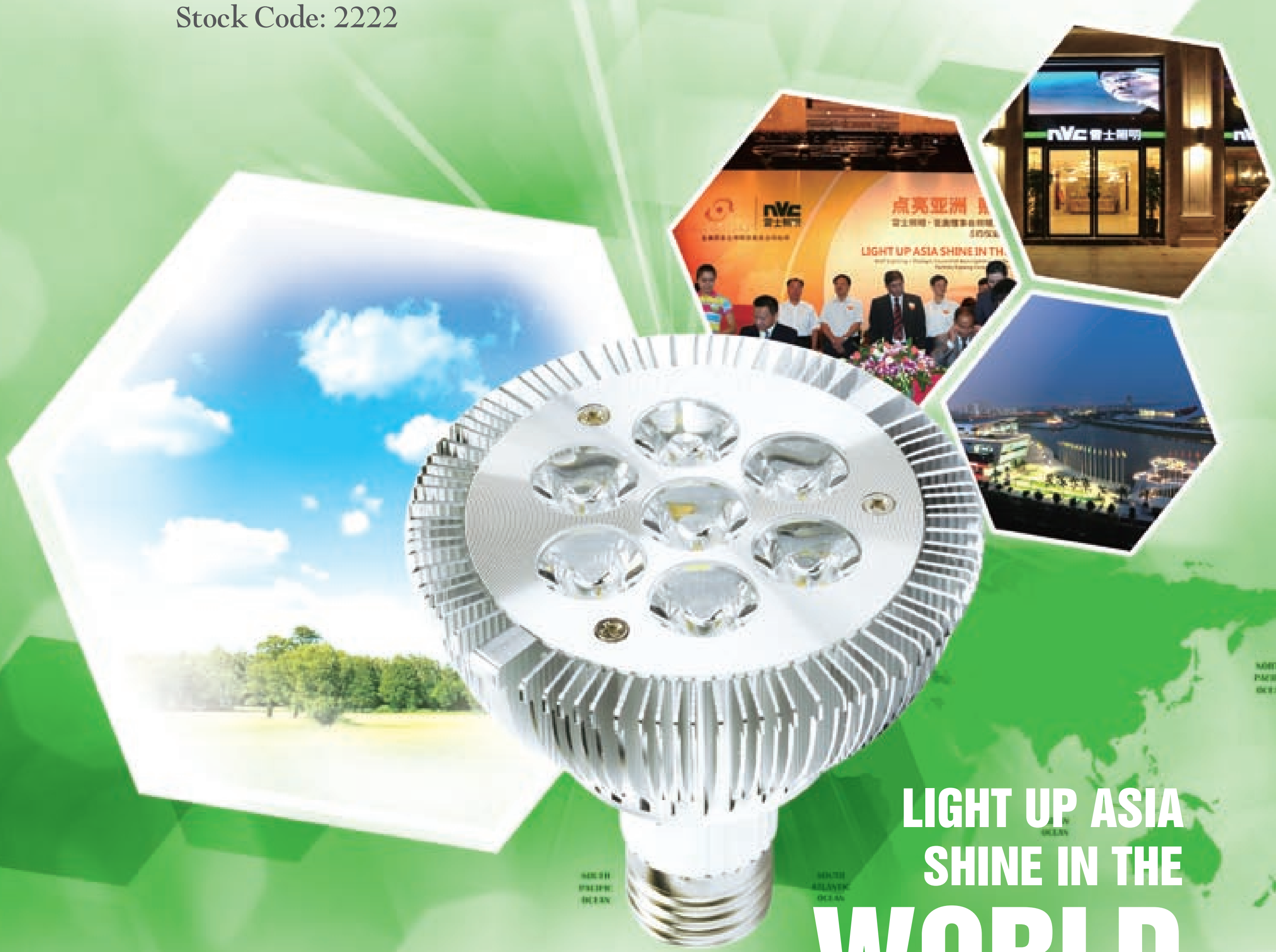
雷士照明

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



LIGHT UP ASIA
SHINE IN THE
WORLD

2011 Annual Report

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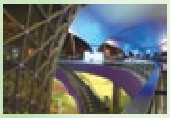
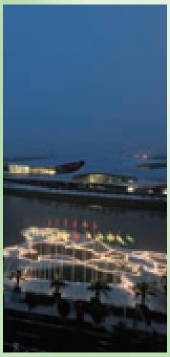
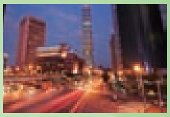






Corporate Information

Executive Directors	WU Changjiang MU Yu
Non-executive Directors	YAN Andrew Y LIN Ho-Ping HUI Ming Yunn, Stephanie ZHU Hai
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, KY1-1111 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: ir@nvc-lighting.com

Corporate Information

Principal Share Registrar and Transfer Office	Butterfield Fulcrum Group (Cayman) Limited Butterfield House, 68 Fort Street P.O. Box 609, Grand Cayman, KY1-1107 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	PR ASIA Consultants Limited

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 2,968 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 40 countries and regions around the world.

We have maintained a rapid growth since the 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 business, construction 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 are 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 and the cooperative partner of the Olympic Council of Asia ("OCA") regarding lighting and services.

"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

	2011	2010	2009	2008	2007
	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue	**589,339**	471,725	305,770	256,415	130,068
Gross profit	**151,047**	137,253	84,030	62,908	30,896
Gross profit margin *(Note 1)*	**25.6%**	29.1%	27.5%	24.5%	23.8%
Profit before tax	**98,645**	82,316	20,110	20,171	12,822
Profit margin before tax *(Note 1)*	**16.7%**	17.4%	6.6%	7.9%	9.9%
Profit for the year *(Note 2)*	**90,568**	73,894	14,690	18,068	12,876
Net profit margin *(Note 1)*	**15.4%**	15.7%	4.8%	7.0%	9.9%
Profit for the year attributable to:					
Owners of the Company	**86,503**	71,338	12,843	17,949	12,850
Non-controlling interests	**4,065**	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

	2011	2010	2009	2008	2007
	US$'000	US$'000	US$'000	US$'000	US$'000
Non-current assets	**237,968**	186,796	168,368	150,790	66,463
Current assets	**491,365**	440,002	187,346	147,907	55,485
Current liabilities	**106,449**	99,177	105,934	108,100	36,649
Net current assets	**384,916**	340,825	81,412	39,807	18,836
Total assets less current liabilities	**622,884**	527,621	249,780	190,597	85,299
Non-current liabilities	**35,218**	31,358	82,062	85,264	32,703
Total equity	**587,666**	496,263	167,718	105,333	52,596
Including:					
Equity attributable to owners of the Company	**579,225**	492,261	164,192	103,654	51,018
Non-controlling interests	**8,441**	4,002	3,526	1,679	1,578
Current ratio *(Note 1)*	**4.62**	4.44	1.77	1.37	1.51

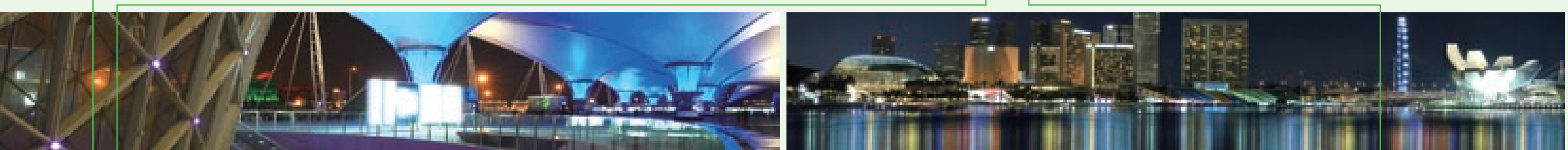
Note 1: Current ratio equals to current assets divided by current liabilities.

Major Events in 2011

Awarded the "4th China Management School Award" sponsored by Peking University (PKU) Business Review in January.

Presented three awards including "Top Brand Partner of China's Real Estate Industry", "Special Award for Prompting the Development of Green and Energy-Saving Industries" and "the Outstanding Person Contributing to the Lighting Environment Sector in China" by ihome, a real estate magazine in January.

Awarded the "6th Outstanding China Enterprise Award" by Hong Kong Capital Magazine in June.



January | February | March | April | May | June

Organised the "2011 Debut Release of LED New Products" and launched six series of new LED products in March.

Being the top preferred lighting brand selected by the top 500 real estate developers in China for two consecutive years, the market share of the Company surpassed many famous domestic and foreign brands in March.

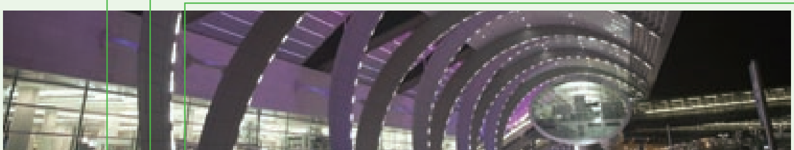
Entered into strategic cooperation with Cree Shanghai Opto Development Ltd., a leading international LED chip company, and fully prompted the development and reformation of the semiconductor lighting industry in March.

Major Events in 2011

Signed an agreement with the Olympic Council of Asia ("OCA") with the term of four years and became "the Cooperative Partner of the OCA regarding Lighting and Services". Meanwhile, the Company also entered into an agreement to become "the Exclusive Supplier of Lighting Products and Services for the 6th East Asian Games in Tianjin in 2013" in July.

Introduced Schneider Electric Asia Pacific Limited as a strategic shareholder and commenced extensive market cooperation in July.

Won a bid to supply 7,300,000 government subsidized high-efficient lighting products in July.



July | **August** | **September** | **October** | **November** | **December**

Initiated and organised "2011 Bright Future Summer Volunteer Education Assistance in Eight Provinces of China and Donation of Energy-saving Lighting Products" in August.


第四届中国商标节
The 4th China Trademark Festival

雷士照明 荣获 "2011消费者最喜爱的绿色商标" 称号。

特此证明。

Awarded "2011 Consumers' Favourite Green Trademark" in September.

NVC Testing Center was licensed and certified by SGS-CSTC Standards Technical Services Co., Ltd., the internationally leading inspection, verification, testing and certification organisation in December.

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 2011 annual report of the Company and its subsidiaries (collectively referred to as the "Group").

2011 was an unusual year for the Group. In the opening year of the 12th Five-Year Plan Period, the Government put more efforts in promoting the use of green lighting projects and promised to implement effective measures, such as granting of subsidies, to encourage the use of energy-efficient lighting products by business and household. The Group has achieved remarkable results in terms of establishment of sales outlets, management of professional engineering projects and expansion of research and development capabilities through accurately predicting national policies, and exploring and grasping opportunities arising in the industry. During the reporting year, we also initiated our strategy of launching sport-related marketing campaigns through which our NVC brand increased its influence in the Asia and reached out to the world.

Sustained growth in operating results

The lighting industry has become more matured after a process of eliminating underperforming players and horizontal integration in 2011. As proactive measures were taken to fence off the consequences of the unstable economic environment at home and abroad, the Group delivered satisfactory results for the Reporting Period. Our revenue increased by 24.9% to US$589,339,000 and gross profit increased by 10.1% to US$151,047,000. Profit for the year attributable to owners of the Company increased by 21.3% to US$86,503,000. Basic earnings per share increased by 3.0% to 2.77 US cents. To reward our shareholders' long-term support for the Group, the Board has proposed a final dividend of 3.5 HK cents per share.

Benefiting from national policies, the industry has an optimistic prospect

Along with the rapid development of the global energy-efficient lighting industry, the Chinese government has also attached great importance to the innovation of lighting technologies and the upgrading of the industry by promulgating a series of favourable policies. In July 2011, the Ministry of Science and Technology promulgated the "12th Five-Year Plan for the Development of Science and Technology", specifying the key areas of support for strategic emerging industries in the next five years. The goal is that the LED lighting shall account for more than 30% market share of the general lighting market in China with total output value of RMB500 billion and to rank among the world's top three by 2015. In November 2011, the National Development and Reform Commission published the "Plan for Phasing out Incandescent Lamps", thereby providing for the gradual restriction on sales and imports of incandescent light bulbs for general lighting purpose. This will definitely bring enormous business opportunities for top players like NVC which focus on the manufacturing of energy-efficient lighting products. In addition, the LED lighting subsidy program of China will soon be implemented. The combined impetus from various policies will herald a bright future for the LED industry.

Expansion of the sales network at home and abroad simultaneously

For the domestic market, as the largest supplier of lighting products in China, the Company expanded its sales network continuously through cooperation with 36 exclusive regional distributors. During the Reporting Period, our sales outlets increased by 158 to 2,968 and the average area of unit outlet was 150m^2, representing a growth of 25.1%. As at the end of 2011, NVC has sales outlets in 2,014 cities across the country, with its sales network covering nearly all capital and municipal cities. Currently, we are aggressively developing the markets in small and medium cities and rural areas. In 2011, the Group was awarded the energy conservation promotion project named "China's Phasing-out of Incadescent Lamps & Energy-Saving Lamps Promotion (PILESLAMP)", which brought us an opportunity to provide 300 stores in 70 counties with energy-saving lamps. To cope with the long-term trend of promoting the development of professional engineering projects initiated by macro policies, we developed 19 professional engineering customers in 2011, which became an important growth point in sales of the Group. In 2012, we will focus on exploiting the potential of second and third-tier cities and the rural market in order to develop a deeper and wider sales network. The plan for 2012 is an addition of 400 new outlets.

For the international market, the Group adopted a development strategy which mainly focused on promoting the sales of NVC brand products supplemented by providing services for famous enterprises on an ODM/OEM basis, to expand its market share in the overseas market. Leveraging on the experience we gained in the sales of NVC brand products in the UK, we constantly looked for opportunities to cooperate with world-famous distributors. We also exported experienced executives to develop new markets in certain emerging countries such as Saudi Arabia, Brazil and New Zealand. In July 2011, we introduced Schneider Electric Asia Pacific Limited, a specialist in global energy management, as our strategic shareholder, with an aim to leverage on the competitive edge of its international brand to help us explore overseas markets. Currently, the Group is looking for suitable enterprises in these markets with core technologies and established sales channels for mergers and acquisitions, with an aim to give full play to their advantages in local resources and achieve steady progress in developing overseas business. In 2012, the Group will exert every effort to explore emerging markets in emerging countries and regions, for which the Group will send experienced management personnel to different regions with a view to independently exploiting local markets and capturing bigger market share through promoting the sales of energy-saving products with high growth potential such as LED products and fluorescent lamps.

Launching sports-related marketing campaigns to enhance brand influence

In recent years, NVC brand products have gained excellent reputation through major sports events such as the 2008 Beijing Olympic Games and the 2010 Guangzhou Asian Games. With its strong overall strength, we became a partner of the OCA in 2011. This marked another milestone of the Group's sports-related marketing campaigns and an important step of building NVC into a world brand.

In March 2012, the Group held a signing ceremony entitled "Official Partner of the Sports Federation and Olympic Committee of Hong Kong, Macau and Chinese Taipei", and has become the exclusive supplier right to provide lighting products and services for the East Asian Games 2013 to be held in Tianjin. By leveraging on sports-related marketing activities in both domestic and international arenas, the Group's operating results and international brand awareness of NVC products will be enhanced.

Chairman's Statement

In addition to strengthening external promotion, we also keep on improving its overall quality aiming to lay a solid foundation for the Group's future development. During the Reporting Period, the laboratories of Huizhou research and development centre and Shanghai research and development centre were licensed by SGS-CSTC Standards Technical Services Co., Ltd. and obtained the certificate issued by Deutscher Kraftfahrzeug Uberwachungsverein (DEKRA), respectively, being the first company in the lighting industry in China to be granted such certifications. This helps us pave the way for developing overseas markets and increase the brand recognition.

Strengthening research and development capacities

As at the date of this annual report, the Group has been granted more than 240 patents, and 50 patents are in the application process. The Group's research and development system is being increasingly perfected and its research and development level is being steadily enhanced. Leveraging on its strong research and development capacity and the advantage of abundant capital, the Group will continue to introduce new energy-efficient lighting technologies and products, and aims to make new breakthroughs in LED packaging technology, indoor and outdoor lighting products as well as industrial lighting products.

Adhering to the corporate philosophy of "Becoming a World Famous Brand and the Best Player in the Industry", we are committed to manufacturing energy-saving and low-carbon products and endeavour to create a "green" life for its 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 their 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 2012.

Wu Changjiang
Chairman

Hong Kong, 26 March 2012

Overall Business Review

During the Reporting Period, the Group generated revenue of US$589,339,000, representing an increase of 24.9% year on year, and recorded gross profit of US$151,047,000, representing an increase of 10.1% year on year. The Group's profit before tax amounted to US$98,645,000, representing an increase of 19.8% year on year, and the profit attributable to the owners of the Company was US$86,503,000, representing an increase of 21.3% year on year.

Market Review

In 2011, the sovereign debt crisis in the U.S. and European countries has been escalating and the inflation in emerging economies continued to remain high. Under such circumstances, in the World Economy Prospect issued on 24 January 2012, the International Monetary Fund (IMF) estimated global economic growth in 2011 at 3.25%, down by 0.75% from its September 2011 forecast.

2011 is the first year of the "12th Five-Year Plan" period in China. China further implemented proactive fiscal policies and prudent monetary policies, and continually intensified and improved macro control, leading to GDP growth in 2011 of 9.2% year on year. Under the influence of the macro control, the real estate industry, which is closely related to the lighting industry, has also maintained steady growth albeit moderating year on year. In 2011, national real estate development investment increased by 27.9% as compared with the previous year, of which, investments in residential properties increased by 30.2%. As compared with the previous year, the floor area of new property projects increased by 16.2%; the floor area of property projects under development increased by 25.3%; the floor area of property projects completed increased by 13.3%; the floor area of commercial property sold increased by 4.9%; and the sales amount increased by 12.1%. (Data source: National Bureau of Statistics)

Energy saving and environmental protection (such as promotion of green and environment friendly lighting products through increased subsidies to energy saving and emission reduction, and continuous implementation of the national program of promoting "high efficiency and energy-saving lighting products"), remains to be one of the priority during the "12th Five-Year Plan" period. According to the national "12th Five-Year Plan" for science and technology, the development goal for LED is: semiconductor lighting will secure a 30%-plus share in the Mainland general lighting market in 2015, with the output value projected at RMB500 billion, bringing China into the global top three in semiconductor lighting.

Despite government policy support, 2011 turned out to be a harsh year for lighting producers. Under a combined negative impact of cost increases, real estate controls, fluctuating rare earth price, and struggling exports, the overall increase of the lighting market softened in 2011. During the year ended 2011, China's lighting electronic industry cumulatively produced 19.61 billion units of electronic lamps, up by 4.0% year on year (versus 22.6% in 2010) and 2.52 billion sets of luminaire products and lighting devices, up by 6.4% year on year (versus 24% in 2010). Lighting producers generally posted worse-than-expected sales and profit growth, indicating a severe test facing the lighting industry. (Data source: National Bureau of Statistics)

Management Discussion and Analysis

Business Review

During the Reporting Period, faced with the intensified industry competition and pressure from the rising costs of major raw materials and labour, the Group, as the largest domestic brand lighting product supplier, took advantage of industry consolidation with effective business strategies including continuously improving the sales channels of NVC brand, increasing sales outlets, furthering its sales, production and product research and development efforts, enhancing the price-to-performance ratio of its products, continuing to strengthen its close cooperation relationship with domestic exclusive regional distributors and proactively expanding the overseas markets, and delivered outstanding results with steady growth.

Sales and distribution

In terms of NVC brand sales in the PRC market during the Reporting Period, the Group retained 36 exclusive regional distributors and aggressively expanded its sales network with a net increase of 158 outlets. As at 31 December 2011, the Group had a total of 2,968 outlets, covering 2,014 cities (31 provincial capitals with a 100% coverage rate; 278 municipal cities with a 97.54% coverage rate; 1,217 counties or county-level cities with a 61.40% coverage rate; 488 towns and townships with a 1.43% coverage rate). The Group has enlarged the shopping area of the NVC outlets and increased sales per unit, and unified and upgraded their exterior appearance. The Group also continued to develop new products, improve the price-to-performance ratio of its products and diversify the product portfolio. During the Reporting Period, focusing on professional engineering as an important sales driver, the Group developed 19 Professional Engineering Customers, including some with sales exceeding RMB10 million. In alignment with the market trend, the Group also positively expanded chain store customers than can bring repeat sales. During the Reporting Period, the Group generated sales of US$56,548,000 from Professional Engineering Customers and sales of US$62,717,000 from chain store customers that can bring repeat sales, showing a marked growth year on year. The Group has established "Lighting Environment Experience Halls" in cities including Huizhou, Beijing, Shanghai and Nanjing to demonstrate in a physical format the concept of the NVC "Lighting Environment". Furthermore, in the bidding for the 2011 government subsidised energy-saving lighting products, the Group won the bid for the second time to supply about 7.3 million units of energy-saving lighting products.

In terms of the non-NVC brand sales in the PRC market, the Group mainly provides energy-saving lamp tubes and accessories to energy-saving lamp manufacturers. The Group saw a mild increase in sales in non-NVC brand products as a result of the support from the government to high efficiency lighting products and enhanced national awareness of energy saving.

In terms of the international market, the Group adopted a development strategy which mainly focused on promoting the sales of NVC brand products supplemented by the production of famous brand products on an ODM/OEM basis. During the Reporting Period, the Group continued to promote the sales of NVC brand products through the mainstream outlets in the UK, and gained more share in overseas markets by increasing well-known overseas distributors. In addition, in newly-developed countries such as Saudi Arabia, Brazil and New Zealand, the Group also developed the market on its own by exporting its own experienced executives and achieved satisfactory results.

Production Capacity

The Group currently has five production bases, comprising Huizhou City in Guangdong Province, Wanzhou District in Chongqing, two in Jiangshan City in Zhejiang Province, and Qingpu District in Shanghai. During the Reporting Period, the Group newly invested in six production lines for energy-saving lights, two production lines for energy-saving lamp tubes and one production line for 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, Guangdong	Wanzhou, Chongqing	Jiangshan, Zhejiang[1]	Jiangshan, Zhejiang[2]	Qingpu, Shanghai
Date of commencement of production	November 1998	December 2006	September 1994	September 2007	March 2006
Design capacity (units) as at 31 December 2011	75,000,000	68,000,000	259,884,000	101,400,000	9,900,000
Actual production (units) as at 31 December 2011	72,986,508	65,761,685	184,432,138	93,942,148	9,710,539
Average utilisation rate as at 31 December 2011	97.3%	96.7%	71.0%	92.6%	98.1%
Standardised hours of operation	8 hours	8 hours	12 hours	8 hours	8 hours

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

Management Discussion and Analysis

During the Reporting Period, the Group invested a total of US$9,502,000 in research and development, representing 1.6% of the Group's total revenue. In 2011, the Group increased research and development investment and set up a High-level research and development team to help develop a total of a hundred products, including various LED, luminaire and lighting electronic products. During the Reporting Period, the laboratory of the Shanghai research and development centre of the Group obtained the certificate issued by Deutscher Kraftfahrzeug Uberwachungsverein (DEKRA) and two of its products passed the certification. In addition, the Group also obtained one scientific research project listed in the 'National Technology Support Programme' funded by the Ministry of Science and Technology, and filed 79 new patent applications, 43 of which have been actually approved and granted.

As at 31 December 2011, the Group had a workforce of 373 in research and development, of which 113 were based in our Huizhou Research and Development Centre, 56 based in Shanghai Research and Development Centre, and the others based in other production bases.

Quality control

During the Reporting Period, the the laboratory of Huizhou research and development centre was licensed by SGS-CSTC Standards Technical Services Co., Ltd., the world leading inspection, verification, testing and certification company. It is China's first SGS-CSTC-certified corporate lighting laboratory.

As at 31 December 2011, we had a workforce of about 593 in quality control.

Brand promotion

During the Reporting Period, the Group continued to strengthen its brand recognition as a leader in the lighting industry, improved corporate brand management systems, and promoted the NVC brand through a combination of advertising, media coverage, community public service and participation in famous competitions at home and abroad. As a result, the popularity and influence of the NVC lighting brand were solidified and enhanced in the minds of both ordinary and professional consumers.

During the Reporting Period, the Group maintained its NVC brand awareness by launching a series of brand promotion and media activities. For instance, in January, we participated in the "China Management School Award" Competition sponsored by PKU Business Review, and the NVC channel model won the most important "China Management School Award"; in March, we organised the launch of LED new products and signed with Cree Shanghai Opto Development Ltd. to publicise NVC's strategy in the LED area, and participated in the "2011 Evaluation by China's Top 500 Real Estate Developers", in which, the NVC brand came out again as the top preferred lighting brand, selected by 25% of the top 500 real estate developers; in July, we introduced Schneider Electric Asia Pacific Limited as a strategic shareholder to leverage its popularity overseas to develop overseas markets and expand distribution networks; we organised large-scale publicity activities like the signing with the OCA and the inauguration of China's energy-saving demonstration bases; in August, we organised "Bright Future Summer Volunteer Education Assistance in Eight Provinces of China", by which, we put corporate social responsibility into practice and established our sound public image. Meanwhile, the NVC lighting brand also received widespread recognition, such as the "6th Outstanding China Enterprise Award" issued by Hong Kong Capital magazine in the capital market, and the "2011 Consumers' Favourite Green Trademark" in the mass market.

Financial Review

Revenue

Revenue represents the invoiced value of goods sold, after allowance for returns and trade discounts. During the Reporting Period, the Group recorded revenue of US$589,339,000, representing an increase of 24.9% year on year. In particular, revenue of NVC brand products in the PRC market increased by 25.0% year on year, primarily attributable to our continuous improvement and perfection of our distribution channels with a net increase of 158 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 chain store customers that can bring repeat sales, which together contributed an aggregate of US$119,265,000 in revenue. Revenue of NVC brand products in the international market amounted to US$39,231,000, representing an increase of 42.1% year on year, which was mainly attributable to steady expansion of overseas markets and promotion of LED energy-saving products.

Revenue by product segment

The following table sets forth the revenue by product segment (luminaire, lamp and lighting electronic products) and the growth rate of each segment.

	Year ended 31 December		
	2011	2010	Growth rate
	US$'000	US$'000	
Luminaire products	**333,428**	258,300	29.1%
Lamp products	**196,852**	157,624	24.9%
Lighting electronic products	**59,059**	55,801	5.8%
Total	**589,339**	471,725	24.9%

During the Reporting Period, the revenue of luminaire products increased by 29.1%, which was mainly because we improved our distribution channels and increased the number of outlets, and strengthened the development of new Professional Engineering Customers and chain store customers that can bring repeat sales. The revenue of lamp products increased by 24.9%, with NVC brand lamp products increasing by 21.5% and non-NVC brand lamp products increasing by 26.7%, which mainly benefited from energy-saving and emission reduction policies and increasing demand for energy-saving lamp products in the market. The revenue of lighting electronic products increased by 5.8%, and the slowing growth was mainly ascribable to the decreasing percentage of overseas sales of lighting electronic products due to the global economic downturn.

Management Discussion and Analysis

Revenue by NVC brand and non-NVC brand

The following table sets forth the revenue of NVC brand products and non-NVC brand products and the growth rate of each item. Our non-NVC brand products primarily consist of ODM products.

	Year ended 31 December		
	2011 **US$'000**	2010 US$'000	Growth rate
NVC brand			
Luminaire products	**317,596**	246,680	28.7%
Lamp products	**66,028**	54,345	21.5%
Lighting electronic products	**31,651**	27,303	15.9%
Subtotal	**415,275**	328,328	26.5%
Non-NVC brand			
Luminaire products	**15,832**	11,620	36.2%
Lamp products	**130,824**	103,279	26.7%
Lighting electronic products	**27,408**	28,498	-3.8%
Subtotal	**174,064**	143,397	21.4%
Total	**589,339**	471,725	24.9%

Revenue by geographical location

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

	Year ended 31 December		
	2011	2010	Growth rate
	US$'000	US$'000	
Revenue from PRC			
Luminaire products	**284,052**	224,765	26.4%
Lamp products	**138,547**	118,342	17.1%
Lighting electronic products	**33,011**	29,008	13.8%
Subtotal	**455,610**	372,115	22.4%
Revenue from international			
Luminaire products	**49,376**	33,535	47.2%
Lamp products	**58,305**	39,282	48.4%
Lighting electronic products	**26,048**	26,793	-2.8%
Subtotal	**133,729**	99,610	34.3%
Total	**589,339**	471,725	24.9%

During the Reporting Period, the Group achieved high revenue growth in both PRC and international year on year, while international revenue had a higher growth rate over PRC revenue. Revenue from PRC increased by 22.4%, of which the NVC brand products' revenue increased by 25.0% and the non-NVC brand products' revenue increased by 11.5%. Revenue from international increased by 34.3%, of which the NVC brand products' revenue increased by 42.1% and the non-NVC brand products' revenue increased by 31.2%.

Management Discussion and Analysis

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 and the growth rate of each item.

	Year ended 31 December		
	2011	2010	Growth rate
	US$'000	US$'000	
Energy-saving products	**356,664**	283,964	25.6%
Non-energy-saving products	**232,675**	187,761	23.9%
Total	**589,339**	471,725	24.9%

Cost of sales

Cost of sales mainly consists of the cost of raw materials, outsourced manufacturing costs, direct and indirect labour costs and indirect costs. Major raw materials of the Group include iron, aluminium and alloys, fluorescent powder, 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. Indirect 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			
	2011		2010	
	US$'000	**Percentage in income (%)**	US$'000	Percentage in income (%)
Raw materials	**301,939**	**51.2%**	232,644	49.3%
Outsourced manufacturing costs	**66,258**	**11.2%**	44,620	9.5%
Labour costs	**45,775**	**7.8%**	36,469	7.7%
Indirect costs	**24,320**	**4.2%**	20,739	4.4%
Total cost of sales	**438,292**	**74.4%**	334,472	70.9%

During the Reporting Period, the Group's cost of sales increased by 31.0%, which primarily reflected the increase in revenue. The Group's cost of sales as a percentage of revenue increased to 74.4% for the year ended 31 December 2011 from 70.9% for the year ended 31 December 2010, resulting in a decrease in gross profit margin from 29.1% to 25.6%, mainly resulting from the rising raw materials and labour cost.

Gross profit and gross profit margin

Gross profit is calculated as revenue less cost of sales.

During the Reporting Period, gross profit was US$151,047,000, representing an increase of 10.1% year on year, primarily reflecting the increase in sales volume. 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 products):

	Year ended 31 December			
	2011		2010	
	US$'000	**(%)**	US$'000	(%)
Luminaire products	**84,467**	**25.3%**	82,319	31.9%
Lamp products	**56,919**	**28.9%**	43,603	27.7%
Lighting electronic products	**9,661**	**16.4%**	11,331	20.3%
Total	**151,047**	**25.6%**	137,253	29.1%

During the Reporting Period, gross profit from luminaire products was US$84,467,000, representing an increase of 2.6% year on year. Gross profit margin for luminaire products decreased by 6.6% to 25.3% year on year, which is mainly attributable to the significant fluctuations in prices of rare earths that influence luminaire products (with lamps inclusive) and the change in product structure on luminaire products.

During the Reporting Period, gross profit from lamp products was US$56,919,000, representing an increase of 30.5% year on year. Gross profit margin for lamp products increased by 1.2% to 28.9% year on year, mainly because price hikes of some products offset the impact of rising raw material cost.

During the Reporting Period, gross profit from lighting electronic products was US$9,661,000, representing a decrease of 14.7% year on year. Gross profit margin for lighting electronic products decreased by 3.9% to 16.4% year on year, which is mainly attributable to higher metal material and labour costs and RMB appreciation.

Management Discussion and Analysis

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

	Year ended 31 December			
	2011		2010	
	US$'000	**(%)**	US$'000	(%)
NVC brand	**112,070**	**27.0%**	108,085	32.9%
Non-NVC brand	**38,977**	**22.4%**	29,168	20.3%
Total	**151,047**	**25.6%**	137,253	29.1%

During the Reporting Period, gross profit of NVC brand products was US$112,070,000, representing an increase of 3.7% year on year, while gross profit margin decreased by 5.9% year on year, which is mainly attributable to the increase in costs. In particular, gross profit margin of luminaire products making up a large percentage of revenue declined significantly due to the increase in prices of rare earths and metal raw materials. Gross profit of non-NVC brand products was US$38,977,000, representing an increase of 33.6% year on year, and gross profit margin increased by 2.1% year on year, which is mainly attributable to price increases of some lamp products.

(iii) The table below shows the gross profit and gross profit margin by PRC and international:

	Year ended 31 December			
	2011		2010	
	US$'000	**(%)**	US$'000	(%)
Gross profit from PRC:				
Luminaire products	**72,165**	**25.4%**	74,719	33.2%
Lamp products	**45,247**	**32.7%**	35,675	30.1%
Lighting electronic products	**6,450**	**19.5%**	7,212	24.9%
Subtotal	**123,862**	**27.2%**	117,606	31.6%
Gross profit from international:				
Luminaire products	**12,302**	**24.9%**	7,600	22.7%
Lamp products	**11,672**	**20.0%**	7,928	20.2%
Lighting electronic products	**3,211**	**12.3%**	4,119	15.4%
Subtotal	**27,185**	**20.3%**	19,647	19.7%
Total	**151,047**	**25.6%**	137,253	29.1%

During the Reporting Period, gross profit from PRC was US$123,862,000, representing an increase of 5.3% year on year, of which gross profit of NVC brand products was US$102,806,000, representing an increase of 1.7% year on year, and gross profit of non-NVC brand products was US$21,056,000, representing an increase of 27.7% year on year.

During the Reporting Period, gross profit from international was US$27,185,000, representing an increase of 38.4% year on year, of which gross profit of NVC brand products was US$9,264,000, representing an increase of 33.0% year on year, and gross profit of non-NVC brand products was US$17,921,000, representing an increase of 41.3% year on year.

(iv) 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			
	2011		2010	
	US$'000	**(%)**	US$'000	(%)
Energy-saving products	**98,656**	**27.7%**	86,487	30.5%
Light tubes for CFL	**17,955**	**27.3%**	17,603	24.5%
T4/T5 battens	**39,144**	**33.1%**	39,925	41.6%
Compact fluorescent lamp (CFL)	**28,613**	**28.4%**	17,262	27.3%
Electronic ballasts	**3,565**	**11.2%**	4,670	15.6%
HID lamps	**3,640**	**48.9%**	3,543	40.9%
Fluorescent lamps	**2,668**	**21.9%**	1,576	27.3%
LED products	**3,071**	**14.9%**	1,908	23.2%
Non-energy-saving products	**52,391**	**22.5%**	50,766	27.0%
Total gross profit	**151,047**	**25.6%**	137,253	29.1%

During the Reporting Period, the Group's gross profit margin of energy-saving products fell to 27.7%, representing a decrease of 2.8% year on year, which was mainly attributable to (1) the impact of price hikes of metal materials and fluorescent powder on T4/T5 battens which have large sales volumes and (2) adjustment of product structure, including intensified efforts in promoting LED products with lower gross profit margin to open more markets.

Management Discussion and Analysis

Other income and gains

Other income and gains mainly consist of trademark licence fees, distribution commission, rental income, gain on sales of scrap materials and government grants (please refer to note 7.2 to the consolidated financial statements on page 119 of this annual report for the composition of other income and gains). 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 a limited number of the lighting product manufacturers in the PRC and we received 3% of the licensees' annual revenue derived from their sales of products under our trademark as trademark licence fees. In addition, we received distribution commission of 6% to 8% from these licensees on revenue generated when products were sold through our distribution network.

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$37,440,000, representing an increase of 3.0% year on year. That the Group's selling and distribution costs as a percentage of revenue decreased to 6.4% for the year ended 31 December 2011 from 7.7% for the year ended 31 December 2010 was because the Group achieved cost saving in freight, advertising and promotion expenses through effective operation management.

Administrative expenses

Administrative expenses mainly consist of staff costs, amortisation and depreciation, research and development expenses, bad debt provision, 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$36,796,000, representing an increase of 22.3% year on year. This increase was primarily attributable to higher research and development expenses and labour costs. The proportion of administrative costs to revenue decreased to 6.2% for the year ended 31 December 2011 from 6.4% for the year ended 31 December 2010.

Other expenses

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

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 principal debt of the convertible redeemable preference shares was stated as liabilities according to amortised cost calculated based on the effective interest rate method. The interest expense on the convertible redeemable preference shares was US$1,315,000 for the year ended 31 December 2010. As a result of the Company's initial public offering on 20 May 2010, these convertible redeemable preference shares were entirely converted into ordinary shares and the accrual of interest is no longer required.

Share of profits of an associate

This item represents the Group's share of net profit in the associate, Mianyang Leici.

Income tax expense

During the Reporting Period, the Group's income tax expense was US$8,077,000, representing a decrease of 4.1% year on year. The decrease in income tax expense was mainly attributable to the change in deferred income tax resulting from the application of preferential tax rates.

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

Due to the factors mentioned above, our profit (including profit attributable to non-controlling interests) for the year was US$90,568,000 during the Reporting Period.

Exchange differences on translation of foreign operations

During the Reporting Period, our exchange differences on translation of foreign operations were US$16,302,000. This revenue primarily arose from the translation of the financial statements of the PRC subsidiaries which are denominated in RMB.

Profit for the year attributable to owners of the Company

Due to the factors mentioned above, profit for the year attributable to owners of the Company was US$86,503,000 during the Reporting Period.

Profit for the year attributable to non-controlling interests

During the Reporting Period, profit for the year attributable to non-controlling interests was US$4,065,000.

Cash Flow and Liquidity

Cash flow

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 initial public offering and the exercise of their share options by our employees. The table below sets out selected cash flow data from our consolidated statement of cash flows.

	Year ended 31 December	
	2011	2010
	US$'000	US$'000
Net cash flows from operating activities	**15,607**	36,878
Net cash flows used in investing activities	**(72,136)**	(89,135)
Net cash flow (used in)/from financing activities	**(3,594)**	187,702
Net (decrease)/increase in cash and cash equivalents	**(60,123)**	135,445
Cash and cash equivalents at beginning of year	**182,766**	44,034
Effect of foreign exchange rate changes, net	**2,103**	3,287
Cash and cash equivalents at end of year	**124,746**	182,766

Cash flows from operating activities

We derive our cash flows from operating activities, which was 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.

During the Reporting Period, our net cash flows from operating activities were US$15,607,000, while our operating cash inflows before changes in working capital were US$110,256,000. The changes in working capital included (i) an increase of US$41,776,000 in inventories; (ii) an increase of US$37,234,000 in trade and bill receivables, other receivables and prepayments; (iii) income tax paid amounting to US$11,859,000; and (iv) a decrease of US$3,780,000 in trade payables, as well as other payables and accruals.

Net cash flows used in investing activities

Our cash flows used in investing activities mainly consist of payments for the purchases of property, plant and equipment and land use rights, the additions of development cost, the acquisition of non-controlling interest and investment in time deposits. During the Reporting Period, our net cash flows used in investing activities amounted to US$72,136,000, which mainly included (i) payment of US$62,496,000 for purchases of property, plant and equipment and land use right, as well as additions of development cost; (ii) payment of US$310,000 for acquisition of a non-controlling interest in UK NVC; and (iii) an increase of US$12,758,000 in time deposits with original maturity of more than three months when acquired, which was partly offset by the interest income of US$2,932,000 and the proceeds of US$496,000 from disposal of property, plant and equipment.

Net cash flow (used in)/from financing activities

Our cash flows from financing activities included the proceeds from exercise of share options, the proceeds from new bank loans and the receipt of government grant. Our cash flows used in financing activities consisted of payment of bank loan interest and dividends.

During the Reporting Period, our net cash outflows used in financing activities amounted to US$3,594,000. Our cash inflows were mainly from (i) the receipt of government grants of US$6,903,000; (ii) the proceeds of US$6,494,000 from new bank loans; and (iii) the proceeds of US$5,682,000 upon the exercise of share options. Such cash inflows were offset by US$22,171,000 for the payment of dividends and US$502,000 for the payment of bank loan interest.

Management Discussion and Analysis

Liquidity

Net current assets and working capital sufficiency

The table below sets out our current assets, current liabilities and net current assets as at the end of the Reporting Period.

	31 December	
	2011	2010
	US$'000	US$'000
CURRENT ASSETS		
Inventories	**111,541**	68,591
Trade and other receivables	**155,414**	119,503
Prepayments	**20,905**	8,494
Short-term deposits	**75,954**	60,648
Cash and cash equivalents	**124,746**	182,766
	488,560	440,002
Non-current assets classified as held for sale	**2,805**	–
Total current assets	**491,365**	440,002
CURRENT LIABILITIES		
Trade payables	**61,223**	51,297
Other payables and accruals	**35,514**	44,438
Interest-bearing loans	**6,494**	–
Income tax payable	**3,218**	3,442
Total current liabilities	**106,449**	99,177
NET CURRENT ASSETS	**384,916**	340,825

As at 31 December 2011 and 31 December 2010, current ratio of the Group was 4.62 and 4.44, respectively. In light of our current liquidity position, and the net proceeds available to the Company from the initial public offering 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 sets out our gearing ratios as at the end of the Reporting Period.

	31 December	
	2011	2010
	US$'000	US$'000
Interest-bearing loans	**6,494**	–
Total debt	**6,494**	–
Less: cash and short-term deposits	**(200,700)**	(243,414)
Net debt	**N/A**	N/A
Total equity attributable to owners of the Company	**579,225**	492,261
Gearing ratio	**N/A**	N/A

The primary objective of our capital management is to maintain our stability and growth of our financial position. We regularly review and manage our capital structure and make corresponding adjustments, after 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 is the balance of interest-bearing loans less cash and short-term deposits.

Capital expenditure

We funded our capital expenditure from cash generated from operations and bank loans as well as proceeds from the initial public offering and exercise of share options by our employees. 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 expenditures. During the Reporting Period, our capital expenditure amounted to US$59,536,000 mainly including (i) US$8,889,000 was used in plant mainly for purchasing of new warehouses by UK NVC, (ii) US$17,635,000 was invested in machinery and equipment mainly for the expansion of production lines, and (iii) US$25,266,000 was invested on construction in progress mainly for construction of Huizhou NVC phase-5 plant and the new Sunny industrial complex.

Interest-bearing Loans

As at 31 December 2011, our total current portion of interest-bearing loans amounted to US$6,494,000 (2010: Nil) and we have no non-current interest-bearing loans. The loans are unsecured.

The interest-bearing loans comprise: (1) RMB-denominated loans of RMB20,000,000 at an interest rate of 6.893% per annum and RMB10,000,000 at an interest rate of 7.015% per annum; (2) a US$-denominated loan of US$1,500,000 at an interest rate of 4.525% per annum; and (3) a GBP-denominated loan of GBP151,000 at an interest rate of Bank of England Base Rate plus 2.10% per annum. Such loans will expire before 30 April 2012.

Pledge of assets

Except for the pledged deposits mentioned in note 24 to the consolidated financial statements on page 149 to page 150 of this annual report, no assets of the Group were pledged as at 31 December 2011.

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 2011, the Group had no material contingent liabilities.

Capital Commitments

The details of capital commitments are referred to note 33 to the consolidated financial statements on page 162 to page 163 of this annual report.

Merger and Acquisition

During the Reporting Period, the Group made no acquisition, merger or sale of subsidiaries or associates.

Significant Investment

During the Reporting Period, the Group had no significant investment. Saved as disclosed in the prospectus of the Company dated 7 May 2010, the Group did not have any plan for significant investment as at 31 December 2011.

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 to our financial results.

Foreign currency risk

We are exposed to transactional currency risk. Such risk 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. During the Reporting Period, the Group had no hedging arrangement in place with respect to the foreign exchange exposure, and did not experience any material difficulty or negative impact on our operations or liquidity as a result of fluctuations on currency exchange rates.

Commodity price risk

We are exposed to fluctuations in the prices of raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect our financial performance. We historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes, however, we increased our inventories of certain key raw materials to ensure adequate supplies.

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

Our major credit risk arises from exposure to a substantial number of trade and bill receivables and other receivables from debtors. We have policies in place to ensure that the sales of products are made to customers with an appropriate credit limit, and we have strict control over credit limits of trade and other receivables. Our cash and short-term deposits are mainly deposited with registered banks in Mainland China and Hong Kong. We also have policies that limit our credit exposure to any financial institutions. The carrying amounts of trade and other receivables, cash and cash equivalents and short-term deposits included in the consolidated balance sheet represent our maximum exposure to credit risk in relation to our financial assets. We have no other financial assets which carry significant exposure to credit risk. In 2011, we entered into a number of one-year insurance contracts with China Export & Credit Insurance Corporation, which covered up to 85% from domestic and 90% from overseas of any uncollectible amount derived from our sales between the period from 1 November 2011 to 31 October 2012 subject to a maximum compensation amount of RMB25.2 million for domestic sales and US$25 million for overseas sales. 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 2011, the Group had approximately 9,868 employees (31 December 2010: 9,988). During the Reporting Period, relevant staff cost was US$68,738,000 (including share option expense of US$823,000), while our staff cost was US$54,337,000 (including share option expense of US$744,000) for the year ended 31 December 2010. 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 social insurance contributions, employee provident fund schemes, and discretionary incentive and share option schemes.

Executive Directors

Mr. WU Changjiang (吳長江), aged 46, is our chairman, an executive Director and chief executive officer. Mr. Wu is our founder and is primarily responsible for the overall corporate strategies and management of our Group. Mr. Wu has more than 17 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. MU Yu (穆宇), aged 38, is an executive Director and a vice president of the Company, primarily responsible for our research and development and production management. He has over 12 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.

Directors and Senior Management

Non-executive Directors

Mr. YAN Andrew Y (閻焱), aged 54, is a non-executive Director of the Company. Mr. Yan joined our Group in October 2006. He joined SB Asia Investment Fund II L.P. in 2001 and is currently the managing partner of SB Asia Investment Fund II L.P.. 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 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);
- non-executive director of MOBI Development Co., Ltd. (listed on the Hong Kong Stock Exchange);
- non-executive director of China Huiyuan Juice Group Limited (listed on the Hong Kong Stock Exchange); and
- non-executive director of eSun Holdings Limited (listed on the Hong Kong Stock Exchange).

In addition, Mr. Yan held the following directorships in various listed companies in the last 3 years 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; and

- director of Global Education & Technology Group Ltd. (listed on the NASDAQ Global Market) from 2007 to 2011;

Mr. LIN Ho-Ping (林和平), aged 40, is a non-executive Director of the Company. Mr. Lin joined our Group in October 2006. He joined SB Asia Investment Fund II L.P. in 2001 and is currently a general partner and a managing director of SB Asia Investment Fund II L.P.. Prior to joining SB Asia Investment Fund II L.P., 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 Technologie 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 38, 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.

Directors and Senior Management

Mr. ZHU Hai (朱海), aged 47, is a non-executive Director of the Company. Mr. Zhu joined our Group in October 2011. He has over 15 years of experience in the electric industry. Mr. Zhu worked for Schneider Electric since 1996 and has held various management positions throughout Schneider Electric group. He served as China Chief Representative for Schneider Automation Company, Schneider Electric Sales Director for Automation Business, General Manager for Schneider Shanghai Power Distribution Electrical Apparatus Co., Ltd. and Low Voltage Product Activity Director. In 2004, he joined Schneider Electric's global headquarters in France as a Senior Vice-President of OEM Business. Mr. Zhu is currently the Executive Vice-President and President of China for Schneider Electric. Mr. Zhu received a Bachelor's degree from Peking University and holds a Master's degree in Computer Science from the Chinese Academy of Sciences. He also holds an EMBA degree from the China Europe International Business School.

Independent Non-executive Directors

Mr. Alan Russell POWRIE, aged 61, 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 62, 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 president and chief executive officer of Philips lighting for Asia Pacific from 1999 to 2001 and 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. He also serves as Chairman of the Board of GLO AB, a start-up company in the field of nano-technology LED's and is a director of Luxim Corp and of iWatt Corp. 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 has been a Governor of National Electrical Manufacturers Association (a trade organisation in the US) until November 2010.

Mr. WANG Jinsui (王錦燧), aged 73, 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 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.

Senior Management

Mr. WU Changjiang (吳長江), aged 46, 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. HONG Xiaosong (洪曉松), aged 44, is the general manager of our Research and Development Center in Huizhou. Mr. Hong served as the manager of Shenzhen Golden Decorative Lighting Corp. Ltd (深圳黃金燈飾集團) from 1995 to 2000. He was the deputy manager of Shenzhen Golden Lighting Engineering Corp. Ltd (深圳金照明工程公司) and Shenzhen Jinyueliang Lighting Technology Co., Ltd (深圳市金悦亮光源技術有限公司) from 2000 to 2004 and from 2004 to 2007, respectively. After joining the Group in 2007, Mr. Hong successfully developed various kinds of lightings specifically designed for the Olympic Games, which paved the way for our products to be used in the Olympic Games. Mr. Hong is a qualified national registered senior lighting designer and a senior member of

Directors and Senior Management

China Illuminating Engineering Society. He has been committed to the development and promotion of new type energy-saving lamp products since 2004. He is one of the pioneers engaged in the promotion of LED engineering application in China and has obtained various patents for product technologies. Mr. Hong obtained a bachelor's degree in mechanical manufacturing from Chongqing University in 1989.

Mr. LI Xinyu (李新宇), aged 39, is a vice-president of our Company and is responsible for the strategic development of the Company. Prior to joining us in 2012, he held various positions, including the project manager and production manager of Beijing Zehnder Radiators Co. Ltd. (北京森德散熱器有限公司) from 2000 to 2003. He then joined Schneider Electric in 2003 and held various positions there, including the sales director for mechanical engineering market of Schneider from 2007 to 2009 and the general sales manager of Eastern China for Schneider Smart Terminal and Industry Sales general manager of Schneider Smart Terminal from 2009 to 2011. Mr. Li graduated from Inner Mongolia University of Technology in 1994, majoring in electric automation and computer application. He completed the Education and Development Programme for senior management at the China Europe International Business School in May 2009.

Mr. QIAN Genyue (錢根躍), aged 58, is the general manager of our Research and Development Centre in Shanghai. He has over 20 years of experience in research and development of lighting products. Prior to joining the Group in 2008, he served as the manager of the research and development department and chief engineer of Shanghai Gold lighting Co., Ltd (上海光達照明有限公司) during the period from 1994 to 2008. During the same period, he successfully developed various tricolor fluorescent tubes and electronic ballasts independently or with the help of other team members. After joining the Company, Mr. Qian established our Research and Development Centre in Shanghai together with his team members and completed the research and development systems for traditional light sources, electronic and LED products. The laboratory of the Research and Development Centre in Shanghai led by Mr. Qian was accredited by Deutscher Kraftfahrzeug Uberwachungsverein.

Directors and Senior Management

Mr. TAN Ying (談鷹), aged 45, 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 36, is a vice-president of our Company and is responsible for human resources, administration and information technology departments. He has over 12 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. (廣東博奥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 42, is a vice-president of our Company and is responsible for procurement and logistics management of the Company. He has over 13 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. XU Fengyun (徐風雲), aged 41, is a vice-president of our Company and is responsible for marketing, branding and key projects management. Mr. Xu joined our Company in January 2011. Prior to that, he worked at TCL Corporation Group, Rang Gurong (China) Investment Co., Ltd. (讓•古戎（中國）投資有限公司) and Ruifeng Audio Technology Corporation Ltd. (銳豐音響集團) from 1995 to 2010. He has 16 years of experience in marketing, branding and key projects management. He is the author of "*To Seize the Nest*" (《打進鳥巢》) and "*Biographies of Characters in the Three Kingdoms and Modern Business Management*" (《三國人物志與現代企業管理》). He was granted a number of special awards by international sports organizations such as the Olympic Council of Asia and the organizing committees of the Beijing Olympics, Shanghai World Expo, Asian Beach Games, Guangzhou Asian Games and Shenzhen Universiade. Mr. Xu graduated from the Department of Journalism, Wuhan University.

Mr. YANG Wenbiao (楊文彪), aged 38, is a vice-president of our Company and is responsible for the domestic and overseas sales of the Company. He has 13 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. YIN Kang (殷慷), aged 43, is a vice-president of our Company and is responsible for investment, merger and acquisition affairs of the Company. Mr. Yin has over 20 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).

Joint Company Secretaries

Ms. LO Yee Har, Susan (盧綺霞), aged 53, was appointed as a joint company secretary on 24 March 2010. Ms. Lo is an Executive Director 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 30 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 44, 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 19 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).

Report of Directors

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 2011 (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 2011 is set out in the consolidated income statement of the Financial Statements on page 73.

Results and Appropriations

The results of the Group for the Reporting Period are set out in the Financial Statements on page 73 to page 81 of this annual report.

Declaration of Final Dividend

The Board proposed to declare a final dividend of 3.5 HK cents per share for the year ended 31 December 2011. Upon Shareholders' approval at the forthcoming annual general meeting, the final dividend will be payable on or around Friday, 3 August 2012 to the Shareholders whose names appear on the register of members of the Company at close of business on Thursday, 5 July 2012. Based on the 3,158,013,000 shares in issue as at 31 December 2011, it is expected that the final dividend payable will amount to approximately HK$110,530,000 (equivalent to approximately US$14,221,000) (before tax). No shareholder has waived or agreed to waive any dividends.

Closure of Register of Members

The Register of Members will be closed from Thursday, 14 June 2012 to Tuesday, 19 June 2012 (both days inclusive) and from Friday, 29 June 2012 to Thursday, 5 July 2012 (both days inclusive), during which periods no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming 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 Wednesday, 13 June 2012. In order to qualify for the proposed final dividend (subject to the approval by shareholders at the forthcoming 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 at the abovementioned address before 4:30 p.m. on Thursday, 28 June 2012.

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 Opinion, after deducting related expenses, were approximately HK$1.467 billion. Out of which, as at 31 December 2011, HK$762 million was used for the purposes as set out in the prospectus.

Financial Highlights

A summary of the audited results and of the assets and liabilities of the Group for the last five reporting periods is set out on page 5 of this annual report.

Bank Loans and Other Borrowings

Details of bank loans and other borrowings are set out in Note 27 to the Financial Statements on page 153 of this annual report. As at 31 December 2011, the Group's total current interest-bearing loans amounted to US$6,494,000 (2010: nil) and we had no non-current interest-bearing loans.

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 for the Reporting Period are set out in Note 29 to the Financial Statements on page 154 to page 156 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 77 to page 78 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 2011, the Group had reserves available for distribution to its Shareholders of US$529,030,000 (2010: US$461,311,000).

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.

Report of Directors

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 and retired on 24 June 2011
MU Yu	appointed on 1 October 2006

Non-executive Directors

XIA Lei	appointed on 1 October 2006 and resigned on 24 August 2011
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
ZHU Hai	appointed on 20 October 2011

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 31 to page 39 of this annual report.

Directors' Service Contracts

The relevant information on directors' service contracts is set out in the section headed "Appointment and Reelection of Directors" in the "Corporate Governance Report" on page 63 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 2011 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 2011, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or recorded in the register required to be maintained pursuant to Section 352 of Part XV of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the provisions of the Model Code were as follows:

a. Long positions in the 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)*	0.97%
	Ordinary shares	Beneficial owner	75,500,000 (L)	2.39%
	Ordinary shares	Deemed interests	625,000 (L) *(Note 3)*	0.02%
	Ordinary shares	Interest of a controlled corporation	494,848,992 (L) *(Note 4)*	15.67%
	Warrants	Interest of a controlled corporation	8,400,000 (L) *(Note 4)*	0.27%
Mu Yu	Share options *(Note 1)*	Beneficial owner	97,000 (L)	0.003%
	Ordinary shares	Beneficial owner	1,250,000 (L)	0.04%
	Ordinary shares	Deemed interests	625,000 (L) *(Note 5)*	0.02%
Yan Andrew Y	Share options *(Note 1)*	Beneficial owner	532,000 (L)	0.017%
	Ordinary shares	Beneficial owner	22,274,000 (L)	0.71%
Lin Ho-Ping	Share options *(Note 1)*	Beneficial owner	532,000 (L)	0.017%
	Ordinary shares	Beneficial owner	22,274,000 (L)	0.71%

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 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 shares held by the trust. All share options under the trust have been fully exercised and there were still 625,000 shares retained in the trust as at 31 December 2011.

(4) These shares and warrants 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 and warrants held by NVC Inc. in the Company.

(5) These 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 shares held by the trust. All share options under the trust have been fully exercised and there were still 625,000 shares retained in the trust as at 31 December 2011.

b. Long positions in the associated corporations of the Company

As at 31 December 2011, none of the Directors or chief executive of the Company have or are deemed to have interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notifiable to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or recorded in the register required to be maintained by the Company pursuant to Section 352 of the SFO, or which were notifiable to the Company and the Stock Exchange pursuant to the provisions of the Model Code.

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

As at 31 December 2011, to the best knowledge of the Directors and chief executives, 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	578,711,000 (L) *(Note 1)*	18.33%
NVC Inc.	Beneficial owner	Ordinary shares	494,848,992 (L)	15.67%
	Beneficial owner	Warrants	8,400,000 (L)	0.27%
Schneider Electric Asia Pacific Limited	Beneficial owner	Ordinary shares	288,371,000 (L) *(Note 3)*	9.13%
Schneider Electric Industries SAS	Interest of a controlled corporation	Ordinary shares	288,371,000 (L) *(Note 3)*	9.13%
Schneider Electric SA	Interest of a controlled corporation	Ordinary shares	288,371,000 (L) *(Note 3)*	9.13%
Signkey Group Limited	Beneficial owner	Ordinary shares	283,191,000 (L)	8.97%
GS Direct, L.L.C.	Beneficial owner	Ordinary shares	176,851,000 (L) *(Note 4)*	5.60%
	Beneficial owner	Share options *(Note 2)*	500,000 (L) *(Note 4)*	0.016%
The Goldman Sachs Group, Inc.	Interest of a controlled corporation	Ordinary shares	177,538,000 (L) *(Note 5)*	5.62%
	Interest of a controlled corporation	Share options *(Note 2)*	500,000 (L) *(Note 4)*	0.016%
Wu Jiannong *(Note 6)*	Interest of a controlled corporation	Ordinary shares	283,191,000 (L) *(Note 7)*	8.97%
	Beneficial owner	Ordinary shares	375,000 (L)	0.012%

Report of Directors

Notes:

(1) (L) represents long position.

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

(3) These shares are held by Schneider Electric Asia Pacific Limited. As Schneider Electric Asia Pacific Limited is a wholly-owned subsidiary of Schneider Electric Industries SAS, which in turn is a wholly-owned subsidiary of Schneider Electric SA, Schneider Electric Asia Pacific Limited, Schneider Electric Industries SAS and Schneider Electric SA are deemed to be interested in these shares.

(4) 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/share options.

(5) These shares are held by GS Direct, L.L.C.. (176,851,000 shares), Goldman Sachs (Asia) Finance (117,000 shares) and Goldman Sachs International (570,000 shares). As all these companies are held by The Goldman Sachs Group, Inc. directly or indirectly, The Goldman Sachs Group, Inc. is deemed to have all the interests in the number of shares held by the aforesaid companies in the Company.

(6) Mr. Wu Jiannong retired as an executive Director of the Company with effect from 24 June 2011.

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

Saved as disclosed above, as at 31 December 2011, so far as the Directors are aware, no other person (except the Directors and chief executive) or corporation 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 was valid and effective for the period of time commencing on 15 October 2006 and expired on the day immediately prior to the date on which dealings commence in the ordinary shares on the Hong Kong Stock Exchange. 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 by the board of directors with reference to the market value of the Company's ordinary shares and the Company's equity value.

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.

As at 31 December 2011, 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 outstanding as at 1 January 2011	Number of shares outstanding as at 31 December 2011	Exercise price (HK$ per share)	Date of grant	Expiry date	Percentage of the number of shares outstanding as at 31 December 2011 to the total shares issued
Wu Changjiang	Share options	Director	30,476,000	30,476,000	2.1	24 March 2010	24 March 2015	0.97%
Mu Yu	Share options	Director	1,250,000 *(Note 1)*	–	0.4	1 January 2007	1 January 2017	–
			97,000	97,000	2.1	24 March 2010	24 March 2016	0.0031%
Yan Andrew Y	Share options	Director	26,217,000	–	0.31	15 October 2006	15 October 2016	–
			532,000	532,000	2.1	24 March 2010	24 March 2015	0.017%
Lin Ho-Ping	Share options	Director	26,217,000	–	0.31	15 October 2006	15 October 2016	–
			532,000	532,000	2.1	24 March 2010	24 March 2015	0.017%
Wu Jiannong *(Note 2)*	Share options	Shareholder	375,000	–	0.4	24 March 2010	24 March 2020	–
GS Direct L.L.C.	Share options	Shareholder	500,000	500,000	2.1	24 March 2010	24 March 2015	0.016%
Others (including senior management)	Share options	Employees and others	12,000,000	–	0.75	15 January 2007	15 January 2017	–
			10,591,000	–	0.75	1 March 2007	1 March 2017	–
			15,050,000	–	0.4	1 January 2007	1 January 2017	–
			533,000	533,000	2.1	24 March 2010	24 March 2015	0.017%
			12,500,000	9,600,000	2.1	24 March 2010	24 March 2016	0.30%
			1,000,000	1,000,000	2.1	24 March 2010	25 June 2017	0.032%
			1,000,000	1,000,000	2.1	24 March 2010	8 February 2017	0.032%
			1,000,000	1,000,000	2.1	24 March 2010	31 December 2016	0.032%
Total			139,870,000	45,270,000				1.43%

Report of Directors

Notes:

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

2. Mr. Wu Jiannong retired as an executive Director of the Company on 24 June 2011.

For further details, please refer to note 31 to the consolidated financial statements on page 158 to page 161 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, 93,800,000 share options were exercised. 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
17 March 2011	26,217,000	HK$0.31	HK$3.888
9 May 2011	14,425,000	HK$0.4	HK$4.088
9 May 2011	22,591,000	HK$0.75	HK$4.088
16 June 2011	1,875,000	HK$0.4	HK$3.822
29 June 2011	375,000	HK$0.4	HK$3.814
29 June 2011	2,100,000	HK$2.1	HK$3.814
29 August 2011	26,217,000	HK$0.31	HK$3.412
Total	93,800,000		

During the Reporting Period, out of the share options granted under the Pre-IPO Share Option Scheme, 800,000 share options lapsed due to the resignation of an employee. The lapsed share options are as follows:

Number of share options lapsed	Exercise price	Date of grant	Expiry date
800,000	HK$2.1	24 March 2010	24 March 2016

During the Reporting Period, out of the share options granted under the Pre-IPO Share Option Scheme, none of the share options were cancelled.

Directors' Rights to Acquire Shares or Debentures

Saved 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 during the Reporting Period.

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 (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.

Connected Transactions and Continuing Connected Transactions

During the Reporting Period, the Group had the following connected transaction and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Connected Transaction

On 21 July 2011, the Company declined to exercise the right of first refusal to acquire certain assets of Chongqing Enlin, an associate of Mr. Wu Changjiang under the Listing Rules and thus a connected person of the Company. The right of first refusal was granted to the Company under a non-competition undertaking issued by Mr. Wu Changjiang to the Company upon its listing (details of which are set out in the prospectus of the Company dated 7 May 2010). Chongqing Enlin intended to dispose certain assets related to the business of wiring devices, intelligent systems and other low voltage products to a subsidiary of Schneider Electric SA for a total consideration of RMB380 million, to which the Company had a right of first refusal. After taking into account the growth prospects of Chongqing Enlin and the consideration proposed by the subsidiary of Schneider Electric SA, the Board, concurred by the independent non-executive directors, declined to exercise such right of first refusal to acquire the abovementioned assets.

As the non-exercise of the right of first refusal by the Company to acquire certain assets of Chongqing Enlin is treated as a connected transaction of the Company under Rules 14A.68 and 14A.70(3) of the Listing Rules and each of the applicable percentage rations is less than 5%, the transaction was duly complied with the reporting and announcement requirements under Chapter 14A of the Listing Rules.

Continuing Connected Transactions

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, 10 March 2011, 31 May 2011 and 27 February 2012.

Continuing Connected Transactions Exempted from Independent Shareholders' Approval

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 3% 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$3.864 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 6% to 8% 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 framework agreement was revised on 31 May 2011 by adding Chongqing Enlin, an associate of Mr.Wu Changjiang, as a counterparty to initiate the management of its products sold through our distribution network. Under this agreement, Chongqing Enlin may sell ancillary products and components through our distribution network and pay us 6% to 8% of its sales through our distribution network as distribution commission.

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$11.30 million and US$15.84 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 and 31 May 2011 respectively 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$7.729 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$90,000.

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, a 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.

The actual amount of rents receivable by the Company under the framework property lease agreement exceeded 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.

During the Reporting Period, the actual amount of rents receivable by us under the framework property lease agreement was US$0.257 million which did not exceed the revised annual cap.

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 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$498,000.

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 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, the actual amount of transportation service fees payable by the Company under the framework transportation service agreement exceeded 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.

During the Reporting Period, the actual amount of transportation service fees payable by the Company under the framework transportation service agreement was US$1,171,000 which did not exceed the revised annual cap.

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 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$3.276 million.

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$7.70 million and US$19.00 million, respectively.

During the Reporting Period, as the market demand for outdoor luminaires was better than expected, the actual purchase amount payable by us under the framework contract manufacturing agreement was US$7.543 million, which exceeded the annual cap as disclosed in our prospectus dated 7 May 2010. As such, the Company revised the relevant annual caps for contractual purchase from such companies on 27 February 2012 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 paid by us to Chongqing En Wei Xi under the framework contract manufacturing agreement was US$7.543 million which did not exceed the revised annual cap.

Non-Exempt Continuing Connected Transactions

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 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$12.334 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 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$26.554 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, a 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 receivable by us from 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 received by us from Zhejiang NVC under the framework sale and purchase agreement was US$30.308 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.

Directors' Interests in Contracts of Significance

Saved as the connected transaction and 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 Consolidated Financial Statements on page 121 to page 125 of this annual report.

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 fewer contributions than the current amounts.

During the Reporting Period, the Group's contributions to the housing fund and pension scheme were US$7.402 million. Details of the Group's contributions to the housing fund and pension scheme are set out in Note 7.6 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$168,000.

Major Customers and Suppliers

During the Reporting Period, the revenue to our top five customers and the largest customer accounted for approximately 22.86% and 6.07% of our total revenue respectively. The purchases of goods and services from our top five suppliers and the largest supplier accounted for approximately 14.98% and 5.27% of our total purchases respectively.

Report of Directors

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, except that Chongqing En Wei Xi, one of our top five largest suppliers, is an associate of Mr. Wu Changjiang and an executive Director and substantial shareholder of our Company, details of which are set out in the section headed "Non-Exempt Continuing Connected Transactions" above.

Compliance with the Code on Corporate Governance Practices

During the Reporting Period, the Company had 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 61 to page 70 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 Reporting Period, the details are set out in the Corporate Governance Report on pages 68 of this annual report.

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, 26 March 2012

The board of directors ("Board") of the Company is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2011.

Corporate Governance Practices

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.

During the Reporting Period, the Company had 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 *(Retired on 24 June 2011)* Mr. MU Yu
Non-executive Directors:	Mr. XIA Lei *(Resigned on 24 August 2011)* Mr. YAN Andrew Y Mr. LIN Ho-Ping Ms. HUI Ming Yunn, Stephanie Mr. ZHU Hai *(Appointed on 20 October 2011)*
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.

During the Reporting Period, 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

During the Reporting Period, the Company did not establish 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.

The Nomination Committee was established on 26 March 2012 with defined written terms of reference. Relevant procedures for nomination and appointment of directors are taken up by the Nomination Committee.

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 with effect from the Listing Date (except Mr Zhu Hai). Mr Zhu Hai's term effects from his date of appointment on 20 October 2011 for three years. The above appointments are subject to the provisions of retirement and rotation of directors under the Company's 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.

During the Reporting Period, the Board met five times for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

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

Name of Director	Attendance/Number of Meetings during term of office
Mr. WU Changjiang *(Chairman)*	5/5
Mr. WU Jiannong *(Note)*	0/2
Mr. MU Yu	5/5
Mr. XIA Lei *(Note)*	2/4
Mr. YAN Andrew Y	4/5
Mr. LIN Ho-Ping	4/5
Ms. HUI Ming Yunn, Stephanie	4/5
Mr. ZHU Hai *(Note)*	1/1
Mr. Alan Russell POWRIE	4/5
Mr. Karel Robert DEN DAAS	4/5
Mr. WANG Jinsui	4/5

Note:
Mr. WU Jiannong retired on 24 June 2011
Mr. XIA Lei resigned on 24 August 2011
Mr. ZHU Hai appointed on 20 October 2011

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 for keeping 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-ordinated with the senior management to provide adequate, complete and reliable information to all directors for consideration and review.

Board Committees

During the Reporting Period, the Board had 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 Nomination Committee was established on 26 March 2012 with defined written terms of reference.

The majority of the members of the Remuneration Committee, Audit Committee and Nomination 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. As at 31 December 2011, the Remuneration Committee was chaired by Mr. Yan Andrew Y. In view of the addition of Rule 3.25 to the Listing Rules which came into effect on 1 April 2012, the Remuneration Committee should be chaired by an independent non-executive director. On 26 March 2012. Mr. Zhu Hai (non-executive director) and Mr. Wang Jinsui (independent non-executive director) were additionally elected as committee members and Mr. Karel Robert Den Daas, an independent non-executive director, was appointed as new chairman of the Remuneration Committee and took up the role of 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.

During the Reporting Period, the Remuneration Committee held two meetings to review the remuneration policy and structure of the Company, and 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	2/2
Mr. Alan Russell POWRIE	2/2
Mr. Karel Robert DEN DAAS	2/2

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.

During the Reporting Period, the Audit Committee held four meetings 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	3/4
Mr. WANG Jinsui	3/4

The Company's annual results for the year ended 31 December 2011 have been reviewed by the Audit Committee.

Nomination Committee

The Nomination Committee has been established with written terms of reference in compliance with paragraph A5.1 of the CG code. The Nomination Committee consists of five members, namely Mr. Wu Changjiang (executive director), Mr. Lin Ho-Ping (non-executive director), Mr. Alan Russell Powrie (independent non-executive director), Mr. Karel Robert Den Daas (independent non-executive director), and Mr. Wang Jinsui (independent non-executive director). Mr. Wang Jinsui has been appointed as the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are to review the structure and composition of the Board, make recommendation to the Board on the appointment, re-appointment of directors and succession planning for directors and assess the independence of independent non-executive directors.

The Nomination Committee normally meets at least once a year for reviewing the nomination procedures and structure of the Board. As at the date of this CG Report, there was no meeting held by the Nomination 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 2011.

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 2011.

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 "Independent Auditors' Report" on pages 71 to 72.

During the Reporting Period, the remuneration paid to the external auditors of the Company in respect of audit services amounted to RMB3,351,000 and the external auditors did not provide non-audit service.

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 are available to answer questions at shareholders' general meetings.

To promote effective communication, the Company maintains a website at www.nvc-lighting.com.cn, 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 shareholders' general meetings on each substantial issue, including the election of individual directors.

All resolutions put forward at a shareholders' general 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 shareholders' general 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
26 March 2012

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 73 to 172, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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.

Independent Auditors' Report

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

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 2011, 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.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

26 March 2012

Consolidated Income Statement

Year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
REVENUE	6	**589,339**	471,725
Cost of sales		**(438,292)**	(334,472)
GROSS PROFIT		**151,047**	137,253
Other income and gains	7.2	**20,056**	13,329
Selling and distribution costs		**(37,440)**	(36,347)
Administrative expenses		**(36,796)**	(30,097)
Other expenses	7.3	**(1,099)**	(1,291)
Finance income	7.4	**3,262**	1,938
Finance costs	7.5	**(502)**	(2,598)
Share of profits of an associate	19	**117**	129
PROFIT BEFORE TAX		**98,645**	82,316
Income tax expense	9	**(8,077)**	(8,422)
PROFIT FOR THE YEAR		**90,568**	73,894
Attributable to:			
Owners of the Company		**86,503**	71,338
Non-controlling interests		**4,065**	2,556
		90,568	73,894
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	10	**2.77 US cents**	2.69 US cents
Diluted	10	**2.73 US cents**	2.53 US cents

Details of the dividends proposed for the year ended 31 December 2011 are disclosed in note 11 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	2011 **US$'000**	2010 US$'000
PROFIT FOR THE YEAR	**90,568**	73,894
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**16,302**	8,374
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**106,870**	82,268
Attributable to:		
Owners of the Company	**103,040**	79,569
Non-controlling interests	**3,830**	2,699
	106,870	82,268

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 US$'000	2010 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**130,484**	84,817
Prepaid land lease payments	14	**11,322**	11,536
Goodwill	16	**34,849**	34,121
Other intangible assets	17	**55,786**	53,032
Investment in an associate	19	**706**	689
Deferred tax assets	20	**4,765**	2,537
Long-term deferred expenditure		**56**	64
Total non-current assets		**237,968**	186,796
CURRENT ASSETS			
Inventories	21	**111,541**	68,591
Trade and other receivables	22	**155,414**	119,503
Prepayments	23	**20,905**	8,494
Short-term deposits	24	**75,954**	60,648
Cash and cash equivalents	24	**124,746**	182,766
		488,560	440,002
Non-current assets classified as held for sale	15	**2,805**	–
Total current assets		**491,365**	440,002
CURRENT LIABILITIES			
Trade payables	25	**61,223**	51,297
Other payables and accruals	26	**35,514**	44,438
Interest-bearing loans	27	**6,494**	–
Income tax payable		**3,218**	3,442
Total current liabilities		**106,449**	99,177
NET CURRENT ASSETS		**384,916**	340,825
TOTAL ASSETS LESS CURRENT LIABILITIES		**622,884**	527,621

Continued/...

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 US$'000	2010 US$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*20*	**14,310**	15,038
Government grants	*28*	**20,908**	16,320
Total non-current liabilities		**35,218**	31,358
Net assets		**587,666**	496,263
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*29*	**–**	–
Share premium	*29*	**296,826**	315,130
Shareholders' contribution	*30(a)*	**879**	879
Statutory reserve	*30(b)*	**13,335**	10,445
Employee equity benefit reserve	*30(c)*	**1,586**	1,768
Foreign currency translation reserve	*30(d)*	**34,395**	17,858
Retained earnings		**217,983**	134,370
Proposed final dividend	*11*	**14,221**	11,811
		579,225	492,261
Non-controlling interests		**8,441**	4,002
Total equity		**587,666**	496,263

Wu Changjiang
Director

Mu Yu
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

2011	Attributable to owners of the Company										
	Issued capital (note 29) US$'000	Share premium (note 29) US$'000	Shareholders' contribution (note 30(a)) US$'000	Statutory reserve (note 30(b)) US$'000	Employee equity benefit reserve (note 30(c)) US$'000	Foreign currency translation reserve (note 30(d)) US$'000	Retained earnings US$'000	Proposed final dividend US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2011	–	315,130	879	10,445	1,768	17,858	134,370	11,811	492,261	4,002	496,263
Profit for the year	–	–	–	–	–	–	86,503	–	86,503	4,065	90,568
Other comprehensive income:											
Exchange differences on translation of foreign operations	–	–	–	–	–	16,537	–	–	16,537	(235)	16,302
Total comprehensive income for the year	–	–	–	–	–	16,537	86,503	–	103,040	3,830	106,870
Transfer to statutory reserve	–	–	–	2,890	–	–	(2,890)	–	–	–	–
Acquisition of non-controlling interest	–	(609)	–	–	–	–	–	–	(609)	609	–
Exercise of share options	–	6,687	–	–	(1,005)	–	–	–	5,682	–	5,682
Employee share option arrangements *(note 31)*	–	–	–	–	823	–	–	–	823	–	823
2010 final dividend declared	–	(240)	–	–	–	–	–	(11,811)	(12,051)	–	(12,051)
2011 interim dividend declared *(note 11)*	–	(10,120)	–	–	–	–	–	–	(10,120)	–	(10,120)
Proposed 2011 final dividend *(note 11)*	–	(14,221)	–	–	–	–	–	14,221	–	–	–
Other	–	199	–	–	–	–	–	–	199	–	199
At 31 December 2011	–	296,826	879	13,335	1,586	34,395	217,983	14,221	579,225	8,441	587,666

Continued/...

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Attributable to owners of the Company											
2010	Issued capital (note 29) US$'000	Share premium (note 29) US$'000	Equity component of convertible preference shares US$'000	Shareholders' contribution (note 30(a)) US$'000	Statutory reserve (note 30(b)) US$'000	Employee equity benefit reserve (note 30(c)) US$'000	Foreign currency translation reserve (note 30(d)) US$'000	Retained earnings US$'000	Proposed final dividend 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")	–	191,824	–	–	–	–	–	–	–	191,824	–	191,824
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	–	–	–	–	–	744	–	–	–	744	–	744
Dividends distributed by a subsidiary to the non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	(2,223)	(2,223)
2010 interim dividend	–	(7,876)	–	–	–	–	–	–	–	(7,876)	–	(7,876)
Proposed 2010 final dividend	–	(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

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**98,645**	82,316
Adjustments for:			
Depreciation of items of property, plant and equipment	*7.1*	**11,549**	9,377
Amortisation of prepaid land lease payments	*7.1*	**427**	397
Amortisation of intangible assets other than goodwill	*7.1*	**3,976**	3,385
Amortisation of long-term deferred expenses	*7.1*	**8**	10
Loss on disposal of items of property, plant and equipment	*7.3*	**143**	692
Equity-settled share option expense	*7.6/8*	**823**	744
Finance income	*7.4*	**(3,262)**	(1,938)
Finance costs	*7.5*	**502**	2,598
Share of profits of an associate	*19*	**(117)**	(129)
Impairment of trade and other receivables	*7.1*	**698**	138
Write-down of inventories to net realisable value	*7.1*	**1,812**	178
Government grants	*7.2*	**(3,232)**	(3,587)
Listing expenses, excluding share issue costs	*7.1*	**–**	1,844
Exchange gain, net	*7.2*	**(1,716)**	(673)
		110,256	95,352
Increase in trade and bill receivables, other receivables and prepayments		**(37,234)**	(37,624)
Increase in inventories		**(41,776)**	(19,306)
Increase/(decrease) in trade payables, other payables and accruals		**(3,780)**	8,372
Income tax paid		**(11,859)**	(9,916)
Net cash flows from operating activities		**15,607**	36,878
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property, plant and equipment		**496**	615
Purchases of items of property, plant and equipment		**(58,325)**	(25,488)
Payment for acquisition of land use rights		**(531)**	–
Payment for additions of intangible assets other than goodwill		**(3,640)**	(1,720)
Payment for acquisition of subsidiaries or equity interest in a subsidiary		**(310)**	(7,736)
Interest received		**2,932**	1,342
Increase in time deposits with original maturity of more than three months when acquired		**(12,758)**	(56,148)
Net cash flows used in investing activities		**(72,136)**	(89,135)

Continued/...

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of new shares in the initial public offering		–	201,238
Proceeds from exercise of share options	29(a)	5,682	4,561
Dividends paid		(22,171)	(7,355)
Dividends paid to a non-controlling shareholder		–	(2,223)
Receipt of government grants	28	6,903	10,802
Payment of listing expenses including share issue costs		–	(11,460)
New bank loans	27	6,494	23,834
Repayment of bank loans		–	(30,412)
Bank loan interest paid		(502)	(1,283)
Net cash flows (used in)/from financing activities		(3,594)	187,702
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Net (decrease)/increase in cash and cash equivalents		(60,123)	135,445
Cash and cash equivalents at beginning of year		182,766	44,034
Effect of foreign exchange rate changes, net		2,103	3,287
CASH AND CASH EQUIVALENTS AT END OF YEAR		124,746	182,766
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	124,746	125,031
Non-pledged time deposits with original maturity of less than three months when acquired	24	–	57,735
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		124,746	182,766

Statement of Financial Position

31 December 2011

	Notes	2011 US$'000	2010 US$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	*18*	**117,177**	114,456
Total non-current assets		**117,177**	114,456
CURRENT ASSETS			
Due from subsidiaries	*18*	**82,069**	35,521
Other receivables	*22*	**880**	596
Short-term deposits	*24*	**68,070**	59,235
Cash and cash equivalents	*24*	**10,656**	84,765
Total current assets		**161,675**	180,117
CURRENT LIABILITIES			
Due to subsidiaries	*18*	**7,097**	6,790
Other payables and accruals	*26*	**608**	3,176
Total current liabilities		**7,705**	9,966
NET CURRENT ASSETS		**153,970**	170,151
TOTAL ASSETS LESS CURRENT LIABILITIES		**271,147**	284,607
Net assets		**271,147**	284,607
EQUITY			
Issued capital	*29*	**–**	–
Share premium	*30*	**297,435**	315,130
Employee equity benefit reserve	*30*	**1,586**	1,768
Accumulated losses		**(42,095)**	(44,102)
Proposed final dividend	*11*	**14,221**	11,811
Total equity		**271,147**	284,607

Wu Changjiang
Director

Mu Yu
Director

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, KY1-1111, Cayman Islands. The Company is an investment holding company.

The Company's substantial shareholders included SB Asia Investment Fund II L.P., NVC Inc., a company incorporated in the BVI and wholly owned by Mr. Wu Changjiang, Schneider Electric Asia Pacific Limited, Signkey Group Limited ("Signkey"), GS Direct, L.L.C. which owned 18.33%, 15.67%, 9.13%, 8.97% and 5.6% equity interests in the Company, respectively, as at 31 December 2011.

The Company has subsidiaries in the People's Republic of China (the "PRC"), Hong Kong, and the United Kingdom (the "UK").The Company and its subsidiaries are collectively referred to as the Group. The particulars of the Company's subsidiaries are set out below:

Company name	Place and date of establishment/ incorporation and place of operations	Nominal value of issued share capital/ registered capital	Percentage of ownership interest attributable to the Company		Principal activities
			Direct	Indirect	
Huizhou NVC Lighting Technology Co., Ltd. ("Huizhou NVC") [4]	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") [4]	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") [5]	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") [6]	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") [4]	PRC 8 March 2006/ Mainland China	US$7,000,000	–	100%	Manufacture and sale of light tubes for energy-saving lamps and related products
Zhangpu Phoebus Lighting Co., Ltd. ("Zhangpu Phoebus") [4]	PRC 9 May 2004/ Mainland China	US$3,000,000	–	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 place of operations	Nominal value of issued share capital/ registered capital	Percentage of ownership interest attributable to the Company Direct	Indirect	Principal activities
Shanghai Arcata Electronics Co., Ltd. ("Shanghai Arcata") [1,4]	PRC 22 September 2005/ Mainland China	US$10,000,000	–	100%	Manufacture and sale of lamp transformers and other lighting electronic products
World Through Investments Limited ("World Through")	BVI 5 August 2005/ Mainland China	US$50,000	100%	–	Investment holding
NVC Lighting Limited ("UK NVC") [2]	England and Wales 31 May 2007/ the UK	GBP2,000,000 (equivalent to US$3,395,857)	100%	–	Trading of lamps, luminaires and other lighting products
Hong Kong TYU Technology Co., Ltd. ("Hong Kong TYU")	Hong Kong 17 July 2007/ Mainland China	HK$200,000 (equivalent to US$25,643)	100%	–	Trading of lamps, luminaires and other lighting products
Hong Kong Max Rich Holdings Limited ("Max Rich")	Hong Kong 18 September 2008/ Mainland China	HK$1	–	100%	Investment holding
NVC Lighting (Chongqing) Co., Ltd. ("Chongqing Lighting") [3,4]	PRC 7 November 2011/ Mainland China	HK$200,000,000 (equivalent to US$25,744,996)	–	100%	Research, development, manufacture and sales of lamp, luminaires and lighting electronic products

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

1 The registered capital of Shanghai Arcata has been increased from US$1,000,000 to US$10,000,000 during the year ended 31 December 2011.

2 The name of the subsidiary was changed from NVC (Manufacturing) Limited to NVC Lighting Limited in the current year. In accordance with the board resolution dated 4 April 2011, the registered capital of UK NVC was increased to GBP2,000,000. The additional capital was fully invested in the current year. On 6 April 2011, the Company acquired the remaining 20% interest held by a non-controlling shareholder of UK NVC at the consideration of RMB2,000, 000 (equivalent to US$310,000).

3 The registered capital of Chongqing Lighting has not been paid up as at the reporting date of the financial statements.

4 The subsidiaries are registered wholly-foreign-owned enterprises under PRC law.

5 The subsidiary is registered as a limited liability company and is a non-wholly-owned subsidiary of the Company.

6 The subsidiary is registered as a limited liability company and is a wholly-owned subsidiary of the Company.

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

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 2011. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is 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 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.

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 Amendment	*Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*
IAS 24 (Revised)	*Related Party Disclosures*
IAS 32 Amendment	*Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues*
IFRIC-Int 14 Amendments	*Amendments to IFRIC-Int 14 Prepayments of a Minimum Funding Requirement*
IFRIC-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to IFRSs 2010	*Amendments to a number of IFRSs issued in May 2010*

Other than as further explained below regarding the impact of IAS 24 (Revised), and amendments to IFRS 3, IAS 1 and IAS 27 included in *Improvements to IFRSs 2010*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these IFRSs are as follows:

(a) IAS 24 (Revised) *Related Party Disclosures*

IAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 34 to the consolidated financial statements.

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

(b) *Improvements to IFRSs 2010* issued in May 2010 sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. 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 has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- IFRS 3 *Business Combinations*: The amendment 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 amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All 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*: The amendments clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- IAS 27 *Consolidated and Separate Financial Statements*: The amendment 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.

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 Amendments	*Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
IFRS 7 Amendments	*Amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
IFRS 7 Amendments	*Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
IFRS 9	*Financial Instruments*[6]
IFRS 10	*Consolidated Financial Statements*[4]
IFRS 11	*Joint Arrangements*[4]
IFRS 12	*Disclosure of Interest in Other Entities*[4]
IFRS 13	*Fair Value Measurement*[4]
IAS 1 Amendments	*Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
IAS 12 Amendments	*Amendments to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
IAS 19 (2011)	*Employee Benefits*[4]
IAS 27 (2011)	*Separate Financial Statements*[4]
IAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
IAS 32 Amendments	*Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
IFRIC-Int 20	*Stripping Cost in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

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

The Group reasonably expects the following issued standards to be applicable to the Group and intends to adopt when they become effective. Further information about those changes that are expected to significantly affect the Group is as follows:

(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 aimed 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 2015.

(b) IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgment to determine which entities are controlled, compared with the requirements in IAS 27 and IFRIC-Int 12 *Consolidation – Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in IFRIC-Int 12.

(c) IFRS 11 replaces IAS 31 *Interest in Joint Ventures* and IFRIC-Int 13 *Jointly Controlled Entities – Non-Monetary Contribution by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

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

(d) IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interest in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, and the consequential amendments to IAS 27 and IAS 28 from 1 January 2013.

(e) IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January 2013.

(f) Amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 July 2012.

(g) IAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in IFRIC-Int 21 *Income Taxes-Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The Group expects to adopt IAS 12 Amendments from 1 January 2012.

(h) IAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt IAS 19 (2011) from 1 January 2013.

3. Summary of Significant Accounting Policies

Business combinations and goodwill

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 Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. 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 will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate IFRSs.

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 identifiable net 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)*

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 2011.

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 the 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 the associate 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 the associate is included as part of the Group's investment in associate and is not individually tested for impairment.

The results of the associate are included in the Company's income statement to the extent of dividends received and receivable. The Company's investment in the 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 is a person or a close member of that person's family and that person
- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

Property, plant and equipment

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

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

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 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 a 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 its 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.

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

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.

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

Impairment of non-financial assets other than goodwill *(continued)*

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 an 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.

Investment and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivative 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 transaction cost, except in the case of financial assets recorded at fair value through profit or loss.

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 equivalent, short-term deposits, trade and bill receivables and other receivables.

Subsequent measurement

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

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

Investment and other financial assets *(continued)*

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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net 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.

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 finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments 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.

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

Investment and other financial assets *(continued)*

Available-for-sale financial investments *(continued)*

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 revaluation 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, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments 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 2011 and 2010.

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.

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

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost *(continued)*

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 and all collateral has been realised or has been transferred to the Group.

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 other expenses in the income statement.

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.

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

The Group's financial liabilities include trade payables, other payables and interest-bearing bank loans.

Subsequent measurement

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

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

Financial liabilities *(continued)*

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 the 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.

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. These 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.

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

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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates of and to what extent it has retained the risk and rewards of ownership of the asset. When it 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.

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

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, except for the effective portion of cash flow hedge, which is recognised in other comprehensive income.

The Group did not have any derivative financial instruments as at 31 December 2011.

Inventories

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

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

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

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.

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

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 rights 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.

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 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. Revenue is recognised on the following basis:

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

Revenue recognition *(continued)*

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred 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.

Royalty income

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement.

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").

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

Share-based payment transactions *(continued)*

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair values of share options are determined by management using the Black-Scholes valuation model (the "BS" model), or a binomial option pricing model, where appropriate.

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

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

Where the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified and the original terms of the award had been 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.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in note 10).

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

Other employee benefits

Defined contribution plan for the PRC employees

Pursuant to the relevant PRC laws and regulations, the employees of the Group's subsidiaries operating in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Group's subsidiaries operating in Mainland China are required to contribute a certain percentage of the salaries of their employees to the central pension scheme. The only obligation of the Group with respect to the central pension scheme is to pay the ongoing required contributions. Contributions are charged to the income statement when they become payable in accordance with the rules of the central pension scheme.

Taxes

Income tax

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

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

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

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

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

(b) in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when 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.

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

Taxes *(continued)*

Income tax *(continued)*

Deferred income tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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) when 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.

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.

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

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 and declared by the board of directors.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currency translation

These financial statements are presented in US$, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items 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 gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e, translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively)

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 England and Wales are the Hong Kong dollar and pound 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 subsidiary with a functional currency other than US$, the component of other comprehensive income relating to that particular subsidiary 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.

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

Foreign currency translation *(continued)*

For the purpose of the consolidated statement of cash flows, the cash flows of subsidiaries whose functional currency are not US$ are translated into US$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries whose functional currency are not US$ 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.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, which has the most significant effect on the amounts recognised in the consolidated financial statements:

Non-current assets held for sale

On 19 December 2011, the board of directors resolved to sell the land and buildings of Zhangpu Phoebus with an aggregate carrying amount of US$2,805,000. The board of directors considered the subsidiary met the criteria to be classified as held for sale at that date for the following reasons:

– The land and buildings are available for immediate sale and can be sold to any potential buyer in their current condition;

– The board of directors had a plan to sell and had entered into preliminary negotiations with a potential buyer. Should negotiations with this party not be successful in making a sale, a number of other potential buyers have been identified; and

– The board of directors expects negotiations to be finalised and the sale to be completed in one year.

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 described below.

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

Estimation uncertainty *(continued)*

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 20 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 20 to the consolidated financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development cost in note 3 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rate 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 a 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 other than goodwill

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 17 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: Lamp products represent 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: Luminaire products represent a complete lighting unit that consists of a lighting fixture, a lamp (namely the light source such as a light bulb or tube) and a lighting electronic device. The luminaire products are sold as complete lighting units or units without lamps and lighting electronics, based on the needs of end customers; and

(c) Lighting electronic products segment: Lighting electronic products represent electronic 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.

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5. Operating Segment Information *(continued)*

	2011				
	Lamp products US$'000	Luminaire products US$'000	Lighting electronic products US$'000	Eliminations US$'000	Consolidated US$'000
Revenue:					
Revenue from external customers	196,852	333,428	59,059	–	589,339
Intersegment	18,458	–	12,826	(31,284)	–
Total revenue	215,310	333,428	71,885	(31,284)	589,339
Results	63,975	84,467	10,375	–	158,817
Elimination of intersegment profit	(7,056)	–	(714)	–	(7,770)
Results derived from external customers	56,919	84,467	9,661	–	151,047
Finance income					3,262
Unallocated income:					
Government grants					3,232
Trademark licence fees					3,955
Distribution commission					7,957
Gain on sales of scrap materials					1,236
Rental income					476
Exchange gain, net					1,716
Others					1,484
					20,056
Unallocated expenses:					
Advertising and promotion expenses					(11,917)
Freight					(13,303)
Loss on disposal of items of property, plant and equipment					(143)
Loss on disposal of scrap materials					(418)
Donations					(168)
Research and development expenses, excluding the amortisation of deferred expenditures					(9,502)
Staff costs					(16,940)
Amortisation and depreciation					(6,792)
Equity-settled share option expense					(823)
Other unallocated head office and corporate expenses					(15,329)
					(75,335)
Finance costs					(502)
Share of profit of an associate					117

5. Operating Segment Information *(continued)*

	2011				
	Lamp products US$'000	Luminaire products US$'000	Lighting electronic products US$'000	Eliminations US$'000	Consolidated US$'000
Profit before tax					98,645
Income tax expense					(8,077)
Profit for the year					90,568
Impairment loss of trade receivables	99	566	110		775
Unallocated impairment loss/(reversal of impairment loss) of other receivables associated with head office and corporate assets					(77)
Total impairment loss of trade and other receivables					698
Write-down of inventories to net realisable value	997	551	264		1,812
Depreciation and amortisation	8,602	4,750	936		14,288
Unallocated depreciation and amortisation associated with head office and corporate assets					2,054
Total depreciation and amortisation					16,342

5. Operating Segment Information *(continued)*

	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 on sales of scrap 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

5. Operating Segment Information *(continued)*

	2010				
	Lamp products US$'000	Luminaire products US$'000	Lighting electronic products US$'000	Eliminations US$'000	Consolidated US$'000
Profit before tax					82,316
Income tax expense					(8,422)
Profit for the year					73,894
Impairment loss/(reversal of impairment loss) of trade receivables	416	(14)	(127)	–	275
Unallocated impairment loss/(reversal of impairment loss) of other receivables associated with head office and corporate assets					(137)
Total impairment loss of trade and other 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

5. Operating Segment Information *(continued)*

Geographical information

	2011		
	Mainland China US$'000	**Overseas US$'000**	**Consolidated US$'000**
Revenue			
Sales to external customers	**455,610**	**133,729**	**589,339**
Non-current assets*	**224,181**	**9,022**	**233,203**

	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

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, the 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 2011 (2010: None).

6. Revenue

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

7. Other Income and Expenses

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

	2011 US$'000	2010 US$'000
Cost of inventories recognised as an expense	**367,028**	277,264
Depreciation of items of property, plant and equipment*	**11,549**	9,377
Amortisation of intangible assets other than goodwill*	**3,976**	3,385
Write-down of inventories to net realisable value	**1,812**	178
Minimum lease payments*	**2,849**	1,668
Amortisation of prepaid land lease payments	**427**	397
Amortisation of long-term deferred expenses	**8**	10
Auditors' remuneration	**520**	505
Impairment loss of trade and other receivables	**698**	138
Listing expenses, excluding share issue costs	**–**	1,844
* Included in cost of sales:		
Depreciation of items of property, plant and equipment	**7,646**	6,350
Amortisation of intangible assets other than goodwill	**1,263**	865
Minimum lease payments under operating leases	**754**	487

7.2 Other income and gains

	Notes	2011 US$'000	2010 US$'000
Government grants	*(a)*	**3,232**	3,587
Trademark licence fees	*(b)*	**3,955**	3,228
Distribution commission	*(b)*	**7,957**	4,210
Gain on sales of scrap materials		**1,236**	861
Rental income		**476**	500
Exchange gain, net		**1,716**	673
Others		**1,484**	270
		20,056	13,329

Notes:

(a) Various government grants have been received by the Group's PRC subsidiaries to encourage export sales, research and development activities, recruitment of local workers, expansion of production capacity of energy-saving lamps, and for 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 a limited number of related companies for the consideration of 3% of the related companies' sales as trademark licence fees, and charged distribution commission to a limited number of related companies 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 34.

7. Other Income and Expenses *(continued)*

7.3 Other expenses

	2011 US$'000	2010 US$'000
Loss on disposal of items of property, plant and equipment	**143**	692
Loss on disposal of scrap materials	**418**	404
Donation	**168**	177
Others	**370**	18
	1,099	1,291

7.4 Finance income

	2011 US$'000	2010 US$'000
Interest income from bank deposits	**3,221**	1,804
Other interest income	**41**	134
	3,262	1,938

7.5 Finance costs

	2011 US$'000	2010 US$'000
Interest expense on convertible redeemable preference shares	**–**	1,315
Interest on bank loans	**502**	1,283
	502	2,598

7. Other Income and Expenses *(continued)*

7.6 Employee benefit expenses (excluding directors' remuneration)

	2011 US$'000	2010 US$'000
Wages and salaries	**55,383**	44,232
Pension scheme contributions (defined contribution scheme)	**5,410**	4,690
Housing funds' contributions	**1,974**	1,592
Other welfare expenses	**4,162**	1,960
Equity-settled share option expense	**219**	229
	67,148	52,703

7.7 Research and development costs

Research and development costs, including the amortisation of deferred development cost, recognised as an expense in the consolidated financial statements for the year ended 31 December 2011 amounted to US$10,054,000 (2010: US$5,315,000).

The government grants associated with research and development activities that were released to the income statement are US$143,000 for the year ended 31 December 2011 (2010: US$353,000).

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:

	2011 US$'000	2010 US$'000
Fees	**123**	68
Other emoluments:		
Salaries, allowances and benefits in kind	**611**	355
Performance-related bonuses*	**234**	678
Equity-settled share option expense	**604**	515
Pension scheme contributions	**18**	18
	1,590	1,634

* Certain executive directors of the Company are entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.

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:

	2011					
	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	–	246	155	572	4	977
Mr. Wu Jiannong*	–	65	51	–	10	126
Mr. Mu Yu	–	150	28	2	4	184
	–	461	234	574	18	1,287
Non-executive directors:						
Mr. Xia Lei*	–	19	–	10	–	29
Mr. Yan Andrew Y	–	45	–	10	–	55
Ms. Hui Ming Yunn, Stephanie	–	39	–	–	–	39
Mr. Lin Ho-Ping, Brandon	–	39	–	10	–	49
Mr. Zhu Hai	–	8	–	–	–	8
	–	150	–	30	–	180
Independent non-executive directors:						
Wang Jinsui	39	–	–	–	–	39
Karel Robert Den Daas	39	–	–	–	–	39
Alan Russell Powrie	45	–	–	–	–	45
	123	–	–	–	–	123
	123	611	234	604	18	1,590

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

(a) Directors' remuneration *(continued)*

	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 non-executive 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)*

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

	2011	2010
Nil to HK$1,000,000	**9**	8
HK$1,000,000 to HK$1,500,000	**1**	–
HK$1,500,000 to HK$2,000,000	**–**	–
HK$2,000,000 to HK$2,500,000	**–**	1
Over HK$2,500,000	**1**	1
	11	10

* Mr. Wu Jiannong retired from the Company's board of directors on 24 June 2011 and Mr. Xia Lei resigned from the Company's board of directors on 24 August 2011.

Share options were granted to certain directors in respect of their services to the Group in prior years under the Pre-IPO share options scheme, further details of which are set out in note 31 to the consolidated financial statements. The fair value of these 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.

(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	
	2011	2010
Directors	**2**	2
Non-director employees	**3**	3
	5	5

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

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

Details of the directors' remuneration are set out in note 8(a) above. Details of the remuneration of the non-director, highest paid employees for the year are as follows:

	2011 **US$'000**	2010 US$'000
Salaries, allowances and benefits in kind	**552**	295
Performance-related bonuses	**133**	273
Equity-settled share option expense	**–**	7
Pension scheme contributions	**20**	17
	705	592

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

	2011	2010
Nil to HK$1,000,000	**–**	–
HK$1,000,000 to HK$1,500,000	**–**	2
HK$1,500,000 to HK$2,000,000	**3**	1
	3	3

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

	2011 US$'000	2010 US$'000
Current income tax:		
– Current income tax charge for the year	**12,311**	10,150
– Adjustments in respect of current income tax of previous years	**(676)**	–
Deferred income tax:		
– Relating to origination and reversal of temporary differences	**(3,558)**	(1,728)
Total tax charge for the year	**8,077**	8,422

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 2011 (2010: Nil).

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, Huizhou NVC was recognised as a high-tech enterprise by the PRC tax authority in 2009 and is entitled to a preferential tax rate of 15% from year 2009 to 2011. Chongqing NVC, a subsidiary located in the west of China, was recognised as a western development enterprise by the local tax authority in 2009 and is entitled to the preferential tax rate of 15% from 2009 to 2020 according to a local tax policy on western development issued in 2011. Sunny, another PRC subsidiary, was recognised as a high-tech enterprise by the PRC tax authority in 2008 with an extended effective period of three years from 2011 to 2013. Accordingly, it is entitled to a 15% enterprise income tax rate from 2011 to 2013. A summary of the applicable tax rates for the Group's PRC subsidiaries is set out below:

9. Income Tax *(continued)*

	2011	2010
Huizhou NVC	**15%**	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%**	12.5%

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

2011

	Mainland China US$'000	**Others US$'000**	**Total US$'000**
Profit before tax	**95,333**	**3,312**	**98,645**
Tax at the statutory tax rates	**23,833**	**139**	**23,972**
Lower tax rates enacted by local authority	**(9,936)**	**–**	**(9,936)**
Tax exemption	**(3,032)**	**–**	**(3,032)**
Income not subject to tax	**(1,030)**	**–**	**(1,030)**
Expenses not deductible for tax	**599**	**–**	**599**
Adjustments in respect to current income tax of previous years	**(676)**	**–**	**(676)**
Tax losses utilised from previous periods	**–**	**(139)**	**(139)**
Accumulated tax losses recognised in the current year	**–**	**(588)**	**(588)**
Effect on deferred tax due to change in tax rates	**(1,093)**	**–**	**(1,093)**
Income tax expense for the year	**8,665**	**(588)**	**8,077**

9. Income Tax *(continued)*

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

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 2011. During the year ended 31 December 2010, the calculation of the diluted earnings per share amount is based on the profit attributable to ordinary equity holders of the Company, adjusted to reflect the interest expense and fair value gain or loss of preference shares, and the profit attributable to the holders of preference shares of the Company, which were converted into ordinary shares on 20 May 2010. During the year ended 31 December 2011, the calculation of the diluted 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 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.

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

	2011 **US cents**	2010 US cents
Earnings per share		
– Basic	**2.77**	2.69
– Diluted	**2.73**	2.53

The calculation of basic and diluted earnings per share is based on:

	2011 **US$'000**	2010 US$'000
Earnings:		
Profit attributable to equity holders of the Company	**86,503**	71,338
Less: profit attributable to holders of preference shares	**–**	(7,504)
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	**86,503**	63,834
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	**86,503**	69,796

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

	2011	2010
	US$'000	US$'000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**3,120,083**	2,377,250
Effect of dilution – weighted average number of ordinary shares:		
Share options	**49,380**	133,357
Series A-1 preference shares	**–**	213,090
Series A-2 preference shares	**–**	37,253
	3,169,463	2,760,950

11. Dividends

On 24 August 2011, the board of directors passed a resolution for the declaration of an interim dividend of 2.5 HK cents per share for the six month ended 30 June 2011 (six months ended 30 June 2010: 2 HK cents). The dividend payable totalled HK$78,950,000 (equivalent to approximately US$10,120,000) (before tax) based on the 3,158,013,000 issued shares as at 23 September 2011.

On 26 March 2012, the board of directors of the Company proposed to declare a final dividend for 2011 of 3.5 HK cents per share (2010: 3 HK cents). It is expected that the final dividend payable will amount to HK$110,530,000 (equivalent to approximately US$14,221,000) (before tax) based on the 3,158,013,000 issued shares as at 31 December 2011, which is subject to approval by shareholders in the annual general meeting.

12. Profit for the Year Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for the year ended 31 December 2011 included a profit of US$2,007,000, which has been dealt with in the financial statements of the Company (2010: loss of US$3,375,000).

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
2011								
At 31 December 2010 and at 1 January 2011:								
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
At 1 January 2011, net of accumulated depreciation	32,336	2,822	32,178	2,577	2,307	11,286	1,311	84,817
Additions	8,889	920	17,635	1,287	1,368	25,266	–	55,365
Reclassification *(note 15)*	(1,868)	–	–	–	–	–	–	(1,868)
Depreciation provided during the year	(1,753)	(972)	(6,885)	(1,057)	(811)	–	(453)	(11,931)
Disposals	–	–	(389)	(44)	(40)	(166)	–	(639)
Transfers	14,513	–	6,884	28	58	(21,483)	–	–
Exchange realignment	1,644	140	2,003	123	115	658	57	4,740
At 31 December 2011, net of accumulated depreciation	53,761	2,910	51,426	2,914	2,997	15,561	915	130,484
At 31 December 2011:								
Cost	59,759	5,283	66,875	6,249	4,471	15,561	1,390	159,588
Accumulated depreciation	(5,998)	(2,373)	(15,449)	(3,335)	(1,474)	–	(475)	(29,104)
Net carrying amount	53,761	2,910	51,426	2,914	2,997	15,561	915	130,484

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	Decoration expenditures US$'000	Total US$'000
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

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

As a consequence of the Jiangshan city landscaping plan, the Group was required to relocate its production centre 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 million (equivalent to US$19.5 million) to compensate the Group for the Relocation. Out of the total agreed compensation, RMB105 million (equivalent to US$16.7 million) has been received before the end of 2011. This compensation was calculated based on a local independent land and property valuation report and the local policies of Jiangshan City. As at 31 December 2011, part of the production facilities has been relocated to the Jiangshan Economic Development Zone. Upon completion of the Relocation, the existing land use rights and buildings in the original site of the Group's production centre in Jiangshan City shall be returned to the local government. At 31 December 2011, the carrying amounts of the relevant land use rights and buildings were US$2,352,000 (2010: US$2,652,000) and US$9,371,000 (2010: US$9,561,000), respectively.

14. Prepaid Land Lease Payments

	2011	2010
	US$'000	US$'000
Carrying amount at beginning of year	**11,536**	11,570
Addition	**531**	–
Recognised during the year	**(427)**	(397)
Reclassification *(note 15)*	**(937)**	–
Exchange realignment	**619**	363
Carrying amount at end of year	**11,322**	11,536

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

As mentioned in note 13 above, the land use rights with a carrying amount of US$2,352,000 as at 31 December 2011 shall be returned to the local government of Jiangshan City upon completion of the Relocation.

15. Non-current Assets Classified as Held for Sale

In 2011, the board of directors resolved to dissolve Zhangpu Phoebus and on 19 December 2011, resolved to sell the land and buildings of Zhangpu Phoebus. Zhangpu Phoebus produced energy-saving lamps and shared the same customer base with Sunny and Jiangshan Phoebus. The Group decided to cease the operations of Zhangpu Phoebus and transfer its business to Sunny and Jiangshan Phoebus in the Zhejiang production centre. As at 31 December 2011, negotiations for the sale of the land and buildings were still in progress and the land and buildings of Zhangpu Phoebus with carrying amounts set out below were classified as non-current assets held for sale.

	2011 **US$'000**	2010 US$'000
Non-current assets		
Property, plant and equipment	**1,868**	–
Prepaid land lease payments	**937**	–
	2,805	–

The non-current assets belong to the lamp segment. The fair values of the non-current assets held for sale have been appraised by a PRC independent appraiser and the fair values are larger than the above carrying amounts.

16. Goodwill

	2011 **US$'000**	2010 US$'000
Cost and net carrying amount at beginning of year	**34,121**	33,896
Exchange realignment	**728**	225
Cost and net carrying amount at end of year	**34,849**	34,121

As at 31 December 2011, the goodwill was tested for impairment as follows and no impairment provision was recognised (2010: Nil).

16. Goodwill *(continued)*

Impairment testing of goodwill

Except for the insignificant goodwill acquired from the business combination of Huizhou Huixin Hardware Co., Ltd, the goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

Lamp products cash-generating unit in Sunny and Jiangshan Phoebus

The carrying amount of goodwill allocated to the lamp products cash-generating unit in Sunny and Jiangshan Phoebus amounted to US$31,495,000 as at 31 December 2011 (2010: US$30,929,000).

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 13% (2010: 12%) for the cash flow projection made on 31 December 2011. The future cash flow was discounted to its present value using a discount rate of 23.02% as at 31 December 2011 (2010: 21.46%). 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 2011, 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 (2010: Nil).

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$1,165,000 as at 31 December 2011 (2010: US$1,109,000).

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 CAGR of 13% by reference to past experience and external sources of information (2010: 12%) in the cash flow projection. The future cash flow was discounted to its present value using a discount rate of 21.14% (2010: 20.64%). 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 2011, 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 (2010: 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$1,746,000 as at 31 December 2011 (2010: US$1,661,000).

The recoverable amount of the cash-generating unit is determined based on a value in use calculation using the cash flow projections covering a five-year period approved by senior management. Management adopted a CAGR of 0.4% by reference to past experience and external sources of information (2010: 2%). The future cash flow was discounted to its present value using a discount rate of 21.61% (2010: 24.05%). 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 2011, 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 (2010: Nil).

16. 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$339,000 as at 31 December 2011 (2010: US$322,000).

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 covering a five-year period approved by senior management. The management estimated the revenue for the next five years remained the same as the current year (2010: CAGR of 0%). The future cash flow was discounted to its present value using a discount rate of 19.31% (2010: 22.29%). 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 2011, 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 (2010: Nil).

Key assumptions used in the value in use calculation

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

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

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

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

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

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

17. Other Intangible Assets

	Computer software US$'000	Customer relationships US$'000	Trademarks US$'000	Development costs US$'000	Patents US$'000	Total US$'000
2011						
Cost at 1 January 2011, net of accumulated amortisation	461	2,853	40,769	2,305	6,644	53,032
Additions – internal development	–	–	–	3,169	–	3,169
– others	471	–	–	–	–	471
Amortisation provided during the year	(112)	(1,109)	–	(552)	(2,203)	(3,976)
Exchange realignment	33	271	2,082	177	527	3,090
At 31 December 2011	853	2,015	42,851	5,099	4,968	55,786
At 31 December 2011:						
Cost	1,316	5,925	42,851	5,873	11,422	67,387
Accumulated amortisation	(463)	(3,910)	–	(774)	(6,454)	(11,601)
Net carrying amount	853	2,015	42,851	5,099	4,968	55,786
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

17. Other Intangible Assets *(continued)*

At 31 December 2011, the remaining amortisation periods of customer relationships was 1.67 years and the remaining amortisation period of patents ranged from 1.67 years to 3 years.

The useful lives of trademarks with a net carrying amount of US$42,851,000 (2010: US$40,769,000) are estimated by senior management to be indefinite as the trademarks 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 2011 (2010: Nil). There was no impairment provision for other intangible assets as at 31 December 2011 (2010: 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 covering a five-year period approved by senior management. Management adopted a CAGR of 11% and royalty rate of 3% by reference to past experience and external sources of information (2010: a CAGR of 13% and royalty rate of 3%). The future cash flow was discounted to its present value using a discount rate of 22.2% (2010: 25.48%). 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 2011, the value in use of the cash-generating unit exceeded its carrying amount, and hence the trademarks allocated to this cash-generating unit were not regarded as impaired (2010: Nil).

Key assumptions used in the value in use calculation

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

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

Discount 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.

18. Investments in Subsidiaries

Company

	Notes	2011 US$'000	2010 US$'000
Unlisted investment, at cost	(a)	**117,177**	114,456

Note:

(a) The principal subsidiaries of the Company include Huizhou NVC, Chongqing NVC, World Through, Hong Kong TYU and UK NVC. The Company directly holds 100% of each of these subsidiaries as at 31 December 2011.

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of US$82,069,000 (2010: US$35,521,000) and US$7,097,000 (2010: US$6,790,000), 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.

19. Investment in an Associate

Group

The Group had a 35% equity interest in Mianyang Leici Electronic Technology Co., Ltd. ("Leici") as at 31 December 2011. 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.

	2011 US$'000	2010 US$'000
Share of profits of an associate	**117**	129
Carrying amount of the investment in an associate at the year end	**706**	689

19. Investment in an Associate *(continued)*

Group *(continued)*

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

	2011 US$'000	2010 US$'000
Assets	**8,211**	7,138
Liabilities	**5,804**	5,170

	2011 US$'000	2010 US$'000
Revenues	**14,250**	10,300
Profits	**334**	369

20. Deferred Tax

Deferred tax assets

Movements in deferred tax assets are as follows:

	Impairment provision for inventory 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$'000	Losses available for offsetting against future taxable profits US$'000	Accruals US$'000	Total US$'000
At 1 January 2011	662	510	302	259	278	–	526	2,537
Deferred tax credited/ (charged) to the income statement during the year	587	(156)	560	102	137	588	279	2,097
Exchange realignment	47	30	28	16	–	(21)	31	131
At 31 December 2011	1,296	384	890	377	415	567	836	4,765

20. Deferred Tax *(continued)*

Deferred tax assets *(continued)*

	Impairment provision for inventory 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$'000	Losses available for offsetting against future taxable profits US$'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

The Group has tax losses arising in the PRC and the UK with an aggregate cumulative amount of US$2,031,000 as at 31 December 2011 (2010: US$3,095,000). The tax losses arising in the PRC were generated by Zhangpu Phoebus and the tax losses are not available for offsetting against future taxable profit as the Group has decided to cease the operations of the subsidiary. The tax losses arising in the UK are available indefinitely for offsetting against future taxable profits of the company in which the losses arose. Deferred tax assets have been recognised for tax losses arising in UK NVC as UK NVC began to generate profit in 2011 and management expects UK NVC to generate sufficient future profits to utilise all of the deferred tax assets.

20. 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 2011	**15,038**	**15,038**
Deferred tax credited to the income statement during the year	**(1,461)**	**(1,461)**
Exchange realignment	**733**	**733**
At 31 December 2011	**14,310**	**14,310**

	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

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%.

At 31 December 2011, there were no recognised deferred tax liabilities (2010: 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 2011 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$210,074,000 as at 31 December 2011 (2010: US$135,517,000), and the maximum potential cumulative tax impact as at 31 December 2011 was US$20,846,000 (2010: US$13,436,000), 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.

21. Inventories

	2011 US$'000	2010 US$'000
Raw materials	**43,146**	19,885
Work in progress	**3,543**	1,053
Finished goods	**64,852**	47,653
	111,541	68,591

The write-down of inventories recognised as an expense for the year ended 31 December 2011 amounted to US$1,812,000 (2010: US$178,000), which was recorded in cost of sales.

22. Trade and Other Receivables

Group

	Notes	2011 US$'000	2010 US$'000
Bill receivables		**23,869**	27,262
Trade receivables		**119,162**	85,321
Provision		**(2,595)**	(2,181)
	(a)	**140,436**	110,402
Other receivables		**14,998**	9,361
Provision		**(20)**	(260)
	(b)	**14,978**	9,101
		155,414	119,503

Company

	Notes	2011 US$'000	2010 US$'000
Other receivables	*(c)*	**880**	596

22. Trade and Other Receivables *(continued)*

Notes:

(a) Trade and bill receivables

Trade and bill receivables of the Group represented proceeds receivable from sales 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 60 to 120 days. Each major 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 and bill receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bill receivables. Trade and bill receivables are non-interest-bearing.

Bill receivables were all bank acceptance notes with a maturity period within six months.

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

	2011 **US$'000**	2010 US$'000
Within 3 months	**121,231**	94,924
Between 4 and 6 months	**12,640**	11,703
Between 7 and 12 months	**6,011**	2,427
Between 1 and 2 years	**399**	1,080
Between 2 and 3 years	**155**	268
	140,436	110,402

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

	2011 **US$'000**	2010 US$'000
At beginning of year	**2,181**	1,858
Impairment losses recognised	**775**	597
Impairment losses reversed	**–**	(322)
Impairment losses written off	**(440)**	–
Exchange realignment	**79**	48
At end of year	**2,595**	2,181

22. Trade and Other Receivables *(continued)*

Notes: (continued)

(a) Trade and bill receivables *(continued)*

The above provision for impairment of trade and bill receivables represented full provision made for individually impaired trade receivables with an aggregate gross balance of US$2,595,000 as at 31 December 2011 (2010: US$2,181,000). 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.

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

	2011	2010
	US$'000	US$'000
Neither past due nor impaired	**122,251**	95,663
Past due but not impaired:		
– Less than 2 months past due	**11,232**	9,178
– 2 to 6 months past due	**6,117**	3,817
– 7 to 12 months past due	**653**	918
– Over 1 year past due	**183**	826
	140,436	110,402

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

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

22. Trade and Other Receivables *(continued)*

Notes: (continued)

(b) Other receivables of the Group

Group

The breakdown of other receivables is as follows:

	Notes	**2011 US$'000**	2010 US$'000
Receivables from third parties	*(i)*	**4,918**	5,485
Amounts due from Mr. Wu Changjiang, a director of the Company	*(ii)*	**318**	–
Amounts due from other related parties	*(iii)*	**9,762**	3,876
Provision	*(iv)*	**(20)**	(260)
Net balance		**14,978**	9,101

Notes:

(i) The balance as at 31 December 2011 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.

Except for the bank interest receivable of US$963,000 (2010: US$596,000), which is repayable on maturity of related time deposits with original maturity of six to twelve months, the receivables from third parties are unsecured, non-interest-bearing and have no fixed terms of repayment.

(ii) The balance due from Mr. Wu Changjiang is unsecured, non-interest-bearing and has no fixed terms of repayments.

(iii) The amounts due from other related parties (defined in note 34) consist of the following:

	2011 US$'000	2010 US$'000
Entities over which a close family member of Mr. Wu Changjiang, a director of the Company, has significant influence	**9,761**	3,830
Other	**1**	46
	9,762	3,876

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 these related companies are 90 days. The balances are unsecured and non-interest-bearing.

22. Trade and Other Receivables *(continued)*

Notes: (continued)

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

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

	2011 **US$'000**	2010 US$'000
At beginning of year	**260**	392
Impairment losses recognised	**20**	92
Impairment losses reversed	**(97)**	(229)
Impairment losses written off	**(170)**	–
Exchange realignment	**7**	5
At end of year	**20**	260

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.

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:

	2011 **US$'000**	2010 US$'000
Within 1 year	**14,429**	8,665
Between 1 and 2 years	**493**	382
Over 2 years	**56**	54
	14,978	9,101

22. Trade and Other Receivables *(continued)*

Notes: (continued)

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

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

	2011 US$'000	2010 US$'000
Neither past due nor impaired	**8,289**	7,822
Past due but not impaired:		
– Less than 2 months past due	**3,065**	433
– 2 to 12 months past due	**3,191**	502
– Over 1 year past due	**433**	344
	14,978	9,101

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

At 31 December 2011, included in other receivables that were past due but not impaired are amounts receivable from related parties of US$3,065,000 (2010: US$433,000) and US$3,191,000 (2010: US$502,000), which are less than two months past due and two to twelve months past due, respectively. The balances past due but not impaired mainly represent the trademark licence fee receivables and distribution commission receivables. The directors of the Company are of the opinion that no impairment provision is required in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

(c) Other receivables of the Company

Company

	2011 US$'000	2010 US$'000
Receivables from a third party	**880**	596

The above balance represented interest receivable on time deposits. The amounts are unsecured and repayable on maturity of related time deposits with original maturity of six to twelve months.

As at 31 December 2011 and 2010, the Company's other receivables are neither past due nor impaired.

23. Prepayments

Amount represented prepayments for raw materials and machinery. Included in the balance is US$5,872,000 which bore an interest rate of 1% per month.

Prepayments to related companies (defined in note 34) consist of the following:

Group

	2011 US$'000	2010 US$'000
An entity over which the Group indirectly has significant influence through an associate	**2,520**	367
Entities over which a close family member of Mr. Wu Changjiang, a director of the Company, has significant influence	**4,589**	–
Other	**–**	30
	7,109	397

As at 31 December 2011, the fair value of prepayments approximates to their carrying amount largely due to the short term maturities.

24. Cash and Short-term Deposits

Group

	2011 US$'000	2010 US$'000
Cash and bank balances	**124,746**	125,031
Time deposits:		
Non-pledged time deposits	**75,212**	116,970
Pledged time deposits	**742**	1,413
	200,700	243,414
Less:		
Non-pledged time deposits with original maturity of more than three months when acquired	**(75,212)**	(59,235)
Pledged time deposits with original maturity of more than three months when acquired	**(742)**	(1,413)
Cash and cash equivalents as stated in the consolidated statement of financial position	**124,746**	182,766

24. Cash and Short-term Deposits *(continued)*

Company

	2011	2010
	US$'000	US$'000
Cash and bank balances	**10,656**	33,070
Time deposits:		
Non-pledged time deposits	**68,070**	110,930
	78,726	144,000
Less:		
Non-pledged time deposits with original maturity of more than three months when acquired	**(68,070)**	(59,235)
Cash and cash equivalents as stated in the statement of financial position	**10,656**	84,765

Time deposits were made for varying periods of between six 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, 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 2011, the cash and bank balances of the Group denominated in RMB amounted to RMB639,641,000 (equivalent to US$101,516,000) (2010: RMB894,027,000 (equivalent to US$134,944,000)). 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.

As at 31 December 2011, the fair value of cash and short-term deposits approximate to their carrying amounts largely due to the short term maturities.

25. Trade Payables

Group

	2011 US$'000	2010 US$'000
Trade payables to third parties	**58,468**	48,076
Trade payables to related parties	**2,755**	3,221
	61,223	51,297

Trade payables to related parties (defined in note 34) include the following:

	2011 US$'000	2010 US$'000
Entities controlled by Mr. Wu Jiannong, a director of Zhejiang NVC and the substantial shareholder of Signkey, a substantial shareholder of the Company	**1,805**	1,813
An entity over which the Group indirectly has significant influence through an associate	**820**	710
Entities over which a close family member of Mr. Wu Changjiang, a director of the Company, has significant influence	**130**	698
	2,755	3,221

Trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

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

	2011 US$'000	2010 US$'000
Within 3 months	**58,934**	50,194
Between 4 and 6 months	**1,738**	526
Between 7 and 12 months	**85**	193
Between 1 and 2 years	**104**	102
Over 2 years	**362**	282
	61,223	51,297

26. Other Payables and Accruals

Group

	2011 US$'000	2010 US$'000
Other payables to third parties	**26,556**	33,157
Dividends payable	**537**	521
Advances from customers	**3,122**	3,242
Accruals	**5,109**	6,196
Amounts due to related parties	**190**	1,322
	35,514	44,438

The amounts due to related parties (defined in note 34) are as follows:

	2011 US$'000	2010 US$'000
Entities controlled by Mr. Wu Jiannong, a director of Zhejiang NVC and the substantial shareholder of Signkey, a substantial shareholder of the Company	**149**	1,318
Other	**41**	4
	190	1,322

Company

	2011 US$'000	2010 US$'000
Other payables to third parties	**71**	2,535
Dividends payable	**537**	521
Accruals	**–**	120
	608	3,176

Other payables of the Group and the Company as at 31 December 2011 are non-interest-bearing and have no fixed terms of repayment.

As at 31 December 2011, the fair values of other payables and accruals approximate to their carrying amount largely due to the short term maturities.

27. Interest-bearing Loans

	2011			2010		
	Contractual interest rate (%)	Maturity	US$'000	Contractual interest rate (%)	Maturity	US$'000
Current						
Bank loans – unsecured[1]	4.525-7.015	April 2012	6,261	–	–	–
Bank loans – unsecured[2]	Base*+2.10	April 2012	233	–	–	–
Total			6,494			–

1 The bank loans included RMB-denominated loans of RMB10,000,000 at an interest rate of 7.015% per annum and RMB20,000,000 at an interest rate of 6.893% per annum, and a USD-denominated loan of US$1,500,000 at an interest rate of 4.525% per annum.

2 The bank loan represents a GBP-denominated loan of GBP151,000.

* Base means Bank of England base rate.

The interest-bearing loans are repayable within 1 year.

As at 31 December 2011, the fair value of interest-bearing loans approximates to their carrying amounts largely due to the short term maturities.

28. Government Grants

	2011 US$'000	2010 US$'000
At beginning of year	16,320	8,680
Received during the year	6,903	10,802
Released to the income statement	(3,232)	(3,587)
Exchange realignment	917	425
At end of year	20,908	16,320
Non-current	20,908	16,320

Various government subsidies have been granted to the Group's PRC subsidiaries as compensation for plant relocation, incentives for export sales, technology research and development, and recruitment of local workers, and as financial support for the establishment of energy-saving lamp tube production lines.

28. Government Grants *(continued)*

Included in the balance at 31 December 2011 was an amount of US$16,244,000 (2010: US$14,303,000) representing the government grant as compensation for the relocation of the Group's production centre 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 centre in Jiangshan City which shall be returned to the local government upon completion of the Relocation.

The remaining balance at 31 December 2011 mainly represented government grants for development of light-emitting diode ("LED") products and other energy-saving lamp production lines. The government 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 centre are required to be transferred to the government upon the completion of the Relocation as detailed in note 13.

29. Share Capital

	2011			2010		
	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**	500,000,000,000	0.0000001	50,000
Issued and fully paid:						
Ordinary shares	**3,158,013,000**	**0.0000001**	**315.80**	3,064,213,000	0.0000001	306.42

29. Share Capital *(continued)*

Movements in the issued share capital and share premium are as follows:

2011	*Note*	**Number of shares in issue**	**Issued capital US$**	**Share premium account US$'000**	**Total US$'000**
At 31 December 2010 and 1 January 2011		**3,064,213,000**	**306.42**	**315,130**	**315,130**
Share options exercised	*(a)*	**93,800,000**	**9.38**	**6,687**	**6,687**
Acquisition of non-controlling interests in a subsidiary		**–**	**–**	**(609)**	**(609)**
Adjustment to 2010 final dividend declared		**–**	**–**	**(240)**	**(240)**
2011 interim dividend declared *(note 11)*		**–**	**–**	**(10,120)**	**(10,120)**
Proposed 2011 final dividend *(note 11)*		**–**	**–**	**(14,221)**	**(14,221)**
Other		**–**	**–**	**199**	**199**
At 31 December 2011		**3,158,013,000**	**315.80**	**296,826**	**296,826**

2010	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	1,326,930,000	132.69	–	–
Issue of new ordinary shares in the IPO	747,415,000	74.74	191,824	191,824
Conversion of convertible redeemable preference shares	889,309,000	88.93	113,728	113,728
Share options exercised	100,559,000	10.06	5,709	5,709
2010 interim dividend	–	–	(7,876)	(7,876)
Proposed 2010 final dividend	–	–	(11,811)	(11,811)
At 31 December 2010	3,064,213,000	306.42	315,130	315,130

29. Share Capital *(continued)*

Note:

(a) The subscription rights attaching to 93,800,000 share options were exercised at the subscription weighted average price of HK$0.47 per share (note 31), resulting in the issue of 93,800,000 shares of US$0.0000001 each for a total cash consideration, after expense, of US$5,682,000. An amount of US$1,005,000 was transferred from the employee equity benefit reserve to the share premium account upon the exercise of the share options.

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) 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.

(b) 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.

(c) 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 consolidated 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.

(d) 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 movements of reserves in the Company are as follows:

	Share premium US$'000	Employee equity benefit reserve US$'000	Accumulated losses US$'000	Total US$'000
2011				
At 1 January 2011	**315,130**	**1,768**	**(44,102)**	**272,796**
Profit for the year	**–**	**–**	**2,007**	**2,007**
Employee share option arrangements *(note 31)*	**–**	**823**	**–**	**823**
Exercise of share options	**6,687**	**(1,005)**	**–**	**5,682**
Adjustment to 2010 final dividend declared	**(240)**	**–**	**–**	**(240)**
2011 interim dividend declared *(note 11)*	**(10,120)**	**–**	**–**	**(10,120)**
Proposed 2011 final dividend *(note 11)*	**(14,221)**	**–**	**–**	**(14,221)**
Other	**199**	**–**	**–**	**199**
At 31 December 2011	**297,435**	**1,586**	**(42,095)**	**256,926**
2010				
At 1 January 2010	23,556	2,172	(40,727)	(14,999)
Loss for the year	–	–	(3,375)	(3,375)
Issue of new shares in the IPO, net of share issue expenses	191,824	–	–	191,824
Conversion of preference shares to ordinary shares	113,728	–	–	113,728
Exercise of share options	5,709	(1,148)	–	4,561
Employee share option arrangements *(note 31)*	–	744	–	744
2010 interim dividend	(7,876)	–	–	(7,876)
Proposed 2010 final dividend	(11,811)	–	–	(11,811)
At 31 December 2010	315,130	1,768	(44,102)	272,796

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 was valid and effective for the period of time commencing on 15 October 2006 and expired on the day immediately prior to the date on which dealings commence in the ordinary shares on the Hong Kong Stock Exchange, 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.

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. Exercise price of share options was determined by the board of directors with reference to the market value of the Company's ordinary shares and the Company's equity value.

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.

There has been no cancellation or modification to the Scheme for issue share options during the year.

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

	2011			2010		
		Weighted average exercise price per share			Weighted average exercise price per share	
	Number of options	**HK$**	**US$ equivalent**	Number of options	HK$	US$ equivalent
At beginning of year	**139,870,000**	**1.01**	**0.1295**	191,884,000	0.39	0.0503
Granted during the year	**–**	**–**	**–**	48,545,000	2.09	0.2746
Exercised during the year	**(93,800,000)**	**0.47**	**0.0606**	(100,559,000)	0.35	0.0454
Lapsed during the year	**(800,000)**	**2.10**	**0.2698**	–	–	–
At end of year	**45,270,000**	**2.10**	**0.2698**	139,870,000	1.01	0.1295

For the year ended 31 December 2011, 800,000 share options lapsed due to the resignation of an employee.

The weighted average share price at the dates of exercise for share options exercised during the year ended 31 December 2011 was HK$3.77 per share.

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 the reporting period is as follows:

2011			2010			
	Exercise price per share			Exercise price per share		Vesting periods
Number of options	**HK$**	**US$ equivalent**	Number of options	HK$	US$ equivalent	*(Note)*
–	**–**	**–**	52,434,000	0.31	0.0398	*(a)*
32,670,000	**2.1**	**0.2698**	32,670,000	2.1	0.2698	*(b)*
9,600,000	**2.1**	**0.2698**	12,500,000	2.1	0.2698	*(c)*
3,000,000	**2.1**	**0.2698**	3,000,000	2.1	0.2698	*(d)*
–	**–**	**–**	16,675,000	0.4	0.0514	*(e)*
–	**–**	**–**	22,591,000	0.75	0.0964	*(e)*
45,270,000			139,870,000			

Notes:

The vesting periods of share options of each grant are listed below:

(a) The options vested immediately.

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

(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 at the rate of 20% per year starting from the third year after the employee signed the service contracts, subject to proportional vesting on a quarterly basis.

(e) The share option 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.

The weighted average remaining contractual life of the share options outstanding as at 31 December 2011 was 3.5 years (2010: 5.39 years).

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

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

2011		2010	
Number of share options	**Weighted average exercise price US$ per share**	Number of share options	Weighted average exercise price US$ per share
400,000	**0.2698**	90,758,708	0.06

On 31 December 2009, 139,450,000 share options were transferred by certain optionees to Eastern Galaxy Trust, a discretionary trust established by means of a deed of declaration made by HSBC Trustee (Hong Kong) Limited as trustee. On 9 May 2011 and 16 June 2011, 37,016,000 and 1,875,000 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. All of the transferred share options have been exercised by 31 December 2011.

The 93,800,000 share options exercised during the year ended 31 December 2011 resulted in the issue of 93,800,000 ordinary shares of the Company and new share capital of US$9.38 and share premium of US$5,682,000 (after issue expenses), as further detailed in note 29 to the financial statements.

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 2011 totalled US$823,000 (2010: US$744,000).

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

As at 31 December 2011, the Company had 45,270,000 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 45,270,000 additional ordinary shares of the Company and additional share capital of US$4.527 and share premium of US$12,212,736 (before issue expenses).

Subsequent to the balance sheet date, 325,000 share options lapsed due to the resignation of an employee.

At the date of approval of these financial statements, the Company had 44,945,000 share options outstanding under the Scheme, which represented approximately 1.4% of the Company's shares in issue as at that date.

32. Pledge of Assets

Except for the pledged deposits mentioned in note 24, no assets of the Group were pledged as at 31 December 2011 (2010: US$6,372,000).

33. 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:

	2011 **US$'000**	2010 US$'000
Within one year	**1,404**	495
After one year but not more than five years	**2,210**	858
More than five years	**231**	225
	3,845	1,578

(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 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:

	2011 **US$'000**	2010 US$'000
Within one year	**341**	399
After one year but not more than five years	**131**	325
More than five years	**–**	–
	472	724

33. 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

	2011 **US$'000**	2010 US$'000
Contracted, but not provided for:		
Acquisition of items of property, plant and equipment	**8,646**	10,997
	8,646	10,997
Authorised, but not contracted for:		
Acquisition of items of property, plant and equipment	**22,407**	52,872
Acquisition of intangible assets other than goodwill	**10**	811
Acquisition of land use rights	**–**	504
Capital contributions to a joint venture	**3,888**	–
	26,305	54,187
	34,951	65,184

The Company did not have any significant capital commitments as at 31 December 2011 (2010: Nil).

(d) Contingent liabilities

The Group had no significant contingent liabilities as at 31 December 2011 (2010: Nil).

34. Related Party Transactions

(a) None of the shareholders is the controlling entity of the Company.

(b) 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 Zhejiang NVC and the substantial shareholder of Signkey, a substantial shareholder of the Company
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 and a third party
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.
Chongqing Enlin Electronics Co., Ltd.
Shandong NVC Lighting Development 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
Huizhou Zhongda Technology Co., Ltd.

An entity over which the Group indirectly has significant influence through an associate
Chongqing Chidian Technology Co., Ltd.

34. Related Party Transactions *(continued)*

(c) **In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:**

	Notes	**2011 US$'000**	2010 US$'000
Entities controlled by Mr. Wu Jiannong:			
Purchases of raw materials	*(i)*	**12,334**	10,822
Purchases of machinery	*(i)*	**1,649**	1,019
Maintenance expense	*(i)*	**1,627**	356
Consultation expense	*(i)*	**498**	314
Rental income	*(i)*	**34**	35
Supply of water and electricity	*(i)*	**33**	–
An entity jointly controlled by Mr. Wu Jiannong and a third party:			
Transportation expense	*(i)*	**1,171**	1,267
Entities over which a close family member of Mr. Wu Changjiang, a director of the Company has significant influence:			
Sales of finished goods	*(i)*	**521**	–
Purchases of raw materials and finished goods	*(i)*	**8,073**	6,754
Distribution commission income	*(ii)*	**7,729**	4,210
Trademark licence fee income	*(iii)*	**3,864**	3,179
Interest income	*(i)*	**259**	–
Rental income		**–**	118
Supply of water and electricity		**–**	56
An entity owned by a key management personnel of the Group:			
Purchases of raw materials	*(i)*	**1,018**	1,037
An entity over which the Group indirectly has significant influence through an associate:			
Purchases of raw materials	*(i)*	**11,382**	8,660
Rental income	*(i)*	**–**	19

34. Related Party Transactions *(continued)*

(c) *(continued)*

Notes:

(i) The transactions were made at prices mutually agreed by both parties.

(ii) Distribution commission income arose from the usage of the Group's distribution network by related parties, and was charged at a rate of 6%-8% of the related parties' annual sales. The charge rate was mutually agreed by both parties.

(iii) Licence fee income arose from licensing the "NVC" brand to related parties, and was charged at 3% of the related parties' annual sales. The royalty rate was mutually agreed by both parties.

(d) Outstanding balances with related parties:

The detailed terms regarding the outstanding balances with related parties as at 31 December 2011 and 2010 are set out in notes 22, 23, 25 and 26 to the financial statements.

(e) Compensation of key management personnel of the Group:

	2011 **US$'000**	2010 US$'000
Short-term employee benefits	**2,255**	2,277
Equity-settled share option expenses	**604**	535
	2,859	2,812

Except for the Group's transactions with Huizhou NVC Lighting Environment Engineering Co., Ltd., Huizhou Zhongda Technology Co., Ltd. and Chongqing Chidian Technology Co., Ltd. with amount of US$511,000, US$1,018,000 and US$11,382,000, respectively, for the year ended 31 December 2011 (2010: Nil, US$1,037,000 and US$8,679,000, respectively), all the related party transactions listed above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

35. 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

	2011		2010	
	Loans and receivables US$'000	Total US$'000	Loans and receivables US$'000	Total US$'000
Trade and other receivables	155,414	155,414	119,503	119,503
Short-term deposits	75,954	75,954	60,648	60,648
Cash and cash equivalents	124,746	124,746	182,766	182,766
Total	356,114	356,114	362,917	362,917

Financial liabilities

	2011		2010	
	Financial liabilities at amortised cost US$'000	Total US$'000	Financial liabilities at amortised cost US$'000	Total US$'000
Trade payables	61,223	61,223	51,297	51,297
Financial liabilities included in other payables	30,366	30,366	38,242	38,242
Interest-bearing loans	6,494	6,494	–	–
Total	98,083	98,083	89,539	89,539

35. Financial Instruments by Category *(continued)*

Company

Financial assets

	2011		2010	
	Loans and receivables US$'000	Total US$'000	Loans and receivables US$'000	Total US$'000
Due from subsidiaries	82,069	82,069	35,521	35,521
Other receivables	880	880	596	596
Short-term deposits	68,070	68,070	59,235	59,235
Cash and cash equivalents	10,656	10,656	84,765	84,765
Total	161,675	161,675	180,117	180,117

Financial liabilities

	2011		2010	
	Financial liabilities at amortised cost US$'000	Total US$'000	Financial liabilities at amortised cost US$'000	Total US$'000
Due to subsidiaries	7,097	7,097	6,790	6,790
Financial liabilities included in other payables	608	608	3,056	3,056
Total	7,705	7,075	9,846	9,846

As at 31 December 2011 and 2010, the fair values of cash and cash equivalents, short-term deposits, trade and other receivables, trade payables, financial liabilities included in other payables, interest-bearing loans and amounts due from/to subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments.

36. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise interest-bearing loans, cash and short-term deposits. 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 adopts conservative strategies in 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 and bill receivables and other receivables from debtors. The Group has policies in place to ensure that the sales of products are made to customers with an appropriate credit limit, and has strict control over credit limits of trade and other receivables.

In 2011, the Group entered into a number of one-year insurance contracts with China Export & Credit Insurance Corporation, which covered up to 85% from domestic and 90% from overseas of any uncollectible amount derived from the sales between the period from 1 November 2011 to 31 October 2012 subject to a maximum compensation amount of RMB25,200,000 (equivalent to US$3,999,000) for domestic sales and US$25,000,000 for overseas sales. The Group purchased such insurance in order to minimise the exposure to credit risk as the Group expand the business. The Group plans to renew such insurance contracts as they become due.

Cash and short-term deposits are mainly deposited with registered banks in Mainland China and Hong Kong. The Group has policies that limit its credit exposure to any financial institution. The carrying amounts of trade and bill receivables, 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.

36. 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. The Group, has, however, increased its inventories of certain key raw materials to ensure adequate supplies.

(c) Foreign currency risk

The Group has transactional currency exposure. This 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. These 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$55,192,000 held by the Company as at 31 December 2011 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).

2011

	Increase/ (decrease) in foreign currency exchange rate %	**Increase/ (decrease) in profit before tax US$'000**
If RMB weakens against US$	**5%**	**(208)**
If RMB strengthens against US$	**(5%)**	**208**

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

Bank balances totalling US$23,449,000 held by the Company as at 31 December 2011 were denominated in HK$. As the HK$ is pegged to US$, the directors consider that these bank balances are not subject to foreign currency risk.

36. 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. 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 2011

	Within one year or on demand US$'000	**Total US$'000**
Trade payables	**61,223**	**61,223**
Financial liabilities included in other payables	**30,366**	**30,366**
Interest-bearing loans	**6,494**	**6,494**
Total	**98,083**	**98,083**

31 December 2010

	Within one year or on demand US$'000	Total US$'000
Trade payables	51,297	51,297
Financial liabilities included in other payables	38,242	38,242
Total	89,539	89,539

37. 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 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:

	2011	2010
	US$'000	US$'000
Interest-bearing loans	**6,494**	–
Total debt	**6,494**	–
Less: Cash and short-term deposits	**(200,700)**	(243,414)
Net debt	**N/A**	N/A
Total equity attributable to owners of the Company	**579,225**	492,261
Gearing ratio	**–**	–

38. 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.

39. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 26 March 2012.

Definitions

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

"Chang Xin Hardware"	Huizhoushi Huichengqu Chang Xin Hardware Machining Plant* (惠州市惠城區長鑫五金加工廠), 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"	Chongqing Enlin Electronics Co.,Ltd.* (重慶恩林電器有限公司), a limited liability company incorporated in the PRC and is owned as to 99% by Huizhou Enlin Electronics Co., Ltd.* (惠州恩林電器有限公司) in which Ms. Chen Min, Mr. Wu Changjiang's mother in law holds a 36.2% equity interest.
"Chongqing En Wei Xi"	Chongqing En Wei Xi Industrial Development Co., Ltd.* (重慶恩緯西實業發展有限公司), 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 Lighting"	NVC Lighting (Chongqing) Co., Ltd.* (重慶雷士實業有限公司), a wholly foreign-owned enterprise with limited liability incorporated in the PRC on 7 November 2011 and our indirect wholly-owned subsidiary.
"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.
"GBP"	Pound sterling, the lawful currency of the United Kingdom.
"Director(s)"	the director(s) of the Company.
"Energy-saving lighting products"	CALI (the China Association of Lighting Industry) defines energy-saving lighting products in China as typically consisting of compact fluorescent lamps, fluorescent lamps and supporting lighting fixtures, LED lamps, HID lamps and electronic ballasts. CALI's standard is based on the "Interim Measures on Funding Management of Fiscal Subsidies for Promotion of High-Efficiency Products" as well as the SA (the Standardisation Administration of the PRC) standards, which is in line with the CQC (the China Quality Certification Centre) List.

Definitions

"Group"	our Company and its subsidiaries.
"Hangzhou Tongren"	Hangzhou Tongren Software Co., Ltd.* (杭州同人軟件有限公司), a limited liability company incorporated in the PRC and is owned as to 51% by Zhejiang Tonking Investment Co., Ltd.* (浙江同景投資有限公司).
"HID"	High intensity discharge.
"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"	Jiangshan Liming Transportation Co., Ltd.* (江山市黎明貨運有限公司), a limited liability company incorporated in the PRC and is owned as to 50% by Zhejiang Tonking Investment Co., Ltd.* (浙江同景投資有限公司).
"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"	Jiangshan Youhe Machinery Co., Ltd.* (江山市友和機械有限公司), a limited liability company incorporated in the PRC and is owned as to 80% by Quzhou Aushite illumination Co., Ltd* (衢州奥仕特照明有限公司), 39% equity interest of which is owned by Mr. Wu Jiannong and 51% equity interest of which is owned by Zhejiang Tonking Investment Co., Ltd.* (浙江同景投資有限公司) in which Mr. Wu Jiannong holds an 86% equity interest.
"LED"	Light-emitting diode.
"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"	Quzhou Aushite Illumination Co., Ltd.* (衢州奧仕特照明有限公司), 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 Zhejiang Tonking Investment Co., Ltd.* (浙江同景投資有限公司).
"Reporting Period"	the year ended 31 December 2011.
"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"	Shandong NVC Lighting Development Co., Ltd.* (山東雷士照明發展有限公司), 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"	Zhongshan Sheng Di Ai Si Lighting Co., Ltd.* (中山市聖地愛司照明有限責任公司), 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"	Signkey Group Limited (世紀集團有限公司), a limited liability company incorporated in the BVI, 85% equity interest of which is owned by Mr. Wu Jiannong.

Definitions

"Stock Exchange"	The Stock Exchange of Hong Kong Limited.
"Sunny"	Zhejiang Jiangshan Sunny Electron Co., Ltd.* (浙江江山三友電子有限公司), a limited liability company incorporated in the PRC on 2 July 1994 and our indirect wholly-owned subsidiary.
"UK NVC"	NVC Lighting Limited (formerly known as NVC (Manufacturing) Limited), a private company incorporated in England and Wales on 31 May 2007, and our direct wholly-owned subsidiary.
"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"	Jiangshan World Bright Crystal Co., Ltd. * (江山世明水晶玻璃有限公司), 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*

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