who has remained as our auditor during the past three years. A resolution to re-appoint E&Y as our auditor will be submitted for shareholders' approval at our forthcoming Annual General Meeting.

By order of the Board
Wu Changjiang
Chairman

Hong Kong, 23 March 2011

Corporate Governance Report

Corporate Governance Practices of the Company

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

Good corporate governance has always been recognized as vital to the Group's success and to sustaining development of the Group. We are committed to a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of our business.

The Company has applied the principles as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules").

The CG Code contained in Appendix 14 of the Listing Rules sets out the principles of good corporate governance and two levels of corporate governance practices, as follows:

(a) Code provisions, which listed issuers are expected to comply with or to give considered reasons for deviation.

(b) Recommended best practices for guidance only, which listed issuers are encouraged to comply with or to give considered reasons for deviation.

The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

Starting from the Listing Date (20 May 2010) up to 31 December 2010, the Company has complied with the mandatory code provisions of the CG Code, except for the code provision A.2.1 which requires that the role of chairman and chief executive officer should be separated and should not be performed by the same individual.

The Company regularly reviews its corporate governance practices to ensure compliance with the CG Code.

The Board

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All Directors have carried out their duties in good faith and in compliance with the standards of applicable laws and regulations, and have acted in the interests of the Company and its shareholders at all times.

Delegation of management function

The Board takes responsibility for all major matters of the Company including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflicts of interest), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

Board composition

The Board of the Company comprises the following Directors:

Executive Directors:	Mr. WU Changjiang *(Chairman and Chief Executive Officer)* Mr. WU Jiannong Mr. MU Yu
Non-executive Directors:	Mr. XIA Lei Mr. YAN Andrew Y Mr. LIN Ho-Ping Ms. HUI Ming Yunn, Stephanie
Independent Non-executive Directors:	Mr. Alan Russell POWRIE Mr. Karel Robert DEN DAAS Mr. WANG Jinsui

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

None of the members of the Board is related to one another.

Since the Listing Date, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

Appointment and re-election of Directors

The Company has not yet established a nomination committee nor any written clause about the relevant procedures for nomination and appointment of Directors. The nomination and appointment of Directors is usually taken responsible by the chairman or recommended by the Directors.

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing from the Listing Date unless terminated by not less than three months' notice in writing served by either the executive Directors or the Company. Each of the non-executive Directors and independent non-executive Directors has signed an appointment letter with the Company for a term of three years commencing from the Listing Date. The appointments are subject to the provisions of retirement and rotation of Directors under the articles of association.

None of the Directors has entered into any unexpired service contract with the Company which shall not be terminated by the Company within one year without payment of compensation (other than statutory compensation).

In accordance with the Company's articles of association, all Directors of the Company are subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

Induction and continuing development for Directors

Each newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Directors are continually updated with developments in the legal and regulatory regime and the business and market environments to facilitate the discharge of their responsibilities. Continuing briefing and professional development for directors will be arranged whenever necessary.

Board meetings

Number of meetings and Directors' attendance

CG Code provision A.1.1 prescribes that at least 4 regular Board meetings should be held in each year at approximately quarterly intervals with active participation of majority of Directors, either in person or through other electronic means of communication.

The Company redomiciled to the Cayman Islands on 30 March 2010 and completed an initial public offing of its ordinary shares on the Main Board of The Stock Exchange of Hong Kong Limited on 20 May 2010. Thus, the Board met only two times during the year ended 31 December 2010 for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The Company will be in compliance with the CG Code and arrange for holding at least 4 Board meetings in the following year.

The attendance records of each Director at the Board meetings are set out below:

Name of Director	Attendance/ Number of Meetings
Mr. WU Changjiang *(Chairman)*	2/2
Mr. WU Jiannong	2/2
Mr. MU Yu	2/2
Mr. XIA Lei	2/2
Mr. YAN Andrew Y	2/2
Mr. LIN Ho-Ping	2/2
Ms. HUI Ming Yunn, Stephanie	2/2
Mr. Alan Russell POWRIE	2/2
Mr. Karel Robert DEN DAAS	2/2
Mr. WANG Jinsui	2/2

Practices and conduct of meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The senior management (including Chief Executive Officer and Chief Financial Officer) attend all regular Board meetings and where necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

The Company's articles of association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

Chairman and Chief Executive Officer

CG Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

As the duties of chairman of the Company and chief executive officer of the Company are performed by Mr. Wu Changjiang, the Company has deviated from the CG Code. Mr. Wu Changjiang is the chairman and chief executive officer of the Company and the founder of the Group. The Board believes that it is necessary to vest the roles of chairman and chief executive officer in the same person due to its unique role, Mr. Wu Changjiang's experience and established market reputation in the PRC lighting industry, and the importance of Mr. Wu Changjiang in the strategic development of the Company. The dual role arrangement helps provide strong and consistent market leadership and is critical for efficient business planning and decision making of the Company. As all major decisions are made in consultation with members of the Board and relevant Board committee, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

To facilitate discussion of all key and appropriate issues by the Board in a timely manner, the chairman co-ordinates with the senior management to provide adequate, complete and reliable information to all Directors for consideration and review.

Board Committees

The Board has established two committees, namely, the Remuneration Committee and Audit Committee for overseeing particular aspects of the Company's affairs. Both Remuneration Committee and Audit Committee of the Company are established with defined written terms of reference.

The majority of the members of the Remuneration Committee and Audit Committee are independent non-executive Directors.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Remuneration Committee

The Remuneration Committee has been established with written terms of reference in compliance with paragraph B1 of the CG Code. The Remuneration Committee consists of one non-executive Director being Mr. Yan Andrew Y and two independent non-executive Directors being Mr. Alan Russell Powrie and Mr. Karel Robert Den Daas. The Remuneration Committee is chaired by Mr. Yan Andrew Y.

The primary duties of the Remuneration Committee are to establish and review the policy and structure of remuneration for the Directors and senior management.

The Remuneration Committee normally meets at least once a year for reviewing the remuneration policy and structure and determining the annual remuneration packages of the executive Directors and the senior management and other related matters.

The Remuneration Committee held one meeting during the year ended 31 December 2010 to review the remuneration policy and structure of the Company, and determine the remuneration packages of the executive directors and senior management.

The attendance records of the Remuneration Committee are set out below:

Name of Director	Attendance/ Number of Meetings
Mr. YAN Andrew Y	1/1
Mr. Alan Russell POWRIE	1/1
Mr. Karel Robert DEN DAAS	1/1

Audit Committee

The Audit Committee has been established with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the CG Code. The Audit Committee consists of three independent non-executive Directors being Mr. Alan Russell POWRIE, Mr. Karel Robert DEN DAAS and Mr. Wang Jinsui. The chairman of the Audit Committee is Mr. Alan Russell POWRIE.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

The Audit Committee held 4 meetings during the year ended 31 December 2010 to review the financial results and reports, financial reporting and compliance procedures, the report of the internal auditor on the Company's internal control and risk management review and processes, and the re-appointment of the external auditors.

The attendance records of the Audit Committee are set out below:

Name of Director	Attendance/ Number of Meetings
Mr. Alan Russell POWRIE	4/4
Mr. Karel Robert DEN DAAS	4/4
Mr. WANG Jinsui	4/4

The Company's annual results for the year ended 31 December 2010 have been reviewed by the Audit Committee.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2010.

The Company's employees, who are likely to be in possession of unpublished price-sensitive information of the Company, have also subjected to the Model Code for securities transactions. No incident of non-compliance of the Model Code by the employees was noted by the Company.

Directors' Responsibilities for Financial Reporting

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2010.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The senior management has provided such explanation and information to the Board as necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company put to the Board for approval.

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Report of the Independent Auditors" on pages 75 to 76.

During the year, the remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2010 amounted to RMB3,418,000 and RMB740,000 respectively. The details and fee for non-audit services are set out below:

Preparation and transmission of the Company's profits tax for final assessment 2009/10 and provisional payment 2010/11together with the supporting tax computation to the Inland Revenue Department	RMB10,000
Internal control review and assessment services	RMB730,000

Internal Controls

During the year, the Board has conducted a review of the effectiveness of the internal control system of the Company. The review has covered the financial, operational, compliance and risk management aspects of the Group.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets, and reviewing the effectiveness of such on an annual basis through the Audit Committee.

Communications with Shareholders and Investors

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The chairman of the Board as well as chairmen of the Remuneration Committee and Audit Committee and, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available to answer questions at shareholder meetings.

To promote effective communication, the Company maintains a website at www.nvc-lighting.com, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

Shareholder Rights

To safeguard shareholder interests and rights, separate resolutions are proposed at shareholder meetings on each substantial issue, including the election of individual Directors.

All resolutions put forward at a shareholder meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and of the Stock Exchange after the shareholder meeting.

Going Concern

There are no material uncertainties relating to events or conditions that cast significant doubt upon the Company's ability to continue as a going concern.

By order of the Board
Wu Changjiang
Chairman

Hong Kong,
23 March 2011

Independent Auditors' Report

ERNST & YOUNG
安永

To the shareholders of NVC Lighting Holding Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of NVC Lighting Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 77 to 196, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

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

Independent Auditors' Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

23 March 2011

Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010 US$'000	2009 US$'000
		Year ended 31 December	
REVENUE	*6*	**471,725**	305,770
Cost of sales		**(334,472)**	(221,740)
GROSS PROFIT		**137,253**	84,030
Other income and gains	*7.2*	**13,329**	7,659
Selling and distribution costs		**(36,347)**	(20,654)
Administrative expenses		**(30,097)**	(26,588)
Other expenses	*7.3*	**(1,291)**	(633)
Finance income	*7.4*	**1,938**	755
Finance costs	*7.5*	**(2,598)**	(8,737)
Net fair value loss on convertible redeemable preference shares	*7.6*	**–**	(15,780)
Share of profits of an associate	*18*	**129**	58
PROFIT BEFORE TAX		**82,316**	20,110
Income tax expense	*9*	**(8,422)**	(5,420)
PROFIT FOR THE YEAR		**73,894**	14,690
Attributable to:			
Owners of the Company		**71,338**	12,843
Non-controlling interests		**2,556**	1,847
		73,894	14,690
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	*10*	**2.69 US cents**	0.58 US cents
Diluted	*10*	**2.53 US cents**	0.53 US cents

Details of the dividends proposed for the year ended 31 December 2010 are disclosed in note 11 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	Year ended 31 December	
	2010	2009
	US$'000	US$'000
PROFIT FOR THE YEAR	**73,894**	14,690
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**8,374**	128
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**82,268**	14,818
Attributable to:		
Owners of the Company	**79,569**	12,971
Non-controlling interests	**2,699**	1,847
	82,268	14,818

Consolidated Statement of Financial Position

31 December 2010

		31 December	
	Notes	2010 US$'000	2009 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**84,817**	67,824
Prepaid land lease payments	14	**11,536**	11,570
Goodwill	15	**34,121**	33,896
Other intangible assets	16	**53,032**	52,916
Investment in an associate	18	**689**	540
Deferred tax assets	19	**2,537**	1,329
Long-term deferred expenditure		**64**	72
Other non-current financial assets		**–**	221
Total non-current assets		**186,796**	168,368
CURRENT ASSETS			
Inventories	20	**68,591**	47,567
Trade and other receivables	21	**119,503**	85,795
Prepayments	22	**8,494**	6,692
Short-term deposits	23	**60,648**	3,258
Cash and cash equivalents	23	**182,766**	44,034
Total current assets		**440,002**	187,346
CURRENT LIABILITIES			
Trade and bills payables	24	**51,297**	54,769
Other payables and accruals	25	**44,438**	41,864
Interest-bearing loans	26	**–**	6,093
Income tax payable		**3,442**	3,208
Total current liabilities		**99,177**	105,934
NET CURRENT ASSETS		**340,825**	81,412
TOTAL ASSETS LESS CURRENT LIABILITIES		**527,621**	249,780

Continued/...

Consolidated Statement of Financial Position

31 December 2010

		31 December	
		2010	2009
	Notes	**US$'000**	US$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*19*	**15,038**	15,157
Convertible redeemable preference shares	*27*	**–**	57,932
Government grants	*28*	**16,320**	8,680
Interest-bearing loans	*26*	**–**	293
Total non-current liabilities		**31,358**	82,062
Net assets		**496,263**	167,718
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*29*	**–**	–
Share premium	*29*	**315,130**	23,556
Equity component of convertible preference shares	*30(a)*	**–**	54,481
Shareholders' contribution	*30(b)*	**879**	879
Statutory reserve	*30(c)*	**10,445**	7,157
Employee equity benefit reserve	*30(d)*	**1,768**	2,172
Foreign currency translation reserve	*30(e)*	**17,858**	9,627
Retained earnings		**134,370**	66,320
Proposed final dividends	*11*	**11,811**	–
		492,261	164,192
Non-controlling interests		**4,002**	3,526
Total equity		**496,263**	167,718

Wu Changjiang
Director

Mu Yu
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Attributable to owners of the Company											
	Issued capital *(note 29)* US$'000	Share premium *(note 29)* US$'000	Equity component of convertible preference shares *(note 30(a))* US$'000	Shareholders' contribution *(note 30(b))* US$'000	Statutory reserve *(note 30(c))* US$'000	Employee equity benefit reserve *(note 30(d))* US$'000	Foreign currency translation reserve *(note 30(e))* US$'000	Retained earnings US$'000	Proposed final dividends US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2010	–	23,556	54,481	879	7,157	2,172	9,627	66,320	–	164,192	3,526	167,718
Profit for the year	–	–	–	–	–	–	–	71,338	–	71,338	2,556	73,894
Other comprehensive income:												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	8,231	–	–	8,231	143	8,374
Total comprehensive income for the year	–	–	–	–	–	–	8,231	71,338	–	79,569	2,699	82,268
Transfer to statutory reserve	–	–	–	–	3,288	–	–	(3,288)	–	–	–	–
Issue of new shares in the initial public offering ("IPO")	–	201,238	–	–	–	–	–	–	–	201,238	–	201,238
Share issue expenses	–	(9,414)	–	–	–	–	–	–	–	(9,414)	–	(9,414)
Conversion of preference shares to ordinary shares	–	113,728	(54,481)	–	–	–	–	–	–	59,247	–	59,247
Exercise of share options	–	5,709	–	–	–	(1,148)	–	–	–	4,561	–	4,561
Employee share option arrangements *(note 31)*	–	–	–	–	–	744	–	–	–	744	–	744
Dividends distributed by a subsidiary to the non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	(2,223)	(2,223)
2010 interim dividends *(note 11)*	–	(7,876)	–	–	–	–	–	–	–	(7,876)	–	(7,876)
Proposed 2010 final dividends *(note 11)*	–	(11,811)	–	–	–	–	–	–	11,811	–	–	–
At 31 December 2010	–	315,130	–	879	10,445	1,768	17,858	134,370	11,811	492,261	4,002	496,263

Continued/...

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Attributable to owners of the Company										
	Issued capital *(note 29)* US$'000	Share premium *(note 29)* US$'000	Equity component of convertible preference shares *(note 30(a))* US$'000	Shareholders' contribution *(note 30(b))* US$'000	Statutory reserve *(note 30(c))* US$'000	Employee equity benefit reserve *(note 30(d))* US$'000	Foreign currency translation reserve *(note 30(e))* US$'000	Retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2009	–	23,556	6,988	879	5,525	2,098	9,499	55,109	103,654	1,679	105,333
Profit for the year	–	–	–	–	–	–	–	12,843	12,843	1,847	14,690
Other comprehensive income:											
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	128	–	128	–	128
Total comprehensive income for the year	–	–	–	–	–	–	128	12,843	12,971	1,847	14,818
Transfer to statutory reserve	–	–	–	–	1,632	–	–	(1,632)	–	–	–
Equity component of preference shares arising from change in terms of conversion feature *(note 27)*	–	–	47,493	–	–	–	–	–	47,493	–	47,493
Employee share option arrangements *(note 31)*	–	–	–	–	–	74	–	–	74	–	74
At 31 December 2009	–	23,556	54,481	879	7,157	2,172	9,627	66,320	164,192	3,526	167,718

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 US$'000	2009 US$'000
		Year ended 31 December	
Cash flows from operating activities			
Profit before tax		**82,316**	20,110
Adjustments for:			
Depreciation of property, plant and equipment	*7.1*	**9,377**	6,508
Amortisation of prepaid land lease payments	*7.1*	**397**	337
Amortisation of other intangible assets	*7.1*	**3,385**	3,104
Amortisation of long-term deferred expenses	*7.1*	**10**	10
Loss on disposal of property, plant and equipment	*7.3*	**692**	179
Equity-settled share option expense	*7.7/8(a)*	**744**	74
Net fair value loss on convertible redeemable preference shares	*7.6*	**–**	15,780
Finance income	*7.4*	**(1,938)**	(755)
Finance costs	*7.5*	**2,598**	8,737
Share of profits of an associate	*18*	**(129)**	(58)
Impairment of accounts receivable	*7.1*	**138**	1,114
Write-down of inventories to net realisable value	*7.1*	**178**	1,898
Government grants	*7.2*	**(3,587)**	(1,644)
Listing expenses, excluding share issue costs	*7.1*	**1,844**	1,899
Exchange (gain)/loss, net	*7.2/7.3*	**(673)**	24
		95,352	57,317
Increase in trade receivables, other receivables and prepayments		**(37,624)**	(3,496)
Increase in inventories		**(19,306)**	(23,776)
Increase in trade and bills payables, other payables and accruals		**8,372**	18,427
Income tax paid		**(9,916)**	(6,399)
Net cash flows from operating activities		**36,878**	42,073

Continued/...

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	Year ended 31 December 2010 US$'000	2009 US$'000
Cash flows from investing activities			
Proceeds from disposal of items of property, plant and equipment		**615**	305
Purchases of items of property, plant and equipment		**(25,488)**	(12,174)
Proceeds from sale of available-for-sale financial assets		**–**	4,932
Prepayment for acquisition of land use rights		**–**	(2,747)
Payment for additions of other intangible assets		**(1,720)**	(815)
Payment for acquisition of subsidiaries and other businesses, net of cash acquired	*25/32*	**(7,736)**	(20,777)
Payment for the acquisition of an associate	*32*	**–**	(307)
Interest received		**1,342**	476
(Increase)/decrease in time deposits with original maturity of more than three months when acquired		**(56,148)**	6,059
Net cash flows used in investing activities		**(89,135)**	(25,048)
Cash flows from financing activities			
Proceeds from issue of new shares in the IPO	*29(b)*	**201,238**	–
Proceeds from exercise of share options	*29(d)*	**4,561**	–
Dividends paid	*11*	**(7,355)**	–
Dividends paid to a non-controlling shareholder		**(2,223)**	–
Receipt of government grants	*28*	**10,802**	8,712
Payment of listing expenses including share issue costs		**(11,460)**	(340)
New bank loans		**23,834**	34,589
Repayment of bank loans		**(30,412)**	(37,138)
Bank loan interest paid		**(1,283)**	(974)
Net cash flows from financing activities		**187,702**	4,849
Net increase in cash and cash equivalents		**135,445**	21,874
Cash and cash equivalents at beginning of year		**44,034**	22,085
Effect of foreign exchange rate changes, net		**3,287**	75
Cash and cash equivalents at end of year		**182,766**	44,034
Analysis of balances of cash and cash equivalents			
Cash and bank balances	*23*	**125,031**	44,034
Non-pledged time deposits with original maturity of less than three months when acquired	*23*	**57,735**	–
Cash and cash equivalents as stated in the statement of cash flows		**182,766**	44,034

Statement of Financial Position

31 December 2010

	Notes	31 December 2010 US$'000	31 December 2009 US$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	*17*	**114,456**	90,456
Total non-current assets		**114,456**	90,456
CURRENT ASSETS			
Due from subsidiaries	*17*	**35,521**	17,495
Other receivables	*21*	**596**	–
Prepayments		**–**	475
Short-term deposits	*23*	**59,235**	–
Cash and cash equivalents	*23*	**84,765**	5,578
Total current assets		**180,117**	23,548
CURRENT LIABILITIES			
Due to subsidiaries	*17*	**6,790**	1,080
Other payables and accruals	*25*	**3,176**	15,510
Total current liabilities		**9,966**	16,590
NET CURRENT ASSETS		**170,151**	6,958
TOTAL ASSETS LESS CURRENT LIABILITIES		**284,607**	97,414
NON-CURRENT LIABILITIES			
Convertible redeemable preference shares	*27*	**–**	57,932
Total non-current liabilities		**–**	57,932
Net assets		**284,607**	39,482
EQUITY			
Issued capital	*29*	**–**	–
Share premium	*29*	**315,130**	23,556
Equity component of convertible preference shares	*30(a)*	**–**	54,481
Employee equity benefit reserve	*30(d)*	**1,768**	2,172
Accumulated losses		**(44,102)**	(40,727)
Proposed final dividends	*11*	**11,811**	–
Total equity		**284,607**	39,482

Wu Changjiang
Director

Mu Yu
Director

Notes to Consolidated Financial Statements

31 December 2010

1. Corporate Information

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

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

The Company's substantial shareholders included NVC Inc., a company incorporated in the BVI and wholly owned by Mr. Wu Changjiang, SB Asia Investment Fund II L.P. ("SAIF"), an exempted limited partnership registered in the Cayman Islands, and Signkey Group Limited ("Signkey"), a company incorporated in the BVI, which owned 21.21%, 22.23% and 10.67% equity interests in the Company, respectively, as at 31 December 2010.

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

Company name	Place and date of establishment/ incorporation and operations	Registered capital	Percentage of ownership interest attributable to the Company Direct	Indirect	Principal activities
NVC Lighting Technology Co., Ltd. ("Huizhou NVC")[3]	the PRC 29 April 2006/ Mainland China*	US$37,250,000	100%	–	Manufacture and sale of lamps, luminaires, lamp transformers, lighting electronic products and other appliances
Chongqing NVC Lighting Co., Ltd. ("Chongqing NVC")[3]	the PRC 1 December 2006/ Mainland China	US$4,000,000	100%	–	Manufacture and sale of lamps, luminaires and other lighting electronic appliances
Zhejiang NVC Lamps Co., Ltd. ("Zhejiang NVC")[4]	the PRC 28 September 2007/ Mainland China	RMB20,000,000 (equivalent to US$2,740,702)	–	51%	Manufacture and sale of lamps and related products
Zhejiang Jiangshan Sunny Electron Co., Ltd. ("Sunny")[1,4]	the PRC 2 July 1994/ Mainland China	RMB10,000,000 (equivalent to US$1,369,000)	–	100%	Manufacture and sale of light tubes for energy-saving lamps and related products
Jiangshan Phoebus Lighting Electron Co., Ltd. ("Jiangshan Phoebus")[1,2,3]	the PRC 8 March 2006/ Mainland China	US$7,000,000	–	100%	Manufacture and sale of light tubes for energy-saving lamps and related products

1. Corporate Information *(continued)*

Company name	Place and date of establishment/ incorporation and operations	Registered capital	Percentage of ownership interest attributable to the Company Direct	Indirect	Principal activities
Zhangpu Phoebus Lighting Co., Ltd. ("Zhangpu Phoebus")[1,3]	the PRC 9 May 2004/ Mainland China	US$3,000,000	–	100%	Manufacture and sale of light tubes for energy-saving lamps and related products
Shanghai Arcata Electronics Co., Ltd. ("Shanghai Arcata")[2,3]	the PRC 22 September 2005/ Mainland China	US$1,000,000	–	100%	Manufacture and sale of lamp transformers and other lighting electronic products
World Through Investments Limited ("World Through")[1]	the BVI 5 August 2005/ Mainland China	US$50,000	100%	–	Investment holding
NVC (Manufacturing) Limited ("UK NVC")	England and Wales 31 May 2007/ the UK	GBP500,000 (equivalent to US$991,650)	80%	–	Trading of lamps, luminaires and other lighting products
Hong Kong TYU Technology Co., Ltd. ("Hong Kong TYU")	Hong Kong 17 July 2007/ Hong Kong	HK$200,000 (equivalent to US$25,643)	100%	–	Trading of lamps, luminaires and other lighting products
Hong Kong Max Rich Holdings Limited ("Max Rich")[2]	Hong Kong 18 September 2008/ Hong Kong	HK$1	–	100%	Investment holding

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

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

2 On 13 September 2010, Jiangshan Phoebus entered into a share transfer agreement with Max Rich to transfer its 26% equity interest in Shanghai Arcata to Max Rich for a consideration of US$260,000. After the transfer, Max Rich holds a 100% equity interest in Shanghai Arcata.

3 The subsidiaries are registered as wholly-foreign-owned enterprises under the PRC law.

4 The subsidiaries are registered as domestic enterprises under the PRC law.

2.1 Basis of Preparation

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

Statement of compliance

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

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same Reporting Period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

2.1 Basis of Preparation *(continued)*

Basis of consolidation *(continued)*

Basis of consolidation from 1 January 2010 *(continued)*

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

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

If the Group loses control over a subsidiary, it:

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

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

Acquisitions of non-controlling interests were accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired was recognised in goodwill.

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

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

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

2.2 Impact of New and Revised IFRSs

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

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

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

The adoption of these new and revised IFRSs has had no significant effect on these financial statements of the current year or the prior year. The description of those new and revised IFRSs that are most likely to have effect on the future periods are as follows:

(a) IFRS 3 (Revised) *Business Combinations* and IAS 27 (Revised) *Consolidated and Separate Financial Statements*

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

2.2 Impact of New and Revised IFRSs *(continued)*

(a) *(continued)*

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively. As the Group did not have acquisitions, loss of control and transactions with non-controlling interests during the year, the change did not have any impact on the financial statements.

(b) Improvements to IFRSs 2009 issued in April 2009 sets out amendments to a number of IFRSs.

There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- IFRS 8 *Operating Segments:* Clarified that segment assets and liabilities need only to be reported when these assets and liabilities are included in measures that are used by the chief operating decision maker. Upon the adoption of the amendment, the Group no longer discloses segment asset information as it is not currently reviewed by the chief operating decision maker.

- IAS 7 *Statement of Cash Flows:* Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- IAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in IAS 17. The Group has reassessed its leases in Mainland China and the classification of leases in Mainland China remained as operating leases.

- IAS 36 *Impairment of Assets:* Clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

2.3 Impact of Issued but not yet Effective IFRSs

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

•	IFRS 1 Amendment	*Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*[2]
•	IFRS 1 Amendments	*Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4]
•	IFRS 7 Amendments	*Transfers of Financial Assets*[4]
•	IFRS 9	*Financial Instruments*[6]
•	IAS 12 Amendments	*Deferred Tax: Recovery of Underlying Assets*[5]
•	IAS 24 (Revised)	*Related Party Disclosures*[3]
•	IAS 32 Amendment	*Classification of Rights Issues*[1]
•	IFRIC 14 Amendments	*Prepayments of a Minimum Funding Requirement*[3]
•	IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

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

The Group reasonably expects the following issued standards to be applicable to the Group and intends to adopt when they become effective.

2.3 Impact of Issued but not yet Effective IFRSs *(continued)*

(a) IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In November 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions"). The changes resulting from the Amendments only affect the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other requirements in IAS 39 in respect of liabilities are carried forward into IFRS 9. However, loan commitments and financial guarantee contracts, which have been designated under the FVO, are scoped out of these additions.

IAS 39 is intended to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting, derecognition and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 when it becomes effective from 1 January 2013.

(b) IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt IAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures shall be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

2.3 Impact of Issued but not yet Effective IFRSs *(continued)*

(c) *Improvements* to IFRSs 2010 issued in May 2010 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a reasonable possible impact on the Group's policies are as follows:

- IFRS 3 *Business Combinations:* Clarifies that the amendments to IFRS 7, IAS 32 and IAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

  In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

  The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- IAS 1 *Presentation of Financial Statements:* Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

- IAS 27 *Consolidated and Separate Financial Statements:* Clarifies that the consequential amendments from IAS 27 (as revised in 2008) made to IAS 21, IAS 28 and IAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if IAS 27 is applied earlier.

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

3. Summary of Significant Accounting Policies

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value, which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

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

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

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

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

Business combinations and goodwill *(continued)*

Business combinations from 1 January 2010 *(continued)*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

The Group did not have any business combinations during the year ended 31 December 2010.

Business combinations prior to 1 January 2010

In comparison to the above-mentioned requirements, which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

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

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

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

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

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

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Investment in an associate

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

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

The results of associate are included in the Company's income statement to the extent of dividends received and receivable. The Company's investment in an associate is treated as non-current asset and is stated at cost less any impairment losses.

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

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

Property, plant and equipment *(continued)*

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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

Intangible assets other than goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the 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 the straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

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

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

Computer software

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

Customer relationships

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

Trademarks

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

Patents

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

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

Intangible assets other than goodwill *(continued)*

Research and development costs

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

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

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

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

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

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

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

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

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

Prepaid land lease payments

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

Impairment of non-financial assets other than goodwill

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

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

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

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

Other financial assets

Initial recognition and measurement

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

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

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividend or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

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

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

Other financial assets *(continued)*

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 by 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 in other expenses.

Available-for-sale financial investments

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

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

The Group had no available-for-sale financial investments during the years ended 31 December 2010 and 2009.

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

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

Impairment of financial assets *(continued)*

Available-for-sale financial investments

For available-for-sale financial investments, if any, the Group assesses at the end of each Reporting Period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or ''prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, interest-bearing loans and the liability component of convertible redeemable preference shares.

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

Financial liabilities *(continued)*

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.

Convertible redeemable preference shares

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

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

Convertible redeemable preference shares *(continued)*

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. The portion relating to the derivative component is recognised immediately in the income statement.

Fair value of financial instruments

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

Offsetting of financial instruments

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Derecognition of financial assets and liabilities *(continued)*

Financial assets *(continued)*

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

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Derivative financial instruments

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

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

Inventories

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

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

Net realisable value is based on the estimated selling price, less any estimated costs to be incurred to completion and disposal.

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

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits with a maturity date of three months or less, and assets similar in nature to cash, which are not restricted as to use.

Provisions

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

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

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date: whether fulfilment of the arrangement is dependent on the issue of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

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

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

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

Leases *(continued)*

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Government grants

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

Revenue recognition

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

Sale of goods

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

Interest income

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

Rental income

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

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

Borrowing costs

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

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

Share-based payment transactions

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

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair values of share options are determined by management using the Black-Scholes valuation model (the "BS" model), or Binomial option pricing model, where appropriate, with further details disclosed in note 31 to the consolidated financial statements.

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

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

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

Share-based payment transactions *(continued)*

Equity-settled transactions *(continued)*

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share, further details of which are given in note 10 to the financial statements.

Other employee benefits

Defined contribution plan for the PRC employees

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

Taxes

Income tax

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

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

Taxes *(continued)*

Income tax *(continued)*

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

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

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

(a) where the deferred tax liability arises from the initial recognition of goodwill or 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 and an associate, 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 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 and an associate, 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.

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

Taxes *(continued)*

Income tax *(continued)*

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

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

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

Sales tax

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

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

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

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

Dividends

Final dividends proposed are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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

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

Foreign currencies

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

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

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

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

4. Significant Accounting Judgements and Estimates

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

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

Estimation uncertainty

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

Corporate income taxes

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

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 19 to the consolidated financial statements.

Recognition of a deferred tax liability for withholding taxes

The PRC New Corporate Income Tax Law, which became effective on 1 January 2008, states that the distribution of dividends by a foreign-invested enterprise established in Mainland China to its foreign investors, from its earnings after 31 December 2007, shall be subject to withholding corporate income taxes at a rate of 10%. The Group carefully evaluates the necessity of dividend distribution of its PRC subsidiaries out of profits earned after 31 December 2007 and makes decisions on such dividend distribution based on the senior management's judgement. Details are set out in note 19 to the consolidated financial statements.

Development costs

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

Impairment of goodwill

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

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

Estimation uncertainty *(continued)*

Impairment of non-financial assets other than goodwill

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

Impairment provision of trade and other receivables

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

Recognition of share-based compensation costs

As further disclosed in note 31, the Company has granted share options to its employees. The directors have used the BS Model or Binomial option pricing model, where appropriate, to determine the total fair value of the options granted, which is expensed over the vesting period. Significant estimates, such as the risk-free rate, dividend yield, expected volatility and expected life of options, are required to be made by the directors as the parameters for applying the option pricing model. The Company engaged Jones Lang LaSalle Sallmanns ("Sallmanns"), an independent appraiser, to perform an appraisal of the fair value of the Company's share options granted during the year ended 31 December 2010.

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

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

Estimation uncertainty *(continued)*

Useful lives of intangible assets

The Group determines the estimated useful lives for its intangible assets based on their best estimate on the expected future cash flows from the assets. The useful lives of the Group's trademarks were estimated to be indefinite. Intangible assets with indefinite useful lives are tested for impairment at least annually and at other times when such an indication exists. Further details are set out in note 16 to the consolidated financial statements.

5. Operating Segment Information

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

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

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

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

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices. Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments, goodwill, intangible assets (other than goodwill), an investment in an associate and long-term deferred expenditure.

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5. Operating Segment Information *(continued)*

	Year ended 31 December 2010				
	Lamp products US$'000	Luminaire products US$'000	Lighting electronic products US$'000	Eliminations US$'000	Consolidated US$'000
Revenue:					
Revenue from external customers	157,624	258,300	55,801	–	471,725
Intersegment	7,237	–	5,465	(12,702)	–
Total revenue	164,861	258,300	61,266	(12,702)	471,725
Results	45,300	82,319	11,460	–	139,079
Elimination of intersegment profit	(1,697)	–	(129)	–	(1,826)
Results derived from external customers	43,603	82,319	11,331	–	137,253
Finance income					1,938
Unallocated income:					
Government grants					3,587
Trademark licence fees					3,228
Distribution commission					4,210
Gain of scraps and materials					861
Rental income					500
Exchange gain, net					673
Others					270
					13,329
Unallocated expenses:					
Advertising and promotion expenses					(11,980)
Freight					(14,593)
Loss on disposal of items of property, plant and equipment					(692)
Loss on disposal of scrap materials					(404)
Donations					(177)
Research and development expenses, excluding the amortisation of deferred expenditures					(5,120)
Staff costs					(14,821)
Listing expenses, excluding share issue costs					(1,844)
Amortisation and depreciation					(5,578)
Equity-settled share option expense					(744)
Other unallocated head office and corporate expenses					(11,782)
					(67,735)
Finance costs					(2,598)
Share of profit of an associate					129
Profit before tax					82,316
Income tax expense					(8,422)
Profit for the year					73,894

5. Operating Segment Information *(continued)*

	Year ended 31 December 2010				
	Lamp products US$'000	Luminaire products US$'000	Lighting electronic products US$'000	Eliminations US$'000	Consolidated US$'000
Capital expenditure	13,214	7,076	895	–	21,185
Unallocated capital expenditure associated with head office and corporate assets					6,079
Total expenditure					27,264
Impairment of accounts receivable/ (reversal of impairment of accounts receivable)	416	(14)	(127)	–	275
Unallocated reversal of impairment of accounts receivable associated with head office and corporate assets					(137)
Total impairment of accounts receivables					138
Write-down of inventories to net realisable value	208	(34)	4	–	178
Depreciation and amortisation	3,004	3,806	405	–	7,215
Unallocated depreciation and amortisation associated with head office and corporate assets					6,209
Total depreciation and amortisation					13,424

Notes to Consolidated Financial Statements

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5. Operating Segment Information *(continued)*

	Year ended 31 December 2009				
	Lamp products US$'000	Luminaire products US$'000	Lighting electronic products US$'000	Eliminations US$'000	Consolidated US$'000
Revenue:					
Revenue from external customers	118,048	153,799	33,923	–	305,770
Intersegment	4,214	–	2,304	(6,518)	–
Total revenue	122,262	153,799	36,227	(6,518)	305,770
Results	35,387	41,841	7,799	–	85,027
Elimination of intersegment profit	(977)	–	(20)	–	(997)
Results derived from external customers	34,410	41,841	7,779	–	84,030
Finance income					755
Other unallocated income:					
Government grants					1,644
Trademark licence fee					2,249
Distribution commission					2,406
Gain of scraps and materials					656
Rental income					423
Others					281
					7,659
Unallocated expenses:					
Advertising and promotion expenses					(8,194)
Freight					(6,141)
Net fair value loss on convertible redeemable preference shares					(15,780)
Loss on disposal of items of property, plant and equipment					(179)
Loss on disposal of scrap materials					(240)
Donation					(56)
Exchange loss, net					(24)
Research and development expenses, excluding the amortisation of deferred expenditures					(4,610)
Staff costs					(11,358)
Listing expenses, excluding share issue costs					(1,899)
Amortisation and depreciation					(5,317)
Equity-settled share option expense					(74)
Other unallocated head office and corporate expenses					(9,783)
					(63,655)
Finance costs					(8,737)
Share of profits of associates					58
Profit before tax					20,110
Income tax expense					(5,420)
Profit for the year					14,690

5. Operating Segment Information *(continued)*

	Year ended 31 December 2009				
	Lamp products US$'000	Luminaire products US$'000	Lighting electronic products US$'000	Eliminations US$'000	Consolidated US$'000
Capital expenditure	6,789	14,342	4,086	–	25,217
Unallocated capital expenditure associated with head office and corporate assets					1,841
Total expenditure					27,058
Depreciation and amortisation	2,622	1,737	283	–	4,642
Unallocated depreciation and amortisation associated with head office and corporate assets					5,459
Total depreciation and amortisation					10,101

Due to the adoption of the revised IFRS8 *Operating Segments* amended in April 2009, the segment report has been revised to comply with the new requirements. Accordingly, certain comparative information has been restated to conform to the current year's presentation.

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5. Operating Segment Information *(continued)*

Geographical information

	Year ended 31 December 2010		
	Mainland China US$'000	**Overseas US$'000**	**Consolidated US$'000**
Revenue			
Sales to external customers	**372,115**	**99,610**	**471,725**
Non-current assets *	**183,945**	**314**	**184,259**

	Year ended 31 December 2009		
	Mainland China US$'000	Overseas US$'000	Consolidated US$'000
Revenue			
Sales to external customers	242,593	63,177	305,770
Non-current assets *	166,550	268	166,818

The revenue information above is based on the location of customers.

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

Information about major customers

There was no single customer to whom the Group's sales amounted to 10% or more of the Group's revenue for the year ended 31 December 2010 (2009: None).

6. Revenue

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

7. Other Income and Expenses

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

	Year ended 31 December	
	2010	2009
	US$'000	US$'000
Cost of inventories recognised as an expense	**277,264**	178,693
Depreciation of property, plant and equipment*	**9,377**	6,508
Amortisation of other intangible assets*	**3,385**	3,104
Write-down of inventories to net realisable value	**178**	1,898
Minimum lease payments under operating leases*	**1,668**	1,202
Amortisation of prepaid land lease payments	**397**	337
Amortisation of long-term deferred expenses	**10**	10
Auditors' remuneration	**505**	383
Impairment of accounts receivable	**138**	1,114
Listing expenses, excluding share issue costs	**1,844**	1,899
* Included in cost of sales:		
Depreciation of property, plant and equipment	**6,350**	3,956
Amortisation of other intangible assets	**865**	686
Minimum lease payments under operating leases	**487**	317

7. Other Income and Expenses *(continued)*

7.2 Other income and gains

		Year ended 31 December	
		2010	2009
	Notes	**US$'000**	US$'000
Government grants	*(a)*	**3,587**	1,644
Trademark licence fees	*(b)*	**3,228**	2,249
Distribution commission	*(b)*	**4,210**	2,406
Gain of scraps and materials		**861**	656
Rental income		**500**	423
Exchange gain, net		**673**	–
Others		**270**	281
		13,329	7,659

Notes:

(a) Various government grants have been received by the Group's PRC subsidiaries as incentives for export sales, research and development activities, recruitment of local workers, expansion of production capacity of energy-saving lamps, and the acquisition of land use rights in connection with plant relocation. Government grants for which expenditure has not been undertaken and those associated with assets are recognised as deferred income in the statement of financial position (note 28).

(b) The Group licenses the "NVC" trademark to its related companies for the consideration of 3% of the related companies' sales and charged its related companies distribution commission for their products sold through the Group's distribution network at the consideration of 6% to 8% of the relevant sales. Details of the related party transactions are set out in note 35.

7. Other Income and Expenses *(continued)*

7.3 Other expenses

	Year ended 31 December	
	2010	2009
	US$'000	US$'000
Loss on disposal of items of property, plant and equipment	**692**	179
Loss on disposal of scrap materials	**404**	240
Donation	**177**	56
Exchange loss, net	**–**	24
Others	**18**	134
	1,291	633

7.4 Finance income

	Year ended 31 December	
	2010	2009
	US$'000	US$'000
Interest income from bank deposits	**1,804**	476
Other interest income	**134**	279
	1,938	755

7. Other Income and Expenses *(continued)*

7.5 Finance costs

	Year ended 31 December	
	2010	2009
	US$'000	US$'000
Interest expense on convertible redeemable preference shares *(Note 27)*	**1,315**	7,763
Interest on bank loans	**1,283**	974
	2,598	8,737

7.6 Net fair value loss on convertible redeemable preference shares

	Year ended 31 December	
	2010	2009
	US$'000	US$'000
Fair value loss of embedded derivatives of Series A-1/Series B preference shares, net	**–**	18,277
Fair value gain arising from the modification of terms of Series A-1/Series B preference shares, net	**–**	(2,497)
	–	15,780

As further disclosed in note 27, the terms of the preference shares were modified on 31 December 2009, and the conversion features previously recognised as derivatives were accounted for as equity starting from 31 December 2009. Accordingly, no derivative existed as at 31 December 2010. The Series A-1/Series B preference shares were converted into ordinary shares on 20 May 2010 (notes 27 and 29).

7. Other Income and Expenses *(continued)*

7.7 Employee benefit expenses (excluding directors' remuneration)

	Year ended 31 December	
	2010	2009
	US$'000	US$'000
Wages and salaries	**44,232**	33,763
Pension scheme contributions (defined contribution scheme)	**4,690**	3,569
Housing funds contributions	**1,592**	982
Other welfare expenses	**1,960**	784
Equity-settled share option expense	**229**	63
	52,703	39,161

7.8 Research and development costs

Research and development costs recognised as an expense in the consolidated income statement during the year ended 31 December 2010 amounted to US$5,315,000 (year ended 31 December 2009: US$6,374,000).

The government grants associated with research and development activities that were released to the income statement are US$353,000 for the year ended 31 December 2010 (year ended 31 December 2009: US$178,000).

8. Directors' Remuneration and Five Highest Paid Individuals

(a) Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 December	
	2010	2009
	US$'000	US$'000
Fees	**68**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**355**	174
Performance related bonuses	**678**	475
Equity-settled share option expense	**515**	11
Pension scheme contributions	**18**	11
	1,634	671

During the year, certain directors were granted share options, in respect of their services to the Group, under the Pre-IPO share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the current year is included in the above directors' remuneration disclosures.

8. Directors' Remuneration and Five Highest Paid Individuals *(continued)*

(a) Directors' remuneration *(continued)*

The names of the directors and their remuneration for the year are set out below:

	Year ended 31 December 2010					
	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Performance related bonuses US$'000	Equity-settled share option expense US$'000	Pension scheme contributions US$'000	Total US$'000
Executive directors:						
Mr. Wu Changjiang	–	102	562	431	4	1,099
Mr. Wu Jiannong	–	125	98	46	10	279
Mr. Mu Yu	–	69	18	7	4	98
	–	296	678	484	18	1,476
Non-executive directors:						
Mr. Xia Lei	–	59	–	8	–	67
Mr. Yan Andrew Y	–	–	–	8	–	8
Ms. Hui Ming Yunn, Stephanie	–	–	–	7	–	7
Mr. Lin Ho-Ping, Brandon	–	–	–	8	–	8
	–	59	–	31	–	90
Independent directors:						
Wang Jinsui	21	–	–	–	–	21
Karel Robert Den Daas	21	–	–	–	–	21
Alan Russell Powrie	26	–	–	–	–	26
	68	–	–	–	–	68
	68	355	678	515	18	1,634

8. Directors' Remuneration and Five Highest Paid Individuals *(continued)*

(a) Directors' remuneration *(continued)*

	Year ended 31 December 2009				
	Salaries, allowances and benefits in kind US$'000	Performance related bonuses US$'000	Equity-settled share option expense US$'000	Pension scheme contributions US$'000	Total US$'000
Executive directors:					
Mr. Wu Changjiang	57	170	–	3	230
Mr. Wu Jiannong	27	164	–	4	195
Mr. Mu Yu	37	141	11	3	192
	121	475	11	10	617
Non-executive directors:					
Mr. Xia Lei	53	–	–	1	54
Mr. Yan Y. Andrew	–	–	–	–	–
Ms. Hui Ming Yunn, Stephanie	–	–	–	–	–
Mr. Lin Ho-Ping, Brandon	–	–	–	–	–
	53	–	–	1	54
	174	475	11	11	671

8. Directors' Remuneration and Five Highest Paid Individuals *(continued)*

(a) Directors' remuneration *(continued)*

The number of directors whose remuneration fell within the following bands is as follows:

	Year ended 31 December	
	2010	2009
Nil to HK$1,000,000	**8**	4
HK$1,000,000 to HK$1,500,000	**–**	–
HK$1,500,000 to HK$2,000,000	**–**	3
HK$2,000,000 to HK$2,500,000	**1**	–
Over HK$2,500,000	**1**	–
	10	7

(b) Five highest paid employees

An analysis of the five highest paid employees within the Group during the year is as follows:

	Number of employees	
	Year ended 31 December	
	2010	2009
Directors	**2**	3
Non-director employees	**3**	2
	5	5

8. Directors' Remuneration and Five Highest Paid Individuals *(continued)*

(b) Five highest paid employees *(continued)*

The five highest paid employees during the year included two (2009: three) directors, details of whose remuneration are set out in note 8(a) above. Details of the remuneration of the remaining three (2009: two) non-director, highest paid employees for the year are as follows:

	Year ended 31 December	
	2010	2009
	US$'000	US$'000
Salaries, allowances and benefits in kind	**295**	161
Performance related bonuses	**273**	201
Equity-settled share option expense	**7**	11
Pension scheme contributions	**17**	3
	592	376

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December	
	2010	2009
Nil to HK$1,000,000	**–**	–
HK$1,000,000 to HK$1,500,000	**2**	2
HK$1,500,000 to HK$2,000,000	**1**	–
	3	2

8. Directors' Remuneration and Five Highest Paid Individuals *(continued)*

(b) Five highest paid employees *(continued)*

During the year and in the prior year, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 31 to the finance statement. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

During the year, no directors or any of the non-director highest paid individuals waived or agreed to waive any emoluments and no emoluments were paid by the Group to the directors or any of the non-director highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

9. Income Tax

	Year ended 31 December	
	2010	2009
	US$'000	US$'000
Current income tax:		
– Current income tax charge for the year	**10,150**	6,119
Deferred income tax:		
– Relating to origination and reversal of temporary differences	**(1,728)**	(699)
Total tax charge for the year	**8,422**	5,420

The Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies within the Group are domiciled and operate. No provision for Hong Kong profits tax or UK corporation income tax has been made as the Group has no assessable profits arising in Hong Kong or the UK during the year ended 31 December 2010 (year ended 31 December 2009: Nil).

9. Income Tax *(continued)*

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

Pursuant to the then effective PRC income tax laws and regulations, foreign-invested enterprises that were engaged in manufacturing activities with an operation period of over 10 years were eligible to apply for a two-year EIT exemption followed by a three-year 50% EIT reduction holiday. In accordance with the approval from the relevant tax authorities, the Group's PRC subsidiaries including Huizhou NVC, Chongqing NVC, Jiangshan Phoebus, Zhangpu Phoebus and Shanghai Arcata enjoyed the above tax holiday starting from 2006, 2007, 2007, 2007 and 2008, respectively. In addition, Chongqing NVC, a subsidiary located in the west of China, was recognised as a western development enterprise and enjoyed a lower tax rate of 7.5% in 2009 and 2010 according to the approval issued by the local tax authority in 2009. Sunny, another PRC subsidiary, was recognised as a high-tech enterprise by the PRC tax authority in 2008 with an effective period of three years from 2008 to 2010 and was entitled to a 15% enterprise income tax rate for the years ended 31 December 2009 and 2010. A summary of the applicable tax rates for the Group's PRC subsidiaries is set out below:

	Year ended 31 December	
	2010	2009
Huizhou NVC	**12.5%**	12.5%
Chongqing NVC	**7.5%**	7.5%
Zhejiang NVC	**25%**	25%
Jiangshan Phoebus	**12.5%**	12.5%
Zhangpu Phoebus	**12.5%**	12.5%
Sunny	**15%**	15%
Shanghai Arcata	**12.5%**	exempted

9. Income Tax *(continued)*

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

Year ended 31 December 2010

	Mainland China US$'000	Others US$'000	Total US$'000
Profit/(loss) before tax	86,143	(3,827)	82,316
Tax at the statutory tax rates	21,536	(135)	21,401
Lower tax rates enacted by local authority	(8,426)	–	(8,426)
Tax exemption	(3,724)	–	(3,724)
Income not subject to tax	(1,102)	–	(1,102)
Expenses not deductible for tax	310	–	310
Tax losses not recognised	–	135	135
Effect on opening deferred tax of change in rates	(172)	–	(172)
Income tax expense for the year	8,422	–	8,422

Year ended 31 December 2009

	Mainland China US$'000	Others US$'000	Total US$'000
Profit/(loss) before tax	44,537	(24,427)	20,110
Tax at the statutory tax rates	11,134	(377)	10,757
Lower tax rates enacted by local authority	(5,552)	–	(5,552)
Tax exemption	(2,195)	–	(2,195)
Expenses not deductible for tax	1,978	–	1,978
Tax losses not recognised	55	377	432
Income tax expense for the year	5,420	–	5,420

10. Earnings per Share Attributable to Ordinary Equity Holders of the Company

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the year ended 31 December 2010. The profit attributable to ordinary equity holders of the Company is the profit attributable to owners of the Company less the profit attributable to holders of preference shares of the Company, as each holder of preference shares was entitled to any dividends paid by the Company pro rata (on an as-converted basis) with the ordinary shares, as further disclosed in note 27(c).

On 20 May 2010, the Company subdivided each ordinary share into 1,000 ordinary shares (note 29). The sub-division was retrospectively applied to the comparative shares existing as at 1 January 2009.

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

	Year ended 31 December	
	2010	2009
	US cents	US cents
Earnings per share		
– Basic	**2.69**	0.58
– Diluted	**2.53**	0.53

10. Earnings per Share Attributable to Ordinary Equity Holders of the Company *(continued)*

	Year ended 31 December	
	2010	2009
	US$'000	US$'000
Profit attributable to equity holders of the Company	**71,338**	12,843
Less: Profit attributable to holders of Series A-1/ Series A-2/Series B preference shares	**(7,504)**	(5,154)
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	**63,834**	7,689
Add: Interest expense of Series A-1 preference shares	**455**	–
Profit attributable to holders of Series A-1/Series A-2 preference shares	**5,507**	–
Profit attributable to ordinary equity holders of the Company used in the diluted earnings per share calculation	**69,796**	7,689

	Year ended 31 December	
	2010	2009
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,377,250**	1,326,930
Effect of dilution – weighted average number of ordinary shares:		
Share options	**133,357**	114,374
Series A-1 preference shares	**213,090**	–
Series A-2 preference shares	**37,253**	–
	2,760,950	1,441,304

10. Earnings per Share Attributable to Ordinary Equity Holders of the Company *(continued)*

For the year ended 31 December 2010, because the diluted earnings per share amount is increased when taking Series B preference shares into account, Series B preference shares had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share.

For the year ended 31 December 2009, because the diluted earnings per share amount is increased when taking Series A-1/Series A-2/Series B preference shares into account, the preference shares had an anti-dilutive effect on basic earnings per share for the year and were ignored in the calculation of diluted earnings per share.

11. Dividends

On 24 August 2010, the board of directors passed a resolution to declare an interim dividend of 2 HK cents (equivalent to 0.257 US cents) per share for the six months ended 30 June 2010, with an aggregate amount of US$7,876,000, which was payable to members whose names were listed on the Register of Members as at 24 September 2010. Out of the declared dividend, US$7,355,000 was distributed during the year ended 31 December 2010.

On 23 March 2011, the board of directors has proposed to declare a final dividend of 3 HK cents (equivalent to 0.3854 US cents) per share for the year ended 31 December 2010 payable to the shareholders whose name appear on the register of members of the Company at the close of business on 24 June 2011. Based on the 3,064,213,000 shares as at 31 December 2010, it is expected that the final dividend payable will amount to HK$91,926,000 (equivalent to US$11,811,000) (2009: Nil).

12. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for the year ended 31 December 2010 included a loss of US$3,375,000, which has been dealt with in the financial statements of the Company (year ended 31 December 2009: a loss of US$22,630,000).

13. Property, Plant and Equipment

	Buildings US$'000	Leasehold improvements US$'000	Plant, machinery and equipment US$'000	Furniture and fixtures US$'000	Motor vehicles US$'000	Construction in progress US$'000	Decoration expenditures US$'000	Total US$'000
31 December 2010								
At 31 December 2009 and at 1 January 2010:								
Cost	35,166	3,749	32,397	4,785	1,487	669	–	78,253
Accumulated depreciation	(2,877)	(389)	(5,149)	(1,665)	(349)	–	–	(10,429)
Net carrying amount	32,289	3,360	27,248	3,120	1,138	669	–	67,824
At 1 January 2010, net of accumulated depreciation	32,289	3,360	27,248	3,120	1,138	669	–	67,824
Additions	359	268	8,160	1,412	1,672	12,379	1,294	25,544
Depreciation provided during the year	(1,430)	(896)	(4,852)	(1,879)	(564)	–	(11)	(9,632)
Disposals	(4)	–	(889)	(158)	(14)	(242)	–	(1,307)
Transfers	81	–	1,685	–	–	(1,766)	–	–
Exchange realignment	1,041	90	826	82	75	246	28	2,388
At 31 December 2010, net of accumulated depreciation	32,336	2,822	32,178	2,577	2,307	11,286	1,311	84,817
At 31 December 2010:								
Cost	36,794	4,139	41,671	6,078	3,230	11,286	1,322	104,520
Accumulated depreciation	(4,458)	(1,317)	(9,493)	(3,501)	(923)	–	(11)	(19,703)
Net carrying amount	32,336	2,822	32,178	2,577	2,307	11,286	1,311	84,817

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31 December 2010

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

	Buildings US$'000	Leasehold improvements US$'000	Plant, machinery and equipment US$'000	Furniture and fixtures US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
31 December 2009							
At 31 December 2008 and at 1 January 2009:							
Cost	34,804	384	21,193	1,982	1,171	717	60,251
Accumulated depreciation	(1,398)	(42)	(1,908)	(531)	(214)	–	(4,093)
Net carrying amount	33,406	342	19,285	1,451	957	717	56,158
At 1 January 2009, net of accumulated depreciation	33,406	342	19,285	1,451	957	717	56,158
Additions	33	3,051	6,594	695	404	1,431	12,208
Business combinations *(note 32)*	16	312	3,773	2,126	76	14	6,317
Depreciation provided during the year	(1,486)	(347)	(3,397)	(1,153)	(267)	–	(6,650)
Disposals	(182)	–	(212)	(19)	(33)	(38)	(484)
Transfers	344	–	1,094	18	–	(1,456)	–
Exchange realignment	158	2	111	2	1	1	275
At 31 December 2009, net of accumulated depreciation	32,289	3,360	27,248	3,120	1,138	669	67,824
At 31 December 2009							
Cost	35,166	3,749	32,397	4,785	1,487	669	78,253
Accumulated depreciation	(2,877)	(389)	(5,149)	(1,665)	(349)	–	(10,429)
Net carrying amount	32,289	3,360	27,248	3,120	1,138	669	67,824

At 31 December 2010, no buildings are pledged (31 December 2009: US$10,717,000).

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

The Group's buildings included above and the land use right (note 14) were valued at US$53,421,000 as at 28 February 2010 in the prospectus issued on 7 May 2010 in connection with the listing of the Company's shares on 20 May 2010 (note 29). Had the Group's buildings been included in these financial statements at such valuation amount throughout the year ended 31 December 2010, an additional depreciation charge of US$130,000 would have been recognised in the consolidated income statement for the year ended 31 December 2010.

As a consequence of the Jiangshan city landscaping plan, the Group has been required to relocate its production base in Jiangshan City to Jiangshan Economic Development Zone (the "Relocation"). The Group entered into relocation and compensation agreements with the local government in September 2009, pursuant to which the local government agreed to pay the Group a total amount of RMB123,228,000 (equivalent to US$18,251,000) to compensate for the Relocation. Such compensation was calculated based on a local independent land and property valuation report and local policies of Jiangshan City. The Relocation is estimated to be completed by end of 2011. Upon completion of the Relocation, the existing land use rights and buildings of the Group's production base in Jiangshan City shall be returned to the local government. At 31 December 2010, the carrying amounts of the relevant land use rights and buildings were US$2,652,000 (2009: US$2,754,000) and US$9,561,000 (2009: US$9,901,000), respectively.

14. Prepaid Land Lease Payments

	31 December	
	2010	**2009**
	US$'000	**US$'000**
Carrying amount at beginning of year	**11,570**	9,112
Addition	**–**	2,747
Recognised during the year	**(397)**	(337)
Exchange realignment	**363**	48
Carrying amount at end of year	**11,536**	11,570

The leasehold lands are situated in Mainland China, and are held under long terms ranging from 43 to 50 years.

At 31 December 2010, no land use rights were pledged (31 December 2009: US$1,489,000).

As mentioned in note 13 above, the land use rights with a carrying amount of US$2,652,000 as at 31 December 2010 shall be returned to the local government of Jiangshan City upon completion of the Relocation.

15. Goodwill

	31 December	
	2010 **US$'000**	**2009** **US$'000**
Cost and net carrying amount at beginning of year	**33,896**	30,799
From the business combination of Shanghai Arcata *(note 32(a))*	**–**	1,074
From the business combination of Chongqing Lianxin Lighting Co., Ltd. ("Chongqing Lianxin") *(note 32(b))*	**–**	1,610
From the business combination of Huizhou Huixin Hardware Co., Ltd. ("Huizhou Huixin") *(note 32(c))*	**–**	97
From the business combination of Chongqing Tianyi Lighting Electronics Co., Ltd. ("Chongqing Tianyi") *(note 32(d))*	**–**	312
Exchange realignment	**225**	4
Cost and net carrying amount at end of year	**34,121**	33,896

Impairment testing of goodwill

Except for the insignificant goodwill acquired from the business combination of Huizhou Huixin, the goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing, and no impairment provision was recognised as at 31 December 2010 (31 December 2009: Nil).

Lamp products cash-generating unit in the WIL Subgroup

The carrying amount of goodwill allocated to the lamp products cash-generating unit in the WIL Subgroup amounted to US$30,799,000 as at 31 December 2010 (31 December 2009: US$30,799,000).

The recoverable amount of the cash-generating unit is determined based on a value in use calculation using cash flow projections covering a five-year period approved by senior management. Management adopted a compound annual growth rate ("CAGR") of 12% (31 December 2009: 14%) for the cash flow projection made on 31 December 2010. The future cash flow was discounted to its present value using a discount rate of 21.46% as at 31 December 2010 (31 December 2009: 19.11%). The cash flow beyond the five-year period was extrapolated using a growth rate of 2%, which is the same as the long-term average growth rate of the lighting industry. As at 31 December 2010, the value in use of the cash-generating unit exceeded its carrying amount, hence the goodwill allocated to this cash-generating unit was not regarded as impaired (31 December 2009: Nil).

15. Goodwill *(continued)*

Impairment testing of goodwill *(continued)*

Lighting electronic products cash-generating unit in Shanghai Arcata

The carrying amount of goodwill allocated to the lighting electronic products cash-generating unit in Shanghai Arcata amounted to US$1,074,000 as at 31 December 2010 (31 December 2009: US$1,074,000).

The recoverable amount of the cash-generating unit is determined based on a value in use calculation using cash flow projections for the next five years approved by senior management. Management adopted a CAGR of 12% by reference to past experience and external sources of information (31 December 2009: 18%). The future cash flow was discounted to its present value using a discount rate of 20.64% (31 December 2009: 18.63%). The cash flow beyond the five-year period was extrapolated using a growth rate of 2%, which is the same as the long-term average growth rate of the lighting industry. As at 31 December 2010, the value in use of the cash-generating unit exceeded its carrying amount, and hence the goodwill allocated to this cash-generating unit was not regarded as impaired (31 December 2009: Nil).

Spot luminaries cash-generating unit in Chongqing NVC

The carrying amount of goodwill allocated to the spot luminaries products cash-generating unit in Chongqing NVC amounted to US$1,610,000 as at 31 December 2010 (31 December 2009: US$1,610,000).

The recoverable amount of the cash-generating unit is determined based on a value in use calculation using the cash flow projections for the next five years approved by senior management. Management adopted a CAGR of 2% by reference to past experience and external sources of information (31 December 2009: 9.5%). The future cash flow was discounted to its present value using a discount rate of 24.05% (31 December 2009: 18.91%). The cash flow beyond the five-year period was extrapolated using a growth rate of 2%, which is the same as the long-term average growth rate of the lighting industry. As at 31 December 2010, the value in use of the cash-generating unit exceeded its carrying amount, and hence the goodwill allocated to this cash-generating unit was not regarded as impaired (31 December 2009: Nil).

15. Goodwill *(continued)*

Impairment testing of goodwill *(continued)*

Decorative fluorescent luminaries cash-generating unit in Chongqing NVC

The carrying amount of goodwill allocated to the decorative fluorescent luminaries cash-generating unit in Chongqing NVC amounted to US$312,000 as at 31 December 2010 (31 December 2009: US$312,000).

The recoverable amount of the cash-generating unit is determined on the basis of value in use that was calculated using the cash flow projections for the next five years approved by senior management. The management estimated the revenue for the next five years remained the same as the current year (31 December 2009: CAGR of 11%). The future cash flow was discounted to its present value using a discount rate of 22.29% (31 December 2009: 19.82%). The cash flow beyond the five-year period was extrapolated using a growth rate of 2%, which is the same as the long-term average growth rate of the lighting industry. As at 31 December 2010, the value in use of the cash-generating unit exceeded its carrying amount, and hence the goodwill allocated to this cash-generating unit was not regarded as impaired (31 December 2009: Nil).

Key assumptions used in the value in use calculation

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

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

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

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

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

The values assigned to key assumptions reflect the past experience of management.

16. Other Intangible Assets

	Computer software US$'000	Customer relationships US$'000	Trademarks US$'000	Development costs US$'000	Patents US$'000	Total US$'000
31 December 2010						
Cost at 1 January 2010, net of accumulated amortisation	449	3,745	39,542	802	8,378	52,916
Additions – internal development	–	–	–	1,642	–	1,642
– others	78	–	–	–	–	78
Amortisation provided during the year	(78)	(1,055)	–	(195)	(2,057)	(3,385)
Exchange realignment	12	163	1,227	56	323	1,781
At 31 December 2010	461	2,853	40,769	2,305	6,644	53,032
At 31 December 2010:						
Cost	793	5,635	40,769	2,526	10,845	60,568
Accumulated amortisation	(332)	(2,782)	–	(221)	(4,201)	(7,536)
Net carrying amount	461	2,853	40,769	2,305	6,644	53,032
31 December 2009						
Cost at 1 January 2009, net of accumulated amortisation	422	4,769	39,505	–	8,591	53,287
Additions – internal development	–	–	–	816	–	816
– others	107	–	–	–	–	107
Amortisation provided during the year	(81)	(1,024)	–	(14)	(1,985)	(3,104)
Acquisition of a subsidiary *(note 32)*	–	–	–	–	1,770	1,770
Exchange realignment	1	–	37	–	2	40
At 31 December 2009	449	3,745	39,542	802	8,378	52,916
At 31 December 2009:						
Cost	692	5,461	39,542	816	10,518	57,029
Accumulated amortisation	(243)	(1,716)	–	(14)	(2,140)	(4,113)
Net carrying amount	449	3,745	39,542	802	8,378	52,916

16. Other Intangible Assets *(continued)*

At 31 December 2010, the remaining amortisation periods of customer relationships were 2.67 years and those of patents ranged from 2.67 to 5 years.

The useful lives of trademarks with a net carrying amount of US$40,769,000 (2009: US$39,542,000) are estimated by senior management to be indefinite as the trademark licences are renewable at insignificant cost at the option of the Group. The trademarks are tested for impairment annually, and no impairment provision was recorded as at 31 December 2010 (31 December 2009: Nil). There was no impairment provision for other intangible assets as at 31 December 2010 (31 December 2009: Nil).

Impairment testing of intangible assets with indefinite useful lives

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

Lighting products cash-generating unit in Huizhou NVC and Chongqing NVC

The recoverable amount of the cash-generating unit is determined on the basis of value in use that was calculated using the cash flow projections for the next five years approved by senior management. Management adopted a CAGR of 13% and royalty rate of 3% by reference to past experience and external sources of information (31 December 2009: a CAGR of 18% and royalty rate of 3%). The future cash flow was discounted to its present value using a discount rate of 25.48% (31 December 2009: 24.2%). The cash flow beyond the five-year period was extrapolated using a growth rate of 2%, which is the same as the long-term average growth rate of the lighting industry. As at 31 December 2010, the value in use of the cash-generating unit exceeded its carrying amount, and hence the trademarks with indefinite useful lives were not regarded as impaired (31 December 2009: Nil).

Key assumptions used in the value in use calculation

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

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

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant units.

Growth rate estimate – Rate is based on published industrial research.

Royalty rate – Rate is based on published industrial research.

The values assigned to key assumptions reflect the past experience of management.

17. Investments in Subsidiaries

Company

		31 December	
		2010	2009
	Note	**US$'000**	US$'000
Unlisted investment, at cost	*(a)*	**114,456**	90,456

Note:

(a) The principal subsidiaries of the Company include Huizhou NVC, Chongqing NVC, World Through and UK NVC. The Company directly holds 100%, 100%, 100% and 80% of Huizhou NVC, Chongqing NVC, World Through and UK NVC, respectively, as at 31 December 2010. There was no change in the Company's percentages of equity interests in the above subsidiaries during the year ended 31 December 2010.

In accordance with the board resolution dated 28 June 2010, the registered capital of Huizhou NVC was increased to US$24,000,000. The additional capital was fully injected during the year ended 31 December 2010.

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of US$35,521,000 (31 December 2009: US$17,495,000) and US$6,790,000 (31 December 2009: US$1,080,000), respectively, are unsecured, interest-free and are repayable on demand or within one year.

The particulars of the Company's subsidiaries are disclosed in note 1 to the financial statements.

18. Investment in an Associate

Group

The Group had a 35% equity interest in Mianyang Leici Electronic Technology Co., Ltd. ("Leici") as at 31 December 2010 and 31 December 2009. Leici was established in the PRC and operates in Mainland China. Leici is a private entity not listed on any public exchange and manufactures lighting electronic products. It is not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

In the prior year, Shanghai Arcata was accounted for as an associate up to 20 February 2009 and a subsidiary from 21 February 2009 as the Group acquired a 26% equity interest in Shanghai Arcata on 7 November 2008 and further acquired control of Shanghai Arcata on 20 February 2009.

	Year end 31 December	
	2010	2009
	US$'000	US$'000
Share of profits of an associate	**129**	58
Carrying amount of the investment in an associate	**689**	540

The following table illustrates the summarised financial information of the Group's associate extracted from its management account:

	31 December	
	2010	2009
	US$'000	US$'000
Assets	**7,138**	5,029
Liabilities	**5,170**	3,486

	Year end 31 December	
	2010	2009
	US$'000	US$'000
Revenues	**10,300**	6,637
Profits	**369**	166

19. Deferred Tax

Deferred tax assets

Movements in deferred tax assets are as follows:

	Impairment provision for inventories and doubtful debts US$'000	Fair value adjustments arising from business combinations US$'000	Government grants US$'000	Depreciation and amortisation US$'000	Unrealised profit in intragroup transactions US$'000	Accruals US$'000	Total US$'000
At 1 January 2010	455	549	187	137	–	1	1,329
Deferred tax credited/ (charged) to the income statement during the year	189	(58)	106	115	278	515	1,145
Exchange realignment	18	19	9	7	–	10	63
At 31 December 2010	662	510	302	259	278	526	2,537

	Impairment provision for inventories and doubtful debts US$'000	Fair value adjustments arising from business combinations US$'000	Government grants US$'000	Depreciation and amortisation US$'000	Accruals US$'000	Total US$'000
At 1 January 2009	253	–	208	82	–	543
From business combinations *(notes 32(b)/(d))*	–	641	–	–	–	641
Deferred tax credited/(charged) to the income statement during the year	202	(92)	(21)	55	1	145
At 31 December 2009	455	549	187	137	1	1,329

19. Deferred Tax *(continued)*

Deferred tax liabilities

Movements in deferred tax liabilities are as follows:

	Fair value adjustments arising from business combinations US$'000	**Total US$'000**
At 1 January 2010	**15,157**	**15,157**
Deferred tax credited to the income statement during the year	**(583)**	**(583)**
Exchange realignment	**464**	**464**
At 31 December 2010	**15,038**	**15,038**

	Fair value adjustments arising from business combinations US$'000	Total US$'000
At 1 January 2009	15,230	15,230
From a business combination *(note 32(a))*	471	471
Deferred tax credited to the income statement during the year	(554)	(554)
Exchange realignment	10	10
At 31 December 2009	15,157	15,157

The Group has tax losses arising in Hong Kong and the UK with an aggregate cumulative amount of US$3,095,000 as at 31 December 2010 (31 December 2009: US$2,672,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. No deferred tax assets are recognised for the unused tax losses as at 31 December 2010 (31 December 2009: Nil).

Deferred tax assets have not been recognised in respect of these losses as they have arisen in entities that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised in the foreseeable future.

The PRC New Corporate Income Tax Law, which became effective on 1 January 2008, states that the distribution of dividends by a foreign-invested enterprise established in Mainland China to its foreign investors, from earnings generated in 2008 or thereafter, shall be subject to withholding EIT at a rate of 10%. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%.

19. Deferred Tax *(continued)*

At 31 December 2010, there were no recognised deferred tax liabilities (31 December 2009: Nil) for taxes that would be payable on the undistributed earnings of the Group's subsidiaries located in Mainland China, as the Group estimated that the undistributed profit of its subsidiaries located in Mainland China earned from 1 January 2008 to 31 December 2010 will not be distributed in the foreseeable future. The cumulative temporary difference for which a deferred tax liability has not been recognised amounted to US$135,517,000 as at 31 December 2010 (31 December 2009: US$66,616,000), and the maximum potential cumulative tax impact as at 31 December 2010 was US$13,436,000 (31 December 2009: US$6,625,000), should the Company's subsidiaries located in Mainland China distribute all earnings generated after 31 December 2007 to the foreign investors.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

20. Inventories

	31 December	
	2010	2009
	US$'000	US$'000
Raw materials	**19,885**	13,707
Work in progress	**1,053**	1,297
Finished goods	**47,653**	32,563
	68,591	47,567

The write-down of inventories recognised as an expense for the year ended 31 December 2010 amounted to US$178,000 (year ended 31 December 2009: US$1,898,000), which was recorded in cost of sales.

21. Trade and Other Receivables

Group

	Note	31 December 2010 US$'000	31 December 2009 US$'000
Trade receivables	*(a)*	**112,583**	67,186
Provision		**(2,181)**	(1,858)
		110,402	65,328
Other receivables	*(b)*	**9,361**	20,859
Provision		**(260)**	(392)
		9,101	20,467
		119,503	85,795

Company

	Note	31 December 2010 US$'000	31 December 2009 US$'000
Other receivables	*(c)*	**596**	–

Notes:

(a) Trade receivables

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

As at 31 December 2010, trade receivables with an aggregate carrying amount of US$6,372,000 were pledged (31 December 2009: US$293,000) to banks to secure the banking facilities granted to the Group's subsidiaries.

21. Trade and Other Receivables *(continued)*

Notes (continued):

(a) Trade receivables *(continued)*

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

	31 December	
	2010	2009
	US$'000	US$'000
Within 3 months	**94,924**	59,252
Between 4 and 6 months	**11,703**	4,407
Between 7 and 12 months	**2,427**	1,073
Between 1 and 2 years	**1,080**	595
Between 2 and 3 years	**268**	1
	110,402	65,328

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

	31 December	
	2010	2009
	US$'000	US$'000
At beginning of year	**1,858**	945
Impairment losses recognised	**597**	995
Impairment losses reversed	**(322)**	(104)
Exchange realignment	**48**	22
At end of year	**2,181**	1,858

The above provision for impairment of trade receivables represented full provision made for individually impaired trade receivables with an aggregate gross balance of US$2,181,000 as at 31 December 2010 (31 December 2009: US$1,858,000). The individually impaired trade receivables related to customers that were in unexpected financial difficulties and there is a high probability that these receivables are irrecoverable. The Group does not hold any collateral or other credit enhancements over these impaired balances.

21. Trade and Other Receivables *(continued)*

Notes (continued):

(a) Trade receivables *(continued)*

An ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	31 December	
	2010	2009
	US$'000	US$'000
Neither past due nor impaired	**95,663**	63,100
Past due but not impaired:		
– Less than 2 months past due	**9,178**	1,107
– 2 to 6 months past due	**3,817**	525
– 7 to 12 months past due	**918**	493
– Over 1 year past due	**826**	103
	110,402	65,328

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

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

21. Trade and Other Receivables *(continued)*

Notes (continued):

(b) Other receivables of the Group

Group

The breakdown of other receivables is as follows:

		31 December	
	Note	**2010 US$'000**	2009 US$'000
Receivables from third parties	*(i)*	**5,485**	9,777
Amount due from a director	*(ii)*	**–**	4,866
Amounts due from other related parties	*(iii)*	**3,876**	6,216
Provision	*(iv)*	**(260)**	(392)
Net balance		**9,101**	20,467

Notes:

(i) The balance as at 31 December 2010 mainly represented deductible input value-added tax which was pending for receipt of invoices, refundable value-added tax arising from export sales, withheld individual income tax for employees, bank interest receivables, employee borrowings and other sundry deposits.

Included in the receivables from third parties as at 31 December 2009 was an aggregate amount of US$5,500,000 due from Mr. Jiang Jianming, Mr. Xu Shuisheng and Mr. Qiao Jianping, who were the original non-controlling shareholders of Sunny before Sunny was acquired by the Group. The amount has been repaid during the year ended 31 December 2010.

In addition, a loan, with a carrying amount of RMB2,704,000 (equivalent to US$396,000) including interest, which was lent to Ms. Wei Xiaoxian, an independent third party, in prior years, was deducted from the Company's outstanding consideration payable to Signkey in May 2010 in accordance with an agreement entered into by the Company, Signkey, Sunny and Mr. Wu Jiannong dated 27 May 2010 (note 25).

Except for the bank interest receivable of US$596,000 (31 December 2009: Nil), which has a repayment term of three months, the balances above are unsecured, non-interest-bearing and have no fixed terms of repayment.

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

The balance was subsequently deducted from the Company's outstanding cash consideration payable to Signkey according to the share purchase agreement entered into by the Company, Wu Changjiang, World Through, Signkey, Mr. Wu Jiannong and other shareholders of the Company on 14 August 2008 and a supplemental agreement entered into between the Company, Signkey, World Through, Mr. Wu Jiannong and Jiangshan Phoebus in February 2010 (note 25) and no amount was outstanding at 31 December 2010.

21. Trade and Other Receivables *(continued)*

Notes (continued):

(b) Other receivables of the Group *(continued)*

The maximum amount receivable form Mr. Wu Jiannong outstanding during the year ended 31 December 2010 was RMB33,223,000 (equivalent to US$4,892,000) (year ended 31 December 2009: RMB33,223,000 (equivalent to US$4,866,000)).

(iii) The amounts due from other related parties (defined in note 35) consist of the following:

	31 December	
	2010	2009
	US$'000	US$'000
Entities over which a close family member of Mr. Wu Changjiang, a director of the Company, has significant influence	**3,830**	6,160
Entities controlled by Mr. Wu Jiannong, a director of the Company	**46**	56
	3,876	6,216

The amounts due from entities over which a close family member of Mr. Wu Changjiang has significant influence represented trademark licence fees and distribution commission receivable by the Group. The credit terms granted to the above related companies are 90 days. The balances are unsecured and non-interest-bearing.

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

	31 December	
	2010	2009
	US$'000	US$'000
At beginning of year	**392**	162
Impairment losses recognised	**92**	230
Impairment losses reversed	**(229)**	(7)
Exchange realignment	**5**	7
At end of year	**260**	392

The individually impaired other receivables relate to debtors that were in financial difficulties and there is a high probability that these receivables are irrecoverable. The Group does not hold any collateral or other credit enhancements over these impaired balances.

21. Trade and Other Receivables *(continued)*

Notes (continued):

(b) Other receivables of the Group *(continued)*

An ageing analysis of the other receivables of the Group as at the end of the Reporting Period, based on the transaction date and net of provisions, is as follows:

	31 December	
	2010	2009
	US$'000	US$'000
Within 1 year	**8,665**	5,624
Between 1 and 2 years	**382**	13,200
Over 2 years	**54**	1,643
	9,101	20,467

The ageing analysis of the other receivables that are not individually nor collectively considered to be impaired is as follows:

	31 December	
	2010	2009
	US$'000	US$'000
Neither past due nor impaired	**7,822**	9,789
Past due but not impaired:		
– Less than 2 months past due	**433**	–
– 2 to 12 months past due	**502**	5,812
– Over 1 year past due	**344**	4,866
	9,101	20,467

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

21. Trade and Other Receivables *(continued)*

Notes (continued):

(c) Other receivables of the Company

Company

	31 December	
	2010	2009
	US$'000	US$'000
Receivables from a third party	**596**	–

The above balance represented interest receivable on bank deposits. The amount was unsecured with a repayment term of three months.

As at the end of the Reporting Period, the ageing analysis of the Company's other receivables that are not considered to be impaired is as follows:

	31 December	
	2010	2009
	US$'000	US$'000
Neither past due nor impaired	**596**	–

22. Prepayments

Included in the prepayments are amounts due from related companies (defined in note 35) which consist of the following:

Group

	31 December	
	2010	2009
	US$'000	US$'000
An entity over which the Group indirectly has significant influence through its associate	**367**	737
Entities controlled by Mr. Wu Jiannong, a director of the Company	**30**	–
Entities over which a close family member of Mr. Wu Changjiang, a director of the Company, has significant influence	**–**	273
	397	1,010

The balances as at 31 December 2010 were interest-free, unsecured and had no fixed term of settlement.

23. Cash and Short-Term Deposits

Group

	31 December	
	2010	2009
	US$'000	US$'000
Cash and bank balances	**125,031**	44,034
Time deposits:		
Non-pledged time deposits	**116,970**	–
Pledged time deposits	**1,413**	3,258
	243,414	47,292
Less:		
Non-pledged time deposits with original maturity of more than three months when acquired	**(59,235)**	–
Pledged time deposits with original maturity of more than three months when acquired	**(1,413)**	(3,258)
Cash and cash equivalents	**182,766**	44,034

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

Company

	31 December 2010 US$'000	31 December 2009 US$'000
Cash and bank balances	**33,070**	5,578
Time deposits:		
Non-pledged time deposits	**110,930**	–
	144,000	5,578
Less:		
Non-pledged time deposits with original maturity of more than three months when acquired	**(59,235)**	–
Cash and cash equivalents	**84,765**	5,578

Time deposits were made for varying periods of between one and twelve months depending on the immediate cash requirements of the Group, and earned interest at the respective short-term deposit rates. Pledged deposits were made to banks to secure the issuance of letters of credit and other banking facilities, product quality as well as fulfilling contractual obligations at the requests of customers. Cash at banks and pledged deposits earned interest at floating rates based on the daily bank deposit rate. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

At 31 December 2010, the cash and bank balances of the Group denominated in RMB amounted to RMB894,027,000 (equivalent to US$134,944,000) (31 December 2009: RMB268,467,000 (equivalent to US$39,317,000)). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

24. Trade and Bills Payables

Group

	31 December 2010 US$'000	31 December 2009 US$'000
Trade and bills payables to third parties	**48,076**	48,527
Trade payables to related parties	**3,221**	6,242
	51,297	54,769

Trade and bills payables to related parties (defined in note 35) include the following:

	31 December 2010 US$'000	31 December 2009 US$'000
Entities controlled by Mr. Wu Jiannong, a director of the Company	**1,813**	4,664
An entity over which the Group indirectly has significant influence through its associate	**710**	286
Entities over which a close family member of Mr. Wu Changjiang, a director of the Company, has significant influence	**698**	1,292
	3,221	6,242

Trade and bills payables are non-interest-bearing and are normally settled on terms of 60 to 90 days.

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

	31 December 2010 US$'000	31 December 2009 US$'000
Within 3 months	**50,194**	53,383
Between 4 and 6 months	**526**	902
Between 7 and 12 months	**193**	120
Between 1 and 2 years	**102**	261
Over 2 years	**282**	103
	51,297	54,769

25. Other Payables and Accruals

Group

	31 December 2010 US$'000	31 December 2009 US$'000
Advances from customers	**3,242**	1,519
Accruals	**6,196**	6,951
Other payables to third parties	**33,157**	18,483
Dividends payable	**521**	–
Amounts due to related parties	**1,322**	14,911
	44,438	41,864

Company

	31 December 2010 US$'000	31 December 2009 US$'000
Other payables to third parties	**2,535**	140
Dividends payable	**521**	–
Accruals	**120**	2,370
Amount due to Signkey	**–**	13,000
	3,176	15,510

The amounts due to related parties of the Group (defined in note 35) are as follows:

	31 December 2010 US$'000	31 December 2009 US$'000
Entities controlled by Mr. Wu Jiannong, a director of the Company	**1,318**	14,904
Entities over which a close family member of Mr. Wu Changjiang, a director of the Company, has significant influence	**4**	7
	1,322	14,911

25. Other Payables and Accruals *(continued)*

Included in the above balance as at 31 December 2009 was the Company's outstanding cash consideration payable to Signkey of US$13,000,000 which was fully settled during the year ended 31 December 2010 by means of the following:

– The Company paid US$7,736,000 to Signkey in cash to settle part of the outstanding cash consideration for the acquisition of the WIL Subgroup on 29 August 2008;

– The amount due from Mr. Wu Jiannong of RMB33,223,000 (equivalent to US$4,866,000) was deducted from the Company's outstanding cash consideration payable to Signkey in February 2010, as mentioned in note 21(b)(ii); and,

– The Group's loan of US$396,000 due from Ms. Wei Xiaoxian was deducted from the Company's outstanding consideration payable to Signkey in May 2010, as mentioned in note 21(b)(i).

Other payables of the Group and the Company as at 31 December 2010 are non-interest-bearing and have no fixed terms of repayment.

26. Interest-bearing Loans

	31 December 2010			31 December 2009		
	Contractual interest rate (%)	**Maturity**	**US$'000**	Contractual interest rate (%)	Maturity	US$'000
Current						
Bank loans – secured	–	–	–	4.37-4.78	2009-2010	6,093
Non-current						
Other loans – unsecured	–	–	–	18	2011	293

Current portion

Certain of the Group's bank loans as at 31 December 2009 were secured by mortgages over the Group's buildings with an aggregate carrying amount of approximately US$10,717,000 as at 31 December 2009, the Group's land use rights with an aggregate carrying amount of approximately of US$1,489,000 as at 31 December 2009 and the Group's trade receivables with an aggregate carrying amount of approximately of US$293,000 as at 31 December 2009.

As as 31 December 2010, except for the pledged trade receivables disclosed in note 21(a) to secure general banking facilities provided to the Group's subsidiary, no other assets were pledged.

Non-current portion

The non-current portion as at 31 December 2009 represented a long-term unsecured loan amounting to RMB2 million (equivalent to US$293,000) borrowed from the local government of Jiangshan City and was repaid during the year ended 31 December 2010.

27. Convertible Redeemable Preference Shares

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

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

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

Prior to the conversion into ordinary shares, the major terms of the preference shares that remained effective during the year ended 31 December 2010 were as follows:

(a) Redemption

Pursuant to the Second Amended and Restated Memorandum and Articles of Association (the "Second Amended and Restated M&AA") approved by the board of directors on 6 May 2008, the Series A-1/Series B preference shares were redeemable at the option of the holders starting from 1 August 2011 if the Company had not completed a qualified IPO by then. The original redemption price is 100% of the original issue price, plus an amount that will yield, in respect of the period from 1 August 2006 to and including the date of completion of such redemption and taking into account any dividends and other payments received by the holders thereof in respect of such Series A-1/Series B preference shares, an annual compounded rate of return of 10% to such holders on their investment in such Series A-1/Series B preference shares.

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

Series A-2 preference shares were not redeemable.

27. Convertible Redeemable Preference Shares *(continued)*

(b) Conversion

Immediately before 31 December 2009,when the Waiver Letter was entered into, the Series A/Series B preference shares were convertible at the option of the holders into ordinary shares. The initial conversion ratio was 1:1, subject to adjustment.

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

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

(c) Dividends

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

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

(d) Voting rights

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

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

27. Convertible Redeemable Preference Shares *(continued)*

(e) Liquidation

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

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

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

Upon conversion into ordinary shares, the then carrying amount of the equity components and liability components of the Series A-1/Series B preference shares of US$47,493,000 and US$59,247,000, respectively, together with the then carrying amount of Series A-2 preference share of US$6,988,000, were converted into share capital, with the excess of the aggregate carrying amounts over the par value of the ordinary shares recorded in the share premium account.

27. Convertible Redeemable Preference Shares *(continued)*

(e) Liquidation *(continued)*

The movements in the carrying amount of the host instruments, i.e., the liability components of the Series A-1 and Series B preference shares, are as follows:

	Series A-1 preference shares US$'000	Series B preference shares US$'000	Total US$'000
2010:			
Liability component at 1 January 2010	**20,053**	**37,879**	**57,932**
Interest expense accrued *(note 7.5)*	**455**	**860**	**1,315**
Conversion into ordinary shares	**(20,508)**	**(38,739)**	**(59,247)**
Liability component at 31 December 2010	**–**	**–**	**–**

	Series A-1 preference shares US$'000	Series B preference shares US$'000	Total US$'000
2009:			
Liability component at 1 January 2009	25,549	42,805	68,354
Interest expense accrued *(note 7.5)*	3,427	4,336	7,763
Liability component at 31 December 2009 under terms before the modification subject to the Waiver Letter	28,976	47,141	76,117
Derecognition of liability component arising from the modification subject to the Waiver Letter	(28,976)	(47,141)	(76,117)
Recognition of liability component under the new terms pursuant to the Waiver Letter	20,053	37,879	57,932
Liability component at 31 December 2009	20,053	37,879	57,932

28. Government Grants

	31 December	
	2010	2009
	US$'000	US$'000
At beginning of year	**8,680**	1,611
Received during the year	**10,802**	7,569
Released to the income statement	**(3,587)**	(501)
Exchange realignment	**425**	1
At end of year	**16,320**	8,680
Non-current	**16,320**	8,680

Various government subsidies have been granted to the Group's PRC subsidiaries as incentives for export sales, technology research and development, and recruitment of local workers, and as financial support for the establishment of T5 energy-saving lamp tube production lines and compensation for plant relocation.

Included in the balance at 31 December 2010 was an amount of US$14,303,000 (31 December 2009: US$7,063,000) representing the government grant as compensation for the relocation of the Group's production base in Jiangshan City (note 13). The government grant will be recorded in the income statement to match all relocation costs and the carrying amount of the existing land and buildings of the Group's production facilities in Sunny, Jiangshan Phoebus and Zhejiang NVC which will be transferred to the local government upon completion of the Relocation.

The remaining balance at 31 December 2010 included an amount of US$1,387,000 (31 December 2009: US$1,617,000) representing net carrying amount of government grants for financing the establishment of a production line for T5 energy-saving lamp tubes and an amount of US$630,000 representing the net carrying amount of an industrial development fund for Chongqing NVC. Both grants are credited to the income statement over the estimated useful lives of the associated production lines.

There are no unfulfilled conditions or contingencies attached to these grants except that certain land and buildings in the Group's production base in Zhejiang are required to be transferred to the local government upon the completion of the Relocation as detailed in note 13 to the financial statements.

29. Share Capital

	31 December 2010			31 December 2009		
	Number of shares	Par value of each share (US$)	US$	Number of shares	Par value of each share (US$)	US$
Authorised:						
Ordinary shares	500,000,000,000	0.0000001	50,000	3,000,000	0.0001	300.00
Preference shares	–	–	–	2,000,000	0.0001	200.00
	500,000,000,000		50,000	5,000,000		500.00
Issued and fully paid:						
Ordinary shares	3,064,213,000	0.0000001	306.42	1,326,930	0.0001	132.69
Preference shares	–	–	–	889,309	0.0001	88.93
	3,064,213,000		306.42	2,216,239		221.62

Movements in the Company's issued capital and share premium during the year ended 31 December 2010 are as follows:

	Notes	Number of shares in issue	Issued capital US$	Share premium account US$'000	Total US$'000
At 31 December 2009 and 1 January 2010		1,326,930	132.69	23,556	23,556
After sub-division of each ordinary share with a par value of US$0.0001 into 1,000 ordinary shares with a par value of US$0.0000001 each	*(a)*	1,326,930,000	132.69	–	–
Issue of new ordinary shares in the IPO	*(b)*	747,415,000	74.74	201,238	201,238
Share issue expenses	*(b)*	–	–	(9,414)	(9,414)
Conversion of convertible redeemable preference shares	*(c)*	889,309,000	88.93	113,728	113,728
Share options exercised	*(d)*	100,559,000	10.06	5,709	5,709
2010 interim dividends	*(e)*	–	–	(7,876)	(7,876)
Proposed 2010 final dividends	*(e)*	–	–	(11,811)	(11,811)
At 31 December 2010		3,064,213,000	306.42	315,130	315,130

There was no movement in issued capital and share premium during the year ended 31 December 2009.

29. Share Capital *(continued)*

Notes:

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

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

On 17 June 2010, the over-allotment option of the Company's shares granted by the Company to the international underwriters including Goldman Sachs (Asia) L.L.C. and The Hongkong and Shanghai Banking Corporation Limited was partially exercised and 53,502,000 additional shares with a par value of US$0.0000001 each were issued at the price of HK$2.1 per share. The gross proceeds from the issue of these shares amounted to approximately HK$112,354,200 (equivalent to US$14,425,000) before the relevant share issue expenses. The shares were listed on the Main Board of the Hong Kong Stock Exchange on 17 June 2010.

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

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

(d) The subscription rights attaching to 100,559,000 share options were exercised at the subscription weighted average price of HK$0.35 (equivalent to US$0.0454) per share (note 31), resulting in the issue of 100,559,000 shares of US$0.0000001 each for a total cash consideration, before expenses, of HK$35,195,650 (equivalent to US$4,561,000). An amount of US$1,148,000 was transferred from the employee equity benefit reserve to the share premium account upon the exercise of the share options.

(e) Details about the 2010 interim dividends and the proposed 2010 final dividends are disclosed in note 11 to the financial statements.

30. Reserves

The movements in the reserves of the Group for the current and prior year are set out in the consolidated statement of changes in equity.

(a) Equity component of convertible preference shares

The balance as at 31 December 2009 represented the fair value of the equity component of the Series A-1/Series A-2/Series B preference shares. Upon conversion of the preference shares into ordinary shares on 20 May 2010, the balance was transferred to the issued capital and share premium account, as detailed in note 27 and 29 to the financial statements.

(b) Shareholders' contribution

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

(c) Statutory reserve

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

(d) Employee equity benefit reserve

The employee equity benefit reserve records the accumulated amortisation of fair value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration, as further disclosed in the accounting policy for share-based payment transfers in note 3 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised or to be transferred to retained earnings should the related options expire or be forfeited.

(e) Foreign currency translation reserve

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

30. Reserves *(continued)*

Company

The changes in share premium, equity component of convertible preference shares and employee equity benefit reserve of the Company for the current and prior years are the same as those of the Group. The changes in accumulated losses of the Company for the current and the prior year are set out below:

	Accumulated losses US$'000
At 1 January 2009	18,097
Loss for the year	22,630
At 31 December 2009 and 1 January 2010	**40,727**
Loss for the year	**3,375**
At 31 December 2010	**44,102**

31. Pre-IPO Share Option Scheme

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

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

As at 31 December 2009, the aggregate number of ordinary shares that may be issued pursuant to the Scheme must not exceed 192,259,000 ordinary shares (assuming share split for the IPO having taken place). On 24 March 2010, the board of directors decided to increase the maximum number of ordinary shares that may be issued pursuant to the Scheme by 48,170,000 ordinary shares. Thus, the aggregate number of ordinary shares that may be issued pursuant to the Scheme shall not exceed 240,429,000 ordinary shares. An option shall not be granted if it would have the effect of causing the total number of ordinary shares subject to options granted under this Scheme to exceed the total number of ordinary shares reserved for issuance pursuant to the exercise of options granted under this Scheme. If, for any reason, any ordinary shares subject to issuance by exercising options under the Scheme are not issued or are re-acquired by the Company, for reasons including, but not limited to, termination or expiration or cancellation (with the consent of the Participants) of options, such ordinary shares shall again become available for grant under the Scheme.

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

Terms of options

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

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

Terms of options *(continued)*

Options granted to Participants under this Scheme shall vest immediately, or at a rate no more than 25% of each such grant for each year commencing from the date when the grantees can exercise such options granted to them, subject to proportional vesting on a quarterly basis.

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

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

	Year ended 31 December 2010			Year ended 31 December 2009	
		Weighted average exercise price per share			Weighted average exercise price per share
	Number of options	**HK$**	**US$ equivalent**	Number of options*	US$
At beginning of year	**191,884,000**	**0.39**	**0.0503**	192,259,000	0.0503
Forfeited during the year	**–**	**–**	**–**	(375,000)	0.2698
Granted during the year	**48,545,000**	**2.09**	**0.2746**	–	–
Exercise during the year	**(100,559,000)**	**0.35**	**0.0454**	–	–
At end of year	**139,870,000**	**1.01**	**0.1295**	191,884,000	0.0503

* On 20 May 2010, each share option of the Company was divided into 1,000 shares.

The subdivision was retrospectively applied to the outstanding share options as at 1 January 2009.

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

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

31 December 2010

	Exercise price per share		Vesting periods
Number of options	**HK$**	**US$ equivalent**	***(Note)***
52,434,000	0.31	0.0398	*(a)*
16,675,000	0.40	0.0514	*(b)*
22,591,000	0.75	0.0964	*(b)*
12,500,000	2.10	0.2698	*(c)*
32,670,000	2.10	0.2698	*(d)*
3,000,000	2.10	0.2698	*(e)*
139,870,000			

31 December 2009

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

Notes:

The vesting periods of share options of each grant are listed below:

(a) The options vested immediately.

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

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

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

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

The weighted average remaining contractual life for the share options outstanding as at 31 December 2010 was 5.39 years (31 December 2009: 6.9 years).

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31 December 2010

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

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

31 December 2010		31 December 2009	
Number of share options	**Weighted average exercise price US$ per share**	Number of share options	Weighted average exercise price US$ per share
90,758,708	**0.06**	169,624,000	0.05

On 31 December 2009, 139,450,000 share options were transferred by certain optionees to Eastern Galaxy Trust, a discretionary trust established by deed of declaration made by HSBC Trustee (Hong Kong) Limited as trustee. On 12 July 2010, 13 September 2010 and 17 September 2010, 89,621,500 share options, 9,625,000 share options and 1,312,500 share options, respectively, were exercised by Eastern Galaxy Investment Limited, a company incorporated in the BVI as the nominee holding in trust for HSBC Trustee (Hong Kong) Limited.

The 100,559,000 share options exercised during the year ended 31 December 2010 resulted in the issue of 100,559,000 ordinary shares of the Company and new share capital of US$10 and share premium of US$4,561,000 (before issue expenses), as further detailed in note 29 to the financial statements.

There has been no cancellation or modification to the Scheme for issued share options during the year ended 31 December 2010.

The fair value of the share options granted during the year ended 31 December 2010 was estimated at approximately US$1,965,000 (2009: Nil), which was estimated at the grant date using the Binomial option pricing model with contractual life, taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used:

	Year ended 31 December 2010
Dividend yield (%)	**–**
Expected volatility (%)	**55.06 – 59.34**
Risk-free interest rate (%)	**2.78 – 3.19**
Expected life of options (year)	**5 – 7**
Weighted average share price (US$ per share)	**0.15**

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

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

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

The fair value of the share options granted by the Company has been recognised in the income statement over the vesting periods and the total amount recognised as a share option expense for the year ended 31 December 2010 totalled US$744,000 (year ended 31 December 2009: US$74,000) (note 7.7/note 8(a)).

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

As at 31 December 2010, the Company had 139,870,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 139,870,000 additional ordinary shares of the Company and additional share capital of US$14 and share premium of US$18,119,820 (before issue expenses).

Subsequent to the end of Reporting Period, on 17 March 2011, a total of 26,217,000 share options were exercised by certain directors of the Company at the exercise price of HK$0.31 (equivalent to US$0.0398) per share.

At the date of approval of these financial statements, the Company had 113,653,000 share options outstanding under the Scheme, which represented approximately 4% of the Company's shares in issue as at that date.

32. Business Combinations

During the year ended 31 December 2010, the Group did not have any business combinations.

During the year ended 31 December 2009, the Group had business combinations with Shanghai Arcata, Chongqing Lianxin, Huizhou Huixin and Chongqing Tianyi which are detailed below:

(a) Acquisition of Shanghai Arcata

The Group acquired a 100% equity interest in Shanghai Arcata by means of a step acquisition as set out below:

On 7 November 2008, Jiangshan Phoebus acquired a 26% equity interest in Shanghai Arcata at a cash consideration of RMB2,099,000 (equivalent to US$307,000). The consideration was paid during the year ended 31 December 2009.

On 20 February 2009, World Through acquired the remaining 74% equity interest of Shanghai Arcata at the consideration of RMB15,201,000 (equivalent to US$2,225,000). The consideration was paid during the year ended 31 December 2009.

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

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

32. Business Combinations *(continued)*

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

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

32. Business Combinations *(continued)*

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

Cash outflow on acquisition during the year ended 31 December 2009:

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

From the date of acquisition, Shanghai Arcata has contributed US$558,000 to the profit of the Group for the year ended 31 December 2009.

(b) Acquisition of Chongqing Lianxin

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

32. Business Combinations *(continued)*

(b) Acquisition of Chongqing Lianxin *(continued)*

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

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

The total cost of the business combination was US$6,846,000, of which cash of US$5,247,000 was paid during the year ended 31 December 2009, and the remaining balance of US$1,598,000 was offset against the Group's prepayments to Chongqing Lianxin during the year ended 31 December 2009.

32. Business Combinations *(continued)*

(c) Acquisition of Huizhou Huixin

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

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

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

The total cost of the combination was US$1,132,000 and was fully paid during the year ended 31 December 2009.

32. Business Combinations *(continued)*

(d) Acquisition of Chongqing Tianyi

Chongqing NVC acquired all inventories, machinery and equipment of Chongqing Tianyi, a previous supplier 85% owned by Mr. Wang Shaolin, a key management employee of the Group, at a consideration of RMB7,100,000 (equivalent to US$1,040,000) and RMB10,688,000 (equivalent to US$1,562,000) on 31 May 2009 and 20 October 2009, respectively. Chongqing NVC also absorbed the majority of skilled workers and administrative staff of Chongqing Tianyi. The senior management considered the transaction as a combination of the operations of Chongqing Tianyi and Chongqing NVC and, accordingly, accounted for the transaction as a business combination.

The fair values of the identifiable assets of Chongqing Tianyi, as determined by Sallmanns, and the corresponding carrying amounts at the exchange transaction date on 20 October 2009 immediately before the acquisition, which were extracted from the management accounts of Chongqing Tianyi, were as follows:

	Fair value recognised on acquisition US$'000	Previous carrying value US$'000
Property, plant and equipment	1,146	1,562
Inventories	889	889
Fair value of identifiable assets acquired and liabilities assumed, excluding deferred tax assets and related deductible input value-added tax arising from the acquisition	2,035	2,451
Deferred tax assets arising from the acquisition	104	
Input value-added tax arising from the acquisition which was deducted by the Group	151	
Fair value of identifiable assets acquired	2,290	
Goodwill arising on the acquisition	312	
Total consideration	2,602	

The total consideration was US$2,602,000, of which cash of US$699,000 was paid during the year ended 31 December 2009 and the remaining balance of US$1,903,000 was offset with the Group's prepayments to Chongqing Tianyi during the year ended 31 December 2009.

33. Pledge of Assets

Details of the Group's pledged assets are included in notes 21 and 26 to the financial statements.

34. Commitments and Contingencies

(a) Operating lease commitments – Group as lessee

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

At the end of the Reporting Period, the Group had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	31 December	
	2010	2009
	US$'000	US$'000
Within 1 year	**495**	642
After 1 year but not more than 5 years	**858**	1,304
More than 5 years	**225**	418
	1,578	2,364

(b) Operating lease commitments – Group as lessor

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

At the end of the Reporting Period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	31 December	
	2010	2009
	US$'000	US$'000
Within 1 year	**399**	381
After 1 year but not more than 5 years	**325**	798
More than 5 years	**–**	550
	724	1,729

34. Commitments and Contingencies *(continued)*

(c) Capital commitments

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

Group

	31 December	
	2010	2009
	US$'000	US$'000
Contracted, but not provided for:		
Acquisition of property, plant and machinery	**10,997**	8,981
	10,997	8,981
Authorised, but not contracted for:		
Acquisition of property, plant and machinery	**52,872**	33,181
Acquisition of other intangible assets	**811**	–
Acquisition of land use rights	**504**	489
	54,187	33,670
	65,184	42,651

Pursuant to a resolution passed by the board of directors on 23 March 2011, the Company plans to invest US$1,020,000 in the form of cash to establish a subsidiary in India. The Company will have 51% equity interests in the new subsidiary when established. The new subsidiary will be engaged in the trading of lighting products.

(d) Contingent liabilities

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

35. Related Party Transactions

(a) Major related parties with which the Group had transactions during the year and the prior year are listed below:

Associate
Leici

Entities controlled by Mr. Wu Jiannong, a director of the Company
Signkey
Zhejiang Tonking Technology Co., Ltd.
Jiangshan Youhe Machinery Co., Ltd.
Jiangshan World Bright Crystal Co., Ltd.
Hangzhou Tongren Software Co., Ltd
Quzhou Aushite Illumination Co., Ltd.

An entity jointly controlled by Mr. Wu Jiannong, a director of the Company
Jiangshan Liming Transportation Co., Ltd.

Entities over which a close family member of Mr. Wu Changjiang, a director of the Company, has significant influence
Zhongshan Sheng Di Ai Si Lighting Co., Ltd.
Huizhou Enlin Electronics Co., Ltd.
Chongqing Enlin Electronics Co., Ltd.
Shandong NVC Lighting Development Co., Ltd.
Huizhou Changjiang Luminaire Manufacturing Co., Ltd.
Zhongshan Qitian Lighting Co., Ltd.
Huizhou Huanyu Lighting Technology Co., Ltd.
Huizhou NVC Lighting Environment Engineering Co., Ltd.
Chongqing En Wei Xi Industrial Development Co., Ltd.
Huizhou Huichengqu Changxin Hardware Machining Plant Co., Ltd.

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

An entity over which the Group indirectly has significant influence through its associate
Chongqing Chidian Technology Co., Ltd.

35. Related Party Transactions *(continued)*

(b) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

		Year ended 31 December	
	Notes	**2010** **US$'000**	2009 US$'000
Entities controlled by Mr. Wu Jiannong, a director of the Company:			
Sales of finished goods and materials	*(i)*	**–**	776
Sales of machinery		**–**	305
Purchases of raw materials and finished goods	*(ii)*	**10,822**	10,027
Purchases of machinery	*(iii)*	**1,019**	1,314
Consultation fee	*(iv)*	**314**	889
Maintenance fee	*(iv)*	**356**	–
Rental income	*(iv)*	**35**	56
An entity jointly controlled by Mr. Wu Jiannong:			
Transportation expense	*(iv)*	**1,267**	907
Entities over which a close family member of Mr. Wu Changjiang, a director of the Company has significant influence:			
Sales of finished goods and materials	*(i)*	**–**	94
Purchases of raw materials and finished goods	*(ii)*	**6,754**	9,325
Trademark licence fee income	*(v)*	**3,179**	2,249
Distribution commission income	*(vi)*	**4,210**	2,406
Rental income	*(iv)*	**118**	401
Sales of water and electricity	*(vii)*	**56**	–
An entity owned by a key management personnel of the Group:			
Sales of finished goods and materials	*(i)*	**–**	467
Purchases of raw materials and finished goods	*(ii)*	**–**	3,602
Purchases of machinery	*(iii)*	**–**	1,312
An entity over which the Company indirectly has significant influence through its associate:			
Purchases of raw materials and finished goods	*(ii)*	**8,660**	3,409
Rental income	*(iv)*	**19**	21

35. Related Party Transactions *(continued)*

(b) *(continued)*

Notes:

(i) The sales to related parties were made at prices mutually agreed by both parties.

(ii) The purchases from related parties were made at prices mutually agreed by both parties.

(iii) The purchases of machinery were made at prices mutually agreed by both parties.

(iv) Transportation expense, consultation fee, rental income and maintenance fee were made at prices mutually agreed by both parties.

(v) Licence fee income arose from licensing the "NVC" brand to related parties, charged at 3% of the related parties' annual sales. The royalty rate was mutually agreed by both parties.

(vi) Distribution commission income arose from the usage of the Group's distribution network by related parties, charged at a rate 7% of the related parties' annual sales. The charge rate was mutually agreed by both parties.

(vii) Sales of water and electricity were made according to the published prices.

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

(c) Outstanding balances with related parties:

The detailed terms regarding the outstanding balances with related parties as at 31 December 2010 and 2009 are set out in notes 21, 22, 24 and 25 to the financial statements.

(d) Compensation of key management personnel of the Group:

	Year ended 31 December	
	2010	2009
	US$'000	US$'000
Short-term employee benefits	**2,277**	1,359
Equity-settled share option expenses	**535**	55
	2,812	1,414

Except for the Group's transactions with its associate, all the related party transactions listed above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

36. Financial Instruments by Category

The carrying amounts of each category of financial instruments as at the end of the Reporting Period are as follows:

Group

Financial assets

	31 December 2010		31 December 2009	
	Loans and receivables US$'000	**Total US$'000**	Loans and receivables US$'000	Total US$'000
Trade and other receivables	**119,503**	**119,503**	85,795	85,795
Short-term deposits	**60,648**	**60,648**	3,258	3,258
Cash and cash equivalents	**182,766**	**182,766**	44,034	44,034
Total	**362,917**	**362,917**	133,087	133,087

Financial liabilities

	31 December 2010		31 December 2009	
	Financial liabilities at amortised cost US$'000	**Total US$'000**	Financial liabilities at amortised cost US$'000	Total US$'000
Trade and bills payables	**51,297**	**51,297**	54,769	54,769
Financial liabilities included in other payables	**38,242**	**38,242**	34,913	34,913
Convertible redeemable preference shares	**–**	**–**	57,932	57,932
Interest-bearing loans	**–**	**–**	6,386	6,386
Total	**89,539**	**89,539**	154,000	154,000

36. Financial Instruments by Category *(continued)*

Company

Financial assets

	31 December 2010		31 December 2009	
	Loans and receivables US$'000	**Total US$'000**	Loans and receivables US$'000	Total US$'000
Due from subsidiaries	**35,521**	**35,521**	17,495	17,495
Other receivables	**596**	**596**	–	–
Short-term deposits	**59,235**	**59,235**	–	–
Cash and cash equivalents	**84,765**	**84,765**	5,578	5,578
Total	**180,117**	**180,117**	23,073	23,073

Financial liabilities

	31 December 2010		31 December 2009	
	Financial liabilities at amortised cost US$'000	**Total US$'000**	Financial liabilities at amortised cost US$'000	Total US$'000
Due to subsidiaries	**6,790**	**6,790**	1,080	1,080
Financial liabilities included in other payables	**3,056**	**3,056**	13,140	13,140
Convertible redeemable preference share	**–**	**–**	57,932	57,932
Total	**9,846**	**9,846**	72,152	72,152

As at 31 December 2010 and 2009, the fair values of cash and cash equivalents, short-term deposits, trade and other receivables, trade and bills payables, financial liabilities included in other payables, interest-bearing loans, amounts due from/to subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments.

As at 31 December 2009, the carrying amount of the liability portion of the convertible redeemable preference shares was calculated at amortised cost using effective interest rate method.

37. Financial Risk Management Objectives and Policies

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

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

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

(a) Credit risk

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

In 2008 and 2009, the Group entered into a number of insurance contracts with China Export & Credit Insurance Corporation whereby 85% and 90% of the uncollectible amount derived from the domestic sales and overseas sales, respectively, during each period from 1 November 2008 to 31 October 2009 and from 1 November 2009 to 31 October 2010 would be compensated, provided that the aggregate compensation amount for each period mentioned above was not greater than RMB25,200,000 (equivalent to US$3,711,000) for domestic sales and US$10,000,000 for overseas sales.

On 1 November 2010, the Group renewed the insurance contracts with China Export & Credit Insurance Corporation for one year whereby 90% of the uncollectible amount derived from the overseas sales, during the period from 1 November 2010 to 31 October 2011 would be compensated, provided that the aggregate compensation amount for the period mentioned above is not greater than US$15,000,000 for overseas sales. As at the approval date of the financial statements, the above mentioned credit insurance contracts for domestic sales were in the progress of renewal.

Cash and short-term deposits are mainly deposited with registered banks in Mainland China except that at 31 December 2010, the IPO proceeds were held with The Hongkong and Shanghai Banking Corporation Limited before being subsequently transferred to various banks registered in Mainland China. The Group has policies that limit its credit exposure to any financial institutions. The carrying amounts of trade and other receivables, cash and short-term deposits included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

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31 December 2010

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

(b) Commodity price risk

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

(c) Foreign currency risk

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

In addition, bank balances totalling US$39,320,000 held by the Company as at 31 December 2010 were denominated in RMB.

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

31 December 2010

	Increase/ (decrease) in foreign currency exchange rate %	**Increase/ (decrease) in profit before tax US$'000**
If RMB weakens against US$	**5%**	**(1,948)**
If RMB strengthens against US$	**(5%)**	**1,948**

31 December 2009

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

Bank balances totalling US$104,578,000 held by the Company as at 31 December 2010 were denominated in HK$. As HK$ is pegged to US$, the directors consider that these bank balances are not subject to foreign currency risk.

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

(d) Liquidity risk

The Group monitors its risk to a shortage of funds by considering the maturity of its financial instruments, financial assets and liabilities and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing borrowings. As at 31 December 2010, the Group had no interest-bearing loans. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group does not have any significant liquidity risk.

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

31 December 2010

	Within one year or on demand US$'000	Total US$'000
Trade and bills payables	51,297	51,297
Financial liabilities included in other payables	38,242	38,242
Total	89,539	89,539

31 December 2009

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

38. Capital Management

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

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

The gearing ratio as at the end of the Reporting Period was as follows:

	31 December 2010 US$'000	31 December 2009 US$'000
Interest-bearing loans	**–**	6,386
Convertible redeemable preference shares	**–**	57,932
Total debt	**–**	64,318
Less: Cash and short-term deposits	**(243,414)**	(47,292)
Net debt	**(243,414)**	17,026
Total equity attributable to owners of the Company	**492,261**	164,192
Gearing ratio	**–**	10.4%

39. Events after the Reporting Period

Except for those which have been disclosed elsewhere in the financial statements, the Group did not have any other significant event after the Reporting Period.

40. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 23 March 2011.

Definitions

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

"Champion Alliance"	the first pan-home industry alliance in China which consists of the six largest brands in the domestic home products industry, namely, Optima Kitchen, Dongpeng Ceramic, Nature Flooring, NVC Lighting, Red Apple Furniture and Midea Central Air Conditioning, for the purpose of promoting the cross-industries upgrading of the home industry and providing consumers with the most trusted all-in-one home solutions.
"Chang Xin Hardware"	惠州市惠城區長鑫五金加工廠 (Huizhoushi Huichengqu Chang Xin Hardware Machining Plant *), an individual industrial and commercial household entity owned and operated by Ms. Yin Yan, Mr. Wu Changjiang's cousin.
"China" or "PRC"	the People's Republic of China, but for the purpose of this report and for geographical reference only and except where the context requires, references in this report to "China" and the "PRC" do not apply to Taiwan, the Macau Special Administrative Region and the Hong Kong Special Administrative Region.
"Chongqing Enlin"	重慶恩林電器有限公司 (Chongqing Enlin Electronics Co.,Ltd.*), a limited liability company incorporated in the PRC and is owned as to 99% by 惠州恩林電器有限公司 (Huizhou Enlin Electronics Co., Ltd.*) in which Ms. Chen Min, Mr. Wu Changjiang's mother in law holds a 36.2% equity interest.
"Chongqing En Wei Xi"	重慶恩緯西實業發展有限公司 (Chongqing En Wei Xi Industrial Development Co., Ltd. *), a limited liability company incorporated in the PRC and is owned as to 49.67% by Mr. Wu Xianming,Mr. Wu Changjiang's father-in-law.
"Chongqing NVC"	Chongqing NVC Lighting Co., Ltd.* (重慶雷士照明有限公司), a wholly foreign-owned enterprise with limited liability incorporated in the PRC on 1 December 2006 and our direct wholly-owned subsidiary.
"Code"	the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.
"Company" or "our Company"	NVC Lighting Holding Limited (雷士照明控股有限公司), a company incorporated in the BVI on 2 March 2006 and subsequently redomiciled to the Cayman Islands on 30 March 2010 as an exempted company with limited liability under the laws of the Cayman Islands.

Definitions

"Director (s)"	the director (s) of the Company.
"Group"	our Company and its subsidiaries.
"Hangzhou Tongren"	杭州同人軟件有限公司 (Hangzhou Tongren Software Co., Ltd.*), a limited liability company incorporated in the PRC and is owned as to 51% by 浙江同景投資有限公司 (Zhejiang Tonking Investment Co., Ltd.*).
"Huizhou NVC"	NVC Lighting Technology Co., Ltd.* (惠州雷士光電科技有限公司), a wholly foreign-owned enterprise with limited liability incorporated in the PRC on 29 April 2006 and our direct wholly-owned subsidiary.
"Jiangshan Liming"	江山市黎明貨運有限公司 (Jiangshan Liming Transportation Co., Ltd.*), a limited liability company incorporated in the PRC and is owned as to 50% by 浙江同景投資有限公司 (Zhejiang Tonking Investment Co., Ltd.*).
"Jiangshan Phoebus"	Jiangshan Phoebus Lighting Electron Co., Ltd.* (江山菲普斯照明有限公司), a limited liability company incorporated in the PRC on 8 March 2006 and our indirect wholly-owned subsidiary.
"Jiangshan Youhe"	江山市友和機械有限公司 (Jiangshan Youhe Machinery Co., Ltd.*), a limited liability company incorporated in the PRC and is owned as to 80% by 衢州奧仕特照明有限公司 (Quzhou Aushite illumination Co., Ltd*), 39% equity interest of which is owned by Mr. Wu Jiannong and 51% equity interest of which is owned by 浙江同景投資有限公司 (Zhejiang Tonking Investment Co., Ltd.*) in which Mr. Wu Jiannong holds an 86% equity interest.
"Listing Date"	20 May 2010
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange.
"Mianyang Leici"	Mianyang Leici Electronic Technology Co., Ltd.* (綿陽雷磁電子科技有限公司), a limited liability company incorporated in the PRC, 35% of its equity interest being held by Huizhou NVC and its remaining equity interest being held by China Electronics Technology Group Corporation No. 9 Academy (中國電子科技集團第九研究所*) (as to 36%), Wen Jiatao (文家濤) (as to 15%) and Zhao Qiyi (趙七一) (as to 14%).
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

Definitions

"ODM"	original design manufacturing, a type of manufacturing under which the manufacturer is responsible for the design and production of the products and the products are marketed and sold under the customer's brand name.
"OEM"	original equipment manufacturing whereby products are manufactured in accordance with the customer design and specification and are marketed under the customer's brand name.
"Professional Engineering Customers"	Professional engineering customers mainly represent professional engineering projects in connection with railways, highways, airports, subways, tunnels, bridges, municipal lighting, energy-efficiency remodification and reconstruction and construction of urban infrastructures.
"Quzhou Aushite"	衢州奧仕特照明有限公司 (Quzhou Aushite Illumination Co., Ltd.*), a limited liability company incorporated in the PRC, 39% equity interest of which is owned by Mr. Wu Jiannong and 51% equity interest of which is owned by 浙江同景投資有限公司 (Zhejiang Tonking Investment Co., Ltd.*).
"Reporting Period"	the year ended 31 December 2010.
"Shanghai Arcata"	Shanghai Arcata Electronics Co., Ltd.* (上海阿卡得電子有限公司), a limited liability company incorporated in the PRC on 22 September 2005 and our indirect wholly-owned subsidiary.
"Shandong NVC"	山東雷士照明發展有限公司 (Shandong NVC Lighting Development Co., Ltd.*), a limited liability company incorporated in the PRC and is owned as to 48% by Ms. Chen Min,Mr Wu Changjiang's mother in law.
"Sheng Di Ai Si"	中山市聖地愛司照明有限責任公司 (Zhongshan Sheng Di Ai Si Lighting Co., Ltd.*), a limited liability company incorporated in the PRC and is owned as to 40.93% by Ms. Chen Min, Mr. Wu Changjiang's mother in law.
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).
"Signkey"	世紀集團有限公司 (Signkey Group Limited), a limited liability company incorporated in the BVI, 85% equity interest of which is owned by Mr. Wu Jiannong.
"Stock Exchange"	The Stock Exchange of Hong Kong Limited.

Definitions

"Sunny"	Zhejiang Jiangshan Sunny Electron Co., Ltd.* (浙江江山三友電子有限公司), a limited liability company incorporated in the PRC on 2 July 1994 and our indirect wholly-owned subsidiary.
"UK NVC"	NVC (Manufacturing) Limited, a private company incorporated in England and Wales on 31 May 2007, 80% of its equity interest held by the Company and its remaining issued share capital being held by two independent third parties, namely, Mr. Henry Hangmin Sun (as to 10%) and Mr. Steven Mark Jacobs (as to 10%).
"US$" or "US Dollar"	United States dollars, the lawful currency of the United States.
"we", "us" or "our"	our Company or our Group (as the context may require).
"World Bright"	江山世明水晶玻璃有限公司 (Jiangshan World Bright Crystal Co., Ltd. *), a limited liability company incorporated in the PRC, 30% equity interest of which is owned by Signkey and 70% equity interest of which is owned by Quzhou Aushite.
"World Through"	World Through Investments Limited (世通投資有限公司), a limited liability company incorporated in the BVI on 5 August 2005 and our wholly-owned subsidiary.
"Zhangpu Phoebus"	Zhangpu Phoebus Lighting Co., Ltd.* (漳浦菲普斯照明有限公司), a limited liability company incorporated in the PRC on 9 May 2004 and our indirect wholly-owned subsidiary.
"Zhejiang NVC"	Zhejiang NVC Lamps Co., Ltd.* (浙江雷士燈具有限公司), a limited liability company incorporated in the PRC on 28 September 2007, a 51% equity interest of which is held by Huizhou NVC and the remaining 49% equity interest of which is held by Zhejiang Tonking Investment Co., Ltd.

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

雷士照明控股有限公司
NVC LIGHTING HOLDING LIMITED
www.nvc-lighting.com.cn