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*

## 2013 Annual Report


*EXCELLENCE*

Making a difference

# Contents



# Corporate Information

| | |
|---|---|
| Executive Directors | MU Yu<br>WU Changjiang<br>WANG Dongming |
| Non-executive Directors | LIN Ho-Ping<br>ZHU Hai<br>WANG Donglei |
| Independent Non-executive Directors | WANG Jinsui<br>LEE Kong Wai, Conway<br>WU Ling |
| Joint Company Secretaries | LO Yee Har, Susan<br>KAM Mei Ha, Wendy[1] |
| Authorized Representatives | LO Yee Har, Susan<br>WANG Dongming |
| Registered Office | Cricket Square, Hutchins Drive<br>P.O. Box 2681, Grand Cayman, KY1-1111<br>Cayman Islands |
| Headquarter | 22nd Floor, Chongqing International Finance Centre<br>76 Nanbin Road<br>Nanan District<br>Chongqing City<br>PRC |
| Principal Place of Business in Hong Kong | Level 54, Hopewell Centre<br>183 Queen's Road East<br>Hong Kong |
| Corporate Website | www.nvc-lighting.com.cn |
| Investor Relations | Email: ir@nvc-lighting.com |

[1] Ms. Kam Mei Ha Wendy resigned as the joint company secretary of the Company and Miss Leung Ching Ching was appointed to fill the vacancy left by Ms. Kam Mei Ha Wendy with effect from 1 April 2014.

| | |
|---|---|
| Principal Share Registrar and Transfer Office | Royal Bank of Canada Trust Company (Cayman) Limited<br>4th Floor, Royal Bank House<br>24 Shedden Road, George Town<br>Grand Cayman KY1-1110<br>Cayman Islands |
| Hong Kong Share Registrar | Computershare Hong Kong Investor Services Limited<br>Shops 1712-1716<br>17th Floor, Hopewell Centre<br>183 Queen's Road East<br>Wanchai<br>Hong Kong |
| Principal Legal Advisor as to Hong Kong Laws | Freshfields Bruckhaus Deringer |
| Auditor | Ernst & Young *(Certified Public Accountants)* |
| Principal Bankers | China Construction Bank, Huizhou Branch<br>China Construction Bank, Quzhou Branch<br>Bank of China, Quzhou Branch<br>The Commercial and Industrial Bank of China, Chongqing 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 electronic products. According to the statistics of China Association of Lighting Industry, we were the largest domestic brand lighting products supplier in China in 2009 in terms of revenue. Our products are sold through the national sales network of 37 exclusive regional distributors and their 3,299 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 Chongqing 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 to the general public through our own research and development system and continuous innovations. Our products serve many fields including interior, business, office, construction, industry, lamp and lighting electronics and household (including LED series). We have maintained the leading position in the market, 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, the 2010 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 domestic sales outlets of famous automotive brands such as Bentley, BMW and Toyota as well as garment brands such as Metersbonwe, Septwolves, K-Boxing and Erdos. In 2011, we became the lighting and service cooperative partner of the Olympic Council of Asia ("OCA"). In 2013, we entered into an agreement to become an "Official Cooperative Partner of International Swimming Federation ("FINA")".

"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 environmentally-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.

## For the year ended 31 December

| | **2013 RMB'000** | 2012 RMB'000 | 2011 RMB'000 *(Restated)* | 2010 RMB'000 *(Restated) (Note 3)* | 2009 RMB'000 *(Restated) (Note 3)* |
|---|---|---|---|---|---|
| Revenue | **3,773,816** | 3,546,036 | 3,797,998 | 3,192,069 | 2,088,837 |
| Gross profit | **797,403** | 761,347 | 974,086 | 928,764 | 574,043 |
| Gross profit margin *(Note 1)* | **21.1%** | 21.5% | 25.6% | 29.1% | 27.5% |
| Profit before tax | **354,458** | 116,481 | 626,123 | 557,016 | 137,379 |
| Profit margin before tax *(Note 1)* | **9.4%** | 3.3% | 16.5% | 17.4% | 6.6% |
| Profit for the year *(Note 2)* | **282,107** | 48,544 | 574,031 | 500,026 | 100,353 |
| Net profit margin *(Note 1)* | **7.5%** | 1.4% | 15.1% | 15.7% | 4.8% |
| Profit for the year attributable to: | | | | | |
| Owners of the parent | **244,884** | 8,416 | 547,835 | 482,730 | 87,735 |
| Non-controlling interests | **37,223** | 40,128 | 26,196 | 17,296 | 12,618 |

*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.

*Note 3:* The amounts for 2009 to 2010 have been simply translated using the annual average exchange rate into RMB from the amounts in USD as disclosed and appear for comparison and information purpose.

## As at 31 December

| | **2013 RMB'000** | 2012 RMB'000 | 2011 RMB'000 *(Restated)* | 2010 RMB'000 *(Restated) (Note 2)* | 2009 RMB'000 *(Restated) (Note 2)* |
|---|---|---|---|---|---|
| Non-current assets | **1,312,316** | 1,295,332 | 1,535,110 | 1,237,049 | 1,149,650 |
| Current assets | **3,456,658** | 3,238,957 | 3,069,276 | 2,914,001 | 1,279,236 |
| Current liabilities | **900,279** | 839,699 | 780,439 | 656,820 | 723,345 |
| Net current assets | **2,556,379** | 2,399,258 | 2,288,837 | 2,257,881 | 555,891 |
| Total assets less current liabilities | **3,868,695** | 3,694,590 | 3,823,947 | 3,494,275 | 1,705,541 |
| Non-current liabilities | **108,070** | 111,857 | 112,194 | 207,675 | 560,336 |
| Total equity | **3,760,625** | 3,582,733 | 3,711,753 | 3,290,620 | 1,145,205 |
| Including: | | | | | |
| Equity attributable to owners of the parent | **3,676,870** | 3,511,701 | 3,656,349 | 3,260,096 | 1,121,129 |
| Non-controlling interests | **83,755** | 71,032 | 55,404 | 26,504 | 24,076 |
| Current ratio *(Note 1)* | **3.84** | 3.86 | 3.93 | 4.44 | 1.77 |

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

*Note 2:* The amounts for 2009 to 2010 have been simply translated using the year-end exchange rate into RMB from the amounts in USD as disclosed and appear for comparison and information purpose.

# Major Events in 2013

## January

NVC Bright Future Public Welfare Project had the honor of receiving the "Golden Finger Social Conscience Award".


## February

The industrial lighting product of NVC had the honor of receiving the "Best Product Award for 2012 Planteng Engineering China".

## March

NVC Lighting won the first-choice lighting brand of the top 500 enterprises in the PRC real estate industry for four consecutive years.


## May

The NVC flagship stores were inaugurated in United Arab Emirates and Mongolia respectively.



## June

NVC Lighting's brand value of RMB8.216 billion took the leading position amidst the "Top 500 Most Valuable Brands in China", continuing to rank No. 1 in the lighting industry.

## September

Made its appearance in 2013 Autumn Fair Birmingham, England.


## July

Entered into contract to become the naming partner of International Swimming Federation.


## October

The Brazil subsidiary was set up in Sao Paulo.

## November

Had the honor of being awarded the “China’s Listed Enterprise with the Best International Competitive Power”.


## December

“Eagle Eye” LED track spotlight had the honor of receiving the “2013 China Red Star Design Award”.

# 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 2013 annual report of the Company and its subsidiaries (collectively referred to as the "Group").

Looking back at 2013, the Group continuously grew in opportunities and challenges. The market demand for LED lighting products grew rapidly, as a result of the significant decrease in price of lighting products and the extensive customers acceptance for LED lighting products. The era of LED lighting commenced officially. Closely following the market trend, during the Reporting Period, we enhanced our LED products development, diversified LED products portfolios, continuously explored domestic and overseas sales channels, promoted the LED products, and upgrade our LED image.

Despite of the weak economy in 2013, we still achieved steady growth.

- the Group's revenue amounted to RMB3,773,816,000, representing an increase of 6.4% as compared with the Corresponding Period;

- Profit attributable to owners of the parent amounted to RMB244,884,000, representing an increase of 2,809.7% as compared with the Corresponding Period;

- Basic earnings per share of the Company amounted to RMB7.83 cents, representing an increase of 2,800.0% as compared with the Corresponding Period;

- LED revenue amounted to RMB740,589,000, representing an increase of 197.4% as compared with the Corresponding Period;

Looking forward into 2014, LED lighting market will continuously grow extensively, with the expectation of the price difference between LED lighting products and the traditional lighting products decreasing further. Furthermore, the LED lighting market still has great potential, due to the smart lighting development, the phase-out scheme for incandescent lamps in China, and the Chinese government's support and promotion for LED lighting products. Following upsurge of LED lighting market, we will also further explore the sales channels and promoting the products, and continue to promote and upgrade the brand awareness, so as to grasp the opportunities of the LED lighting market.

## Concurrent Exploration of Domestic and Overseas Markets

For the PRC market, we will continue to consolidate the existing sales channels and expand the channel construction in the markets of county-level cities and town centres, particularly the market exploration in the county-level cities and the town centres of the economically developed regions, in line with the development trend of urban-rural integration, as well as keeping on optimizing the sales modes of e-commerce, EMC and developing the online market and the large-scale energy-saving renovations market for the LED lighting in order to make it impetus for the further growth of our results.

For the international market, our previous development mode featuring extensive exploration of new markets will be replaced by the mode for exploration focusing on the existing markets. Certain nations and regions such as Brazil, the Middle East, India, Australia and the Southeast Asia having big markets or rapid economic growth have been selected for in-depth exploration of market potentials by means of setting up branches, increasing the number of exclusive shops and constructing the engineering sales channels, and made a greater effort for the international promotion of the LED products in order to increase the proportion of our international sales revenue obtained from the LED products.

## On-going Consolidation of NVC LED Brand Image and Speeding up Internationalization Strategy

In future, we will continue to consolidate the NVC LED Brand image through advertising, media coverage, public relation and public welfare activities, grasp the opportunity for the LED development, interact with the end users directly and organize the promotion activities with the purpose and the target for the "Exclusive Venue of NVC Series". We will also continue to launch and participate in the theme activities including the forum, the annual meeting, the exhibition, the salon and so on, and launch various kinds of promotion activities within the region such as the grand opening promotion, the community promotion and the group purchase, so as to directly enhance the local influence of NVC brand and increase the sales volume of the products. We will enhance our influence in the LED domain by vigorous and extensive application of the LED development strategy as well as the development innovation in the LED domain. In virtue of the top-class competition events of International Swimming Federation, we have promoted the NVC Brand through the advertisement for the competition events, terminal activities and dissemination of public relations, resulting in the enhancement of the international image of the NVC Brand. We will continue to seek cooperation with the large-scale domestic and overseas sports events to foster the exploration of our international business.

## On-going Enhancement of Market Competitiveness of LED Lighting Products

We will continue to enhance the research and development of the LED lighting products and the electric products, place emphasis on the development of the electronic ballast and the LED driver and power supply suitable for the U.S. and the European markets, and make further in-depth exploration in the lighting smart control domain, in particular the research and development of the LED driver with brightness and color temperature adjustment. At the same time, we plan to gradually optimize the product series of the high-power LED driver and power supply and the product series of the LED emergency lighting. On the other hand, we apply new technology to further optimize the function, improve the technique and lower the cost of products already in mass production. Furthermore, we expect to fulfil the upstream-downstream integration through cooperation with LED chip maker Elec-Tech International Co., Ltd., so as to make our LED products with greater market competitiveness.

## Appreciation

Our steady development in the past fifteen years depends entirely on the great efforts and persistent support of the Board and all staff members. In the future, we will strive forward as in the past with full responsibility to all shareholders, clients, suppliers and distributors, and work even harder to have NVC Lighting become worldwide-respected brand and secure the good results to repay the support from various sectors.

**WANG Donglei**
*Chairman*

Hong Kong, 26 March 2014

# Management Discussion and Analysis

## Market Review

In 2013, the global economy continued to recover. The United States (the "U.S.") economy was reviving gradually. The economy of the Euro zone rebounded from bottom indicating a slight growth. The growth rate of the emerging economy was slowing down. The announcement of U.S. Federal Reserve System of retreating from the Quantitative Easing Monetary Policy increased the uncertainty of the prospects of other markets, especially the emerging markets.

China's economic policy for 2013 focused on "the adjustment of structure and promotion of reform" as well as the on-going implementation of stable monetary policy. The economic growth slowed down. In 2013, the growth rate of China's gross domestic product dropped to 7.7% (Source: National Bureau of Statistics of the PRC).

At present, the global lighting industry is in the LED transitional period. Motivated by the demand of domestic and international markets as well as the domestic industrial policy, the LED lighting product market in China has expedited its development. The center of the global LED production capacity has also shifted to China gradually. China has become the region with the fastest development of semi-conductor lighting industry in the world.

The LED lighting market in China experienced strong growth in 2013. As the concept of energy saving and environmental protection became widely acknowledged by people, the "green" nature of LED lighting has been extensively accepted in the market. Coupled with the significant decrease in price of lighting products, the strong support and promotion by the government and the gradual implementation of the plan to eliminate the incandescent lamps, the LED lighting industry stood out with its extensive growth in 2013 amidst many industries having stagnant market demand. In addition, a market penetration rate of the LED lighting products continued to be on the rise with an obvious trend to become the mainstream lighting products. However, as the LED lighting industry is still an emerging industry, particularly in the lighting application market, with the intensifying price competition among a large number of enterprises, most LED lighting application enterprises were not able to increase their profit despite an increase of revenue. Besides, LED lighting product market is awaiting further industry integration due to the great variation in respect of the quality levels and the prices of LED lighting products. On the other hand, impacted by the LED lighting market, the domestic demand in the traditional lighting market has decreased significantly.

## Business Review

Following the strong upsurge of the LED lighting market, the Group also had corresponding adjustment of the strategic deployment in 2013. In China market, we continued to enhance the existing channels and develop the sales modes including e-commerce and EMC so as to make them become our new growth momentum. In the international market, we made proactive exploration in the major markets (such as Brazil, India and Australia, etc), with vigorous promotion of LED lighting products. At the same time, we gradually built up the image of NVC LED brand to further enhance our stronghold brands and channels. During the Reporting Period, the Group made greater investment in the research and development of LED products, reinforced the technical reform, increased the product varieties and manufactured more competitive LED products to cope with the intensified competition in the LED lighting market. During the Reporting Period, the sales revenue of the Group's LED products was RMB740,589,000, representing a growth of 197.4% compared with the Corresponding Period, accounting for 19.6% of the total revenue. However, the profitability of LED products was lower than that of the traditional lighting products due to the fierce price competition in the LED lighting market. At present, the comprehensive LED product portfolio of the

Group is able to fully satisfy the various requirements of the clients. Moreover, the Group has gradually launched the strategic cooperation with Elec-Tech International Co., Ltd. to fulfil the integration of upstream and downstream products in order to enhance the product competitiveness.

### Sales and distribution

In respect of the NVC brand in the PRC market, the Group had 37 exclusive regional distributors during the Reporting Period with one additional distributor compared with the Corresponding Period. As at 31 December 2013, the exclusive regional distributors of the Group had a total of 3,299 exclusive shops (31 in the provincial capital cities with a 100% coverage rate, 278 in the prefecture-level cities with a 96.5% coverage rate, 1,284 in the county-level cities with a 65.9% coverage rate, 679 in the town centres with a 2.3% coverage rate). There was an increase of 68 shops compared with the Corresponding Period, with most of the new shops located in the town centres. Apart from the exclusive shops, the exclusive regional distributors also had 632 display counter/display wall outlets (an increase of 286 outlets compared with the Corresponding Period) and 1,199 metalware outlets mainly located in the county-level cities and town centres. Therefore, the exclusive regional distributors have developed a total of 5,130 effective outlets. While continuing to develop market potential in the county-level cities and town centres and expand outlets coverage, the Group has also set up and optimized gradually the sales modes of e-commerce and EMC. During the Reporting Period, the total turnover of NVC brand products was RMB2,127,066,000 in the PRC, at the growth rate of 1.8% compared with the Corresponding Period, of which turnover of LED products was RMB677,228,000 at the growth rate of 200% compared with the Corresponding Period, representing 31.8% of the sales revenue of the NVC brand products in the PRC. In the contrary, the turnover of other traditional lighting products decreased at different degrees.

As for the non-NVC brands in the PRC market, the Group has focused on providing the energy-saving lamp enterprises with the products including energy-saving light tubes and accessories. During the Reporting Period, the market price and the sales revenue of the fluorescent lighting products were affected by the impact from the LED lighting market. By virtue of the further price drop of fluorescent powder, the decrease of the cost of the fluorescent lighting products exceeded the decrease of the market price, resulting in the rebounding gross profit and gross profit margin to certain extent.

For the NVC brand in the international market, the Group made a greater effort to explore the emerging markets during the Reporting Period, for instance, establishing a subsidiary in Brazil, developing the new market in Mongolia, and increasing market investment in Indonesia, Emirates, Brazil, and Saudi Arabia, etc. The Group newly set up six exclusive shops, enhanced the building of distribution channels (the engineering channel in particular) and the NVC exclusive shops, in line with more vigorous promotion of LED products under the NVC brand. During the Reporting Period, the total turnover of NVC brand products in international market was RMB365,962,000 at the growth rate of 23.7% compared with the Corresponding Period, of which the turnover of LED products was RMB62,802,000 at a growth rate of 191.9% compared with the Corresponding Period, representing 17.2% (a rapid rise from 7.3%) of the sales revenue of NVC brand products from international sales revenue.

For the non-NVC brands in the international market, the Group has mainly provided the famous international lighting enterprises with energy-saving lamps, energy-saving light tubes and accessories in the form of ODM. During the Reporting Period, the Group enhanced its cooperation with the international clients and consolidated the cooperation relationship, leading to the continuing increase of the demand from big clients. The total turnover of non-NVC brands products was RMB890,962,000 in the international market, representing a growth rate of 18.3% compared with the Corresponding Period.

### Product research and development and design

The Group owns two research and development centres respectively located in Chongqing City (specializing in the research and development of new product design for luminaire products) and Shanghai City (specializing in the research and development of energy-saving technology for lamps and the research and development of lighting electric products).

During the Reporting Period, the Group invested RMB50,980,000 in the research and development project, representing 1.4% of the revenue of the Group. The Group continued to invest in the research and development, and launch new products particularly in line with the LED lighting market demand, coupled with the on-going upgrade of product quality and improvement in product techniques. The Group concluded successful research and development of more than a hundred product models including various types of LED lighting products, smart control project, lamps and electric products. During the Reporting Period, 107 new patent applications were filed, and 70 applications had been approved and granted patents.

As at 31 December 2013, the Group had a workforce of 277 engaged in design, research and development, with 139 of them working in the Chongqing Research and Development Center, 52 in the Shanghai Research and Development Center, and the others working in other production bases.

### Brand promotion

During the Reporting Period, the brand promotion strategy of the Group was mainly to continue to improve the NVC brand awareness in the PRC and upgrade the brand influence in the PRC market by launching a series of domestic brand promotion activities, as well as keeping on enhancing the brand promotion on international basis following the gradual deepening of internationalization. Meanwhile, by virtue of the rapid development of the LED market, we also reinforced the publicity and promotion of LED products in order to increase our influence in the LED domain and build up our brand image.

During the Reporting Period, the Group kept on increasing the influence of the NVC brand through a series of activities including advertising, media coverage, public relation activities and participation in famous domestic and overseas competition events. As for advertising, we encouraged and supported the distributors to launch advertisements of major products on the local media platforms so as to directly promote the sales of the products, and also further reinforced the print advertisement via high-end media and professional media, as well as the large-scale outdoor advertisement at the traffic hub such as the airport and the railway station. In respect of the media publicity, we enhanced the financial, economic and mass media awareness and vigorously strengthened the media coverage by taking the opportunity of entering into a contract to become the official cooperation partner of

International Swimming Federation, participating in Autumn Fair Birmingham, England and setting up a subsidiary in Brazil. During the Reporting Period, the Group launched the professional and general public brand promotion activities on occasions covering design companies, decoration companies, real estates and hotels, and sponsored many public relation activities. For instance, in March 2013, we sponsored the 2013 (10th) China Commercial Real Estate Industry Development Forum cum the Award Ceremony of "NVC Night"; in October 2013, we sponsored the 4th "Hanlin Cup" Guangdong Universities Golf Tournament. During the Reporting Period, the Group continued implementing the public welfare activities such as Bright Future series. The public welfare project of NVC Bright Future covered Qian Jiang, Liang Shan, Bei Chuan, Nu Jiang and Ye Cheng.

The NVC brand has also received widespread recognition. For instance, the "Best Product Award for 2013 Planteng Engineering China" was granted to the NVC industrial lighting products. NVC has become the top preferred lighting brand selected by the top 500 real estate developers in China for four consecutive years. With the brand value of RMB8,216,000,000, the NVC brand has taken the lead in China's Top 500 Most Valuable Brands and once again continued to rank No. 1 in the lighting industry. The "Eagle Eye" LED spot light presented by NVC Lighting was granted the "Red Star Award". As a matter of fact, the popularity and influence of the NVC Lighting brand were reinforced and continuously improved in the minds of both the general public and the professional consumers.

## Financial Review

### Revenue

Revenue represents the invoiced value of goods sold, after allowances for returns and trade discounts. During the Reporting Period, the Group recorded revenue of RMB3,773,816,000, representing an increase of 6.4% compared with the Corresponding Period. In particular, revenue of NVC brand products in the PRC market increased by 1.8% compared with the Corresponding Period, primarily attributable to the adjustments in policies to vigorously promote the LED products according to the changes of the market needs. Revenue of NVC brand products in international market increased by 23.7% compared with the Corresponding Period, which was primarily benefited from active development of international market as well as increased brand awareness.

***Revenue by product segments***

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

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | 2012 | Growth rate |
| | **RMB'000** | RMB'000 | |
| Luminaire products | **2,122,477** | 1,940,435 | 9.4% |
| Lamp products | **1,379,551** | 1,311,542 | 5.2% |
| Lighting electronic products | **271,788** | 294,059 | (7.6%) |
| Total | **3,773,816** | 3,546,036 | 6.4% |

During the Reporting Period, the sales of luminaire products increased by 9.4%, primarily attributable to vigorous promotion of the LED products and the rapid growth in revenue of LED products. The sales of lamp products increased by 5.2%, primarily due to the close cooperation with major customers and the increased demand thereof. The sales of lighting electronic products decreased by 7.6%, mainly due to the impact of decline in the demand for traditional lighting products such as halogen lamps and inductive products.

***Revenue by NVC brand sales and non-NVC brand sales***

The following table sets forth the revenue for sales 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 | | |
|---|---|---|---|
| | **2013** **RMB'000** | 2012 RMB'000 | Growth rate |
| **NVC brand** | | | |
| Luminaire products | **2,014,655** | 1,817,786 | 10.8% |
| Lamp products | **386,958** | 430,228 | (10.1%) |
| Lighting electronic products | **91,415** | 138,070 | (33.8%) |
| *Subtotal* | **2,493,028** | 2,386,084 | 4.5% |
| **Non-NVC brand** | | | |
| Luminaire products | **107,822** | 122,649 | (12.1%) |
| Lamp products | **992,593** | 881,314 | 12.6% |
| Lighting electronic products | **180,373** | 155,989 | 15.6% |
| *Subtotal* | **1,280,788** | 1,159,952 | 10.4% |
| **Total** | **3,773,816** | 3,546,036 | 6.4% |

***Revenue by geographical location***

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

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | 2012 | Growth rate |
| | **RMB'000** | RMB'000 | |
| **Revenue from PRC sales** | | | |
| Luminaire products | **1,724,202** | 1,567,463 | 10.0% |
| Lamp products | **688,031** | 782,293 | (12.0%) |
| Lighting electronic products | **104,659** | 147,087 | (28.8%) |
| *Subtotal* | **2,516,892** | 2,496,843 | 0.8% |
| **Revenue from international sales** | | | |
| Luminaire products | **398,275** | 372,972 | 6.8% |
| Lamp products | **691,520** | 529,249 | 30.7% |
| Lighting electronic products | **167,129** | 146,972 | 13.7% |
| *Subtotal* | **1,256,924** | 1,049,193 | 19.8% |
| **Total** | **3,773,816** | 3,546,036 | 6.4% |

During the Reporting Period, revenue from PRC sales increased by 0.8%, of which the revenue from NVC brand products increased by 1.8% and the revenue from non-NVC brand products decreased by 4.1%. Revenue from international sales increased by 19.8%, of which revenue from NVC brand products increased by 23.7% and non-NVC brand products increased by 18.3%.

***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 | | |
|---|---|---|---|
| | **2013** | 2012 | Growth rate |
| | **RMB'000** | RMB'000 | |
| Energy-saving products | **2,741,109** | 2,309,034 | 18.7% |
| Non-energy-saving products | **1,032,707** | 1,237,002 | (16.5%) |
| Total | **3,773,816** | 3,546,036 | 6.4% |

## 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, electronics components and LED packaged chips. 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 | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| | **RMB'000** | **Percentage in revenue (%)** | RMB'000 | Percentage in revenue (%) |
| Raw materials | **2,233,877** | **59.2%** | 1,893,716 | 53.4% |
| Outsourced manufacturing costs | **208,412** | **5.5%** | 365,884 | 10.3% |
| Labour costs | **336,621** | **8.9%** | 333,177 | 9.4% |
| Indirect costs | **197,503** | **5.3%** | 191,912 | 5.4% |
| Total | **2,976,413** | **78.9%** | 2,784,689 | 78.5% |

During the Reporting Period, the cost of sales as a percentage in revenue increased from 78.5% to 78.9%, resulting in a decrease in gross profit margin from 21.5% to 21.1%, mainly due to combined influence from the changes in product structure and decrease of capacity utilisation rate.

### Gross profit and gross profit margin

Gross profit is calculated as the net value of revenue less cost of sales.

During the Reporting Period, gross profit was RMB797,403,000, representing an increase of 4.7% compared with the Corresponding Period, gross profit margin of sales decreased from 21.5% for the Corresponding Period of 2013 to 21.1%. The gross profit and gross profit margin by segments 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 | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| | **RMB'000** | **(%)** | RMB'000 | (%) |
| Luminaire products | **467,122** | **22.0%** | 456,036 | 23.5% |
| Lamp products | **281,422** | **20.4%** | 252,013 | 19.2% |
| Lighting electronic products | **48,859** | **18.0%** | 53,298 | 18.1% |
| Total | **797,403** | **21.1%** | 761,347 | 21.5% |

During the Reporting Period, gross profit of luminaire products was RMB467,122,000, representing an increase of 2.4% compared with the Corresponding Period. Gross profit margin of luminaire products decreased by 1.5% to 22.0%, which was mainly attributable to increased proportion of the sales of LED products with lower gross profit margin. Gross profit of lamp products was RMB281,422,000, representing an increase of 11.7% compared with the Corresponding Period. Gross profit margin of lamp products increased by 1.2% to 20.4% compared with the Corresponding Period, which was mainly attributable to the combined influences of decline in raw material prices and increased efficiency due to enhanced production management. Gross profit of lighting electronic products decreased by 8.3% to RMB48,859,000. Gross profit margin of lighting electronic products decreased by 0.1% to 18.0%, which was primarily attributable to the impact from the changes in product structure.

(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 | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| | **RMB'000** | **(%)** | RMB'000 | (%) |
| NVC brand | **556,138** | **22.3%** | 575,751 | 24.1% |
| Non-NVC brand | **241,265** | **18.8%** | 185,596 | 16.0% |
| Total | **797,403** | **21.1%** | 761,347 | 21.5% |

During the Reporting Period, gross profit of NVC brand products was RMB556,138,000, representing a decrease of 3.4% compared with the Corresponding Period, and gross profit margin decreased by 1.8% compared with the Corresponding Period, which was mainly attributable to increased proportion of the sales of LED products with lower gross profit margin. Gross profit of non-NVC brand products was RMB241,265,000, representing an increase of 30.0% compared with the Corresponding Period, and gross profit margin increased by 2.8% compared with the Corresponding Period, which was mainly attributable to the combined influences of the decrease of raw material prices and enhanced production efficiency.

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

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| | **RMB'000** | **(%)** | RMB'000 | (%) |
| **Gross profit from PRC sales:** | | | | |
| Luminaire products | **375,816** | **21.8%** | 365,719 | 23.3% |
| Lamp products | **150,247** | **21.8%** | 151,704 | 19.4% |
| Lighting electronic products | **21,929** | **21.0%** | 28,487 | 19.4% |
| *Subtotal* | **547,992** | **21.8%** | 545,910 | 21.9% |
| **Gross profit from international sales:** | | | | |
| Luminaire products | **91,306** | **22.9%** | 90,317 | 24.2% |
| Lamp products | **131,175** | **19.0%** | 100,309 | 19.0% |
| Lighting electronic products | **26,930** | **16.1%** | 24,811 | 16.9% |
| *Subtotal* | **249,411** | **19.8%** | 215,437 | 20.5% |
| Total | **797,403** | **21.1%** | 761,347 | 21.5% |

During the Reporting Period, gross profit generated from PRC sales was RMB547,992,000, representing an increase of 0.4% compared with the Corresponding Period, of which gross profit of NVC brand products was RMB472,621,000, representing a decrease of 5.8% compared with the Corresponding Period, and gross profit of non-NVC brand products was RMB75,371,000, representing an increase of 71.6% compared with the Corresponding Period.

During the Reporting Period, gross profit generated from international sales was RMB249,411,000, representing an increase of 15.8% compared with the Corresponding Period, of which gross profit of NVC brand products was RMB83,517,000, representing an increase of 13.2% compared with the Corresponding Period, and gross profit of non-NVC brand products was RMB165,894,000, representing an increase of 17.1% compared with the Corresponding Period.

(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 | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| | **RMB'000** | **(%)** | RMB'000 | (%) |
| Energy-saving products | **593,127** | **21.6%** | 501,265 | 21.7% |
| Light tubes for CFL | **46,280** | **15.1%** | 26,097 | 8.1% |
| T4/T5 battens | **181,234** | **34.9%** | 203,545 | 31.6% |
| Compact fluorescent lamp (CFL) | **184,154** | **20.8%** | 162,136 | 20.4% |
| Electronic ballasts | **31,323** | **15.4%** | 25,383 | 13.8% |
| HID lamps | **13,783** | **59.9%** | 22,965 | 58.2% |
| Fluorescent lamps | **15,113** | **23.8%** | 16,425 | 21.3% |
| LED products | **121,240** | **16.4%** | 44,714 | 18.0% |
| Non-energy-saving products | **204,276** | **19.8%** | 260,082 | 21.0% |
| Total gross profit | **797,403** | **21.1%** | 761,347 | 21.5% |

During the Reporting Period, the Group's gross profit margin of energy-saving products decreased by 0.1% to 21.6% compared with the Corresponding Period, which was mainly attributable to the changes in product structure, among which, the increase in the gross profit margin of light tubes for CFL which benefited from the decrease of fluorescent powder price and enhanced production efficiency.

### Other income and gains

Other income and gains mainly consist of trademark license fees, gain on sale of scrap materials, government grants and interest income (please refer to note 5 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 tax subsidies and incentives for research and development activities and expansion of production capacity of energy-saving lamps. Government subsidies are provided by relevant authorities at their discretion, and may not necessarily be recurring in nature. We licensed our trademark to a limited number of related companies at one to three percent of the related companies' sales as trademark licence fees. During the Reporting Period, other income and gains were RMB91,611,000, representing a decrease of 42.7% compared with the Corresponding Period. The decrease was primarily due to the higher extraordinary government subsidy for the relocation of the production base in Jiangshan, Zhejiang province during the Corresponding Period of 2013.

### 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, insurance fees and other miscellaneous costs.

During the Reporting Period, our selling and distribution costs were RMB270,855,000, representing an increase of 6.6% compared with the Corresponding Period. The increase was resulted from the expansion of sales force and the increase of labor cost. Our selling and distribution costs as a percentage in revenue remained at the same level of 7.2% for the year ended 31 December 2013 and 31 December 2013.

### Administrative expenses

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

During the Reporting Period, our administrative expenses were RMB258,783,000, representing a decrease of 18.0% compared with the Corresponding Period. The proportion of administrative costs in revenue decreased from 8.9% for the year ended 31 December 2013 to 6.9% for the year ended 31 December 2013. The decrease was primarily attributable to the decrease in the provision of bad debts, professional fees as well as depreciation and amortisation.

### Other expenses

Other expenses mainly consist of losses on disposal of items of property, plant and equipment and donations. During the Reporting Period, our other expenses were RMB2,618,000, representing a decrease of 98.9% compared with the Corresponding Period. Our other expenses recorded a substantial decrease compared with the Corresponding Period, which was primarily attributable to that an impairment loss of RMB210,126,000 was made against goodwill during the Corresponding Period of 2013, which was resulted from the acquisition of World Through and its wholly-owned subsidiaries by us on 29 August 2008.

### Finance costs

Finance costs represent interest on bank loans and other interest expenses.

### Share of profit of an associate

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

### Income tax expense

During the Reporting Period, the Group's income tax expense was RMB72,351,000, representing an increase of 6.5% compared with the Corresponding Period.

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

Due to the factors mentioned above, our net profit for the year (including profit attributable to non-controlling interests) was RMB282,107,000 during the Reporting Period.

### Exchange differences on translation of foreign operations

During the Reporting Period, our exchange differences on translation of foreign operations were RMB17,295,000. These exchange differences primarily arose from the translation of the financial statements of the Company and the overseas subsidiaries which are denominated in foreign currencies.

### Profit attributable to owners of the parent for the year

Due to the factors mentioned above, profit attributable to owners of the parent was RMB244,884,000 during the Reporting Period.

### Profit attributable to non-controlling interests for the year

During the Reporting Period, profit attributable to non-controlling interests was RMB37,223,000.

## Cash Flow and Liquidity

### Cash flow

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

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Net cash flows from operating activities | **76,938** | 619,169 |
| Net cash flows from/(used in) investing activities | **199,713** | (59,035) |
| Net cash flows used in financing activities | **(138,916)** | (145,743) |
| Net increase in cash and cash equivalents | **137,735** | 414,391 |
| Cash and cash equivalents at beginning of year | **1,200,357** | 784,544 |
| Effect of foreign exchange rate changes, net | **(6,057)** | 1,422 |
| Cash and cash equivalents as stated in the consolidated statement of cash flows | **1,332,035** | 1,200,357 |
| Bank overdraft | **17,117** | 14,387 |
| Cash and cash equivalents as stated in the consolidated statement of financial position | **1,349,152** | 1,214,744 |

***Net cash flows from operating activities***

We derived our cash flows from operating activities, which were 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, costs and expenses relating to operating activities.

During the Reporting Period, our net cash flows from operating activities were RMB76,938,000, while our cash flows before changes in working capital were RMB431,335,000. The changes in working capital included (i) a decrease of RMB19,307,000 in inventories; (ii) an increase of RMB443,837,000 in trade and bills receivables, other receivables, prepayments and other current assets; (iii) income tax paid amounting to RMB76,716,000; (iv) an increase of RMB114,969,000 in trade payables as well as other payables and accruals; and (v) receipt of government grants of RMB31,880,000.

***Net cash flows from investing activities***

Our cash flows used in investing activities mainly consist of payments for purchases of property, plant and equipment and other intangible assets. During the Reporting Period, our net cash flows from investing activities amounted to RMB199,713,000, which mainly included proceeds of RMB8,208,000 from disposal of property, plant and equipment, prepaid land lease payments and other intangible assets, interest income of RMB31,908,000 and a decrease of RMB289,741,000 in short-term deposits; such income was partly offset by purchases of property, plant and equipment as well as other intangible assets with a total amount of RMB130,144,000.

***Net cash flows used in financing activities***

Our cash flows from financing activities include the proceeds from new bank loans. Our cash flows used in financing activities consist of payment of dividends, bank loan principal and interest.

During the Reporting Period, our net cash flows used in financing activities amounted to RMB138,916,000. Our cash outflows mainly include (i) RMB61,715,000 for the payment of dividends; (ii) RMB24,500,000 for dividend paid to a non-controlling shareholder; and (iii) RMB82,701,000 for the payment of the principal and interest of bank loans. Such expenses were partly offset by new bank loans of RMB30,000,000.

## 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 2013 RMB'000 | 31 December 2012 RMB'000 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Inventories | **651,707** | 698,400 |
| Trade and bills receivables | **1,268,212** | 818,890 |
| Prepayments, deposits and other receivables | **81,176** | 94,005 |
| Other current assets | **16,919** | 16,079 |
| Short-term deposits | **89,492** | 379,233 |
| Cash and cash equivalents | **1,349,152** | 1,214,744 |
| | **3,456,658** | 3,221,351 |
| Non-current assets classified as held for sale | **–** | 17,606 |
| **Total current assets** | **3,456,658** | 3,238,957 |
| **CURRENT LIABILITIES** | | |
| Trade payables | **510,352** | 431,606 |
| Other payables and accruals | **319,754** | 282,523 |
| Interest-bearing loans and borrowings | **47,117** | 94,387 |
| Government grants | **1,909** | 6,208 |
| Income tax payable | **21,147** | 24,975 |
| **Total current liabilities** | **900,279** | 839,699 |
| **NET CURRENT ASSETS** | **2,556,379** | 2,399,258 |

As at 31 December 2013 and 31 December 2012, net current assets of the Group totalled RMB2,556,379,000 and RMB2,399,258,000, respectively, and the current ratio was 3.84 and 3.86, respectively. In light of our current liquidity position, the unutilised banking facilities available to the Group and our projected cash flows 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 ratio as at the end of the Reporting Period.

| | 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Interest-bearing loans and borrowings | **47,117** | 94,387 |
| Total debt | **47,117** | 94,387 |
| Less: cash and short-term deposits | **(1,438,644)** | (1,593,977) |
| Net debt | **N/A** | N/A |
| Total equity attributable to owners of the parent | **3,676,870** | 3,511,701 |
| Gearing ratio | **N/A** | N/A |

The primary goal of our capital management is to maintain the 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 owners of the parent). Net debt is the balance of interest-bearing loans and borrowings less cash and short-term deposits.

### *Inventories*

The balance of inventories represents our balance of stock of raw materials, work in progress and finished goods as at the end of the Reporting Period. We monitor our inventories on a regular basis. For the year ended 31 December 2013, turnover of average inventories (in days) (average inventories equal to the inventories at the beginning of the year plus inventories at the end of the year (after provision), divided by two. Turnover of average inventories (in days) equals to the average inventories divided by the cost of sales and then multiplied by 365) was 82.8 days, while it was 91.8 days in 2012.

More details about the inventories are provided in note 22 to the consolidated financial statements on page 146 of this annual report.

***Trade and bills receivables***

Our trade receivables represent proceeds receivable from the sales of goods. Our trading terms with our customers are mainly on credit, except for new customers where payment in advance is normally required. The credit periods generally range from 30 to 180 days for major customers. We seek to maintain strict control over our outstanding receivables and have 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 our trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

For the year ended 31 December 2013, turnover of average trade and bills receivables (in days) (average trade and bills receivables equal to the trade and bills receivables at the beginning of the year plus trade and bills receivables at the end of the year (before provision), divided by two. Turnover of average trade and bills receivables (in days) equals to the average trade and bills receivables divided by revenue and then multiplied by 365) was 102.7 days, while it was 89.5 days in 2012.

More details about the trade and bills receivables are provided in note 23 to the consolidated financial statements on pages 146 to 148 of this annual report.

***Trade payables***

During the year ended 31 December 2013, turnover of average trade payables (in days) (average trade payables equal to trade payables at the beginning of the year plus trade payables at the end of the year, divided by two. Turnover of average trade payables (in days) equals to average trade payables divided by cost of sales and then multiplied by 365) was 57.8 days, while it was 53.6 days in 2012.

More details about the trade payables are provided in note 27 to the consolidated financial statements on pages 155 to 156 of this annual report.

***Interest-Bearing Loans and Borrowings***

| | 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **2013** | | | 2012 | | |
| | **Contractual Interest rate (%)** | **Maturity** | **RMB'000** | Contractual Interest rate (%) | Maturity | RMB'000 |
| **Current** | | | | | | |
| Bank loans – unsecured[1] | **4.98** | **April 2014** | **30,000** | 5.488-5.880 | February-April 2013 | 80,000 |
| Bank overdraft – unsecured[2] | **Base*+2.30** | **On demand** | **17,117** | Base*+2.30 | On demand | 14,387 |
| Total | | | **47,117** | | | 94,387 |

1 The bank loans included RMB-denominated loans of RMB30,000,000 with an interest rate of 4.98% per annum;

2 The bank overdraft represents a GBP-denominated overdraft facility with limit amounted to GBP2,200,000 (2013: GBP2,200,000). The overdraft facility will be terminated on demand. As at 31 December 2013, we have utilised the facility amount of GBP1,702,000 (31 December 2013: GBP1,416,000).

* Base means the Bank of England base rate.

The interest-bearing loans and borrowings are repayable within 1 year.

As at 31 December 2013, the fair value of interest-bearing loans and borrowings approximated to their carrying amounts largely due to the short-term maturity.

***Capital expenditure***

We funded our capital expenditure with cash generated from operations and bank loans. Our capital expenditure primarily related to expenditure on property, plant and equipment, prepaid land lease payments and other intangible assets. During the Reporting Period, our capital expenditure amounted to RMB150,535,000, mainly included (i) investment of RMB78,279,000 in plant and equipment, which mainly used for investment in Huizhou LED production equipments, non-productive equipments and moulds; and (ii) investment of RMB46,229,000 in buildings, which was mainly used in construction of Huizhou NVC plant and the new Sunny industrial park complex.

***Pledge of assets***

As at 31 December 2013, the Group had pledged time deposits of RMB6,192,000 to secure the issuance of letters of credit and as guarantee for fulfilling contractual obligations at the requests of customers.

## 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 2013, the Group had no material contingent liabilities.

## Capital Commitments

The details of capital commitments are referred to in note 36 to the consolidated financial statements on page 166 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 2013.

## 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 difficulties or negative impacts 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 changes as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect our financial performance. We did not enter into any commodity derivative instruments to hedge the potential commodity price changes.

### Liquidity risk

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

### Credit risk

Our major credit risk arises from exposure to a substantial number of trade and bills receivables and prepayments, deposits 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 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 risk exposure to any financial institutions. The carrying amounts of trade and bills receivables, prepayments, deposits and other receivables, cash and cash equivalents and short-term deposits included in the consolidated statement of financial position 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 2013, we entered into a number of one-year insurance contracts with China Export & Credit Insurance Corporation, which covered up to 85% of uncollectible receivables from PRC sales and 90% uncollectible receivables from international sales between the period from 1 December 2013 to 30 November 2014 with a maximum compensation amount of RMB42,000,000 for PRC sales and US$30,000,000 (equivalent to RMB182,907,000) for international 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 when they become due.

## Employees

As at 31 December 2013, the Group had approximately 8,785 employees in total (31 December 2013: 9,767). During the Reporting Period, employee costs amounted to RMB529,351,000 (of which share option costs were RMB486,000). During the year ended 31 December 2012, employee costs amounted to RMB509,061,000 (of which share option costs were RMB1,800,000). 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 48, is an Executive Director and the chief executive officer of the Company. Mr. Wu is our founder and is primarily responsible for the overall corporate strategies and management of our Group. Mr. Wu acted as the Chairman of the Company from 20 May 2010 to 24 May 2012. He has been appointed as the Chief Executive Officer of the Company since 11 January 2013 and has been re-appointed as an Executive Director since 21 June 2013. Mr. Wu has more than 19 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 currently also acts as the chairman of CRS Electronics Inc. (a company listed on the TSX Venture Exchange in Canada). 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 40, is an Executive Director and a vice president of the Company, primarily responsible for our research and development and production management. He has over 14 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.

Mr. WANG Dongming (王冬明), aged 43, is an Executive Director of the Company. Mr. Wang joined the Group in June 2013. Mr. Wang has more than 15 years' of experience in electrical and finance industry, and has many years of experience in manufacturing, finance and business management. He was the vice finance manager of China Infrastructure Materials Corporation (中國基建物資總公司) and the general manager of its Shenzhen subsidiary, respectively, from 1992 to 2000. From 2000 to 2013, Mr. Wang acted as an executive director, a vice general manager, the chief financial officer of Elec-Tech International Co., Ltd. (廣東德豪潤達電氣股份有限公司), which is listed on the Shenzhen Stock Exchange in China, and the general manager of lighting division of Elec-Tech International Co., Ltd,. Mr. Wang is currently an executive director of Elec-Tech International (H.K.) Company Limited. Mr. Wang graduated from Shaanxi Institute of Finance and Economics (陝西財經學院) with a bachelor degree in finance and accounting in 1992. Mr. Wang Dongming is Mr. Wang Donglei's younger brother.

## Non-executive Directors

Mr. WANG Donglei (王冬雷), aged 50, is a Non-executive Director and the Chairman of the Company. Mr. Wang joined the Group in January 2013. He has many years of experience in product research and development, manufacturing and business management. In 1996, Mr. Wang participated in the founding of Zhuhai China Resources Electric Co., Ltd. (珠海華潤電器有限公司) (which was subsequently renamed as Elec-Tech International Co., Ltd. (廣東德豪潤達電氣股份有限公司) and which was listed on the Shenzhen Stock Exchange in China in 2004) and served as the chairman and the general manager. Since 2001, he has been serving as the chairman and a director of Elec-Tech International Co., Ltd.. At present, Mr. Wang also holds positions in various subsidiaries of Elec-Tech International Group which include: the chairman of Zhuhai Hansheng Precision Machinery Co., Ltd. (珠海瀚盛精密機械有限公司), the chairman of Appliance Co. of America (Zhuhai) Co., Ltd. (北美電器(珠海)有限公司), the chairman of Elec-Tech (Hong Kong) Optoelectronic Technology Co., Ltd. (德豪(香港)光電科技有限公司), executive director of 3E Semiconductor (Wuhu) Co., Ltd. (三頤(蕪湖)半導體有限公司), executive director of Elec-Tech (Dalian) Investment Co., Ltd. (德豪(大連)投資有限公司), director of Zhuhai Elec-Tech International Co., Ltd. (珠海德豪潤達電器有限公司), director of ETI-LED Solutions Japan Co. Ltd, director of Elec-Tech US Inc., director of ETI Solid State Lighting Inc. and director of ETI LED Solutions Inc.. Mr. Wang graduated from China Dalian Institute of Technology (subsequently renamed as Dalian University of Technology) with a bachelor's degree in engineering. Mr. Wang Donglei is Mr. Wang Dongming's older brother.

Mr. Wang holds 90% equity interest in Wuhu Elec-Tech Investment Co., Ltd.* (蕪湖德豪投資有限公司); Wuhu Elec-Tech Investment Co., Ltd.* (蕪湖德豪投資有限公司) in turn holds 21.04% of the shares of Elec-Tech International Co., Ltd.. Elec-Tech International Co., Ltd. held 20.24% of the total issued shares of the Company as of 31 December 2013.

Mr. LIN Ho-Ping (林和平), aged 42, is a Non-executive Director of the Company. Mr. Lin joined our Group in October 2006. He joined SAIF Advisors Ltd. ("SAIF") in 2001 and is currently a general partner and a managing director of SAIF as well as the chief investment officer of SPQ Asia Capital Ltd. (a subsidiary of SAIF). Prior to joining SAIF, 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 was previously a director of China TransInfo Technology Corp., (a company which has completed privatization and been delisted from the NASDAQ Global Market since 31 October 2012). 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.

Mr. ZHU Hai (朱海), aged 49, is a Non-executive Director of the Company. Mr. Zhu joined our Group in October 2011. He has over 17 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. WANG Jinsui (王錦燧), aged 75, is an Independent Non-executive Director of the Company. Mr. Wang joined the Group in April 2010. He has been the president of the Fourth and Fifth Council of China Illuminating Engineering Society (中國照明學會) ("CIES") since 2003, the honorable chairman of the Sixth Council of CIES since June 2012 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 from 2003 to 2012. 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 United Kingdom. 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.

Mr. LEE Kong Wai, Conway (李港衛), aged 59, is an Independent Non-executive Director of the Company. Mr. Lee joined the Group in November 2012. He received a Bachelor of Arts degree from Kingston University (formerly known as Kingston Polytechnic) in London and further obtained his postgraduate diploma in business from Curtin University of Technology in Australia. Mr. Lee served as a partner of Ernst & Young ("EY") for over 29 years, until 2009, during which he held key leadership positions in the development of EY in China. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Australia, Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Certified Practising Accountants. Mr. Lee currently also serves as an independent non-executive director of the following companies: Chaowei Power Holdings Limited, West China Cement Limited, China Modern Dairy Holdings Ltd., GOME Electrical Appliances Holdings Limited, Tibet 5100 Water Resources Holdings Ltd., Yashili International Holdings Ltd. (all of which are listed on the main board of the Stock Exchange) and Citic Securities Company Limited (a company listed on main board of the Stock Exchange and the Shanghai Stock Exchange). He acted as an independent non-executive director of Sino Vanadium Inc.(a company listed on TSX Venture Exchange in Canada) from October 2009 to December 2011 and also acted as an independent non-executive director of China Taiping Insurance holdings Company Limited (a company listed on main board of the Stock Exchange) from September 2009 to August 2013. Mr. Lee was a member of the Chinese People's Political Consultative Conference of Hunan Province (中國湖南省政協委員) in China since 2007.

Ms. WU Ling (吳玲), aged 56, is an Independent Non-executive Director of the Company. Ms. Wu joined the Group in June 2013. Ms. Wu has nearly 10 years' of experience in semiconductor lighting industry. She acted as the director of Semiconductor Lighting Major Project Management Office of the Ministry of Science and Technology of the PRC (中國科技部半導體照明重大項目管理辦公室), a deputy director of the National Semiconductor Lighting Project Coordination and Leading Group Office (國家半導體照明工程協調領導小組辦公室) and the director of Beijing Semiconductor Lighting Technology Promotion Centre (北京半導體照明科技促進中心) in 2003, the secretary-general of China Solid State Lighting Alliance (國家半導體照明工程研發及產業聯盟) in 2004, a standing director of China Material Research Society (中國材料研究學會), a standing director of China Illuminating Engineering Society (中國照明學會) and a standing director of China Industry University Research Institute Collaboration Association (中國產學研促進會) in 2009. Ms. Wu was also elected as the first chairwoman of International SSL Alliance (國際半導體照明聯盟) in 2010 and the director-general of State Key Laboratory for Joint Innovation of Semiconductor Lighting (半導體照明聯合創新國家重點實驗室) in 2011, respectively.

## Senior Management

Mr. WU Changjiang (吳長江), aged 48, 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 40, is a vice-president of our Company. His biographical details are set out above under the paragraph headed "Executive Directors".

Mr. TAN Ying (談鷹), aged 47, is a vice-president and the chief financial officer of our Company. Before joining the Group in 2006, Mr. Tan 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 38, is a vice-president of our Company and is responsible for human resources, administration and information technology departments. Prior to joining the Group in 2006, he was a deputy manager responsible for marketing in Zhengzhou Hongyuan Trading Co., Ltd. (鄭州宏苑經貿有限公司) from 1998 to 2001 and a senior consultant responsible for marketing, finance and corporate image system in Guangdong Boaosi Enterprise Design Co., Ltd. (廣東博奧司企業設計有限公司) from 2002 to 2005. Mr. Wang received an MBA degree from Inter American University in 2009.

Mr. WU Changyong (吳長勇), aged 44, is a vice-president of our Company and is responsible for procurement and logistics management of the Company. He has over 15 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 received a doctoral degree in Business Administration in Victoria University of Switzerland in 2011. Mr. Wu Changyong is Mr. Wu Changjiang's younger brother.

Mr. HONG Xiaosong (洪曉松), aged 46, is the general manager of our Chongqing Research and Development Center. 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 general manager of Shenzhen Golden Lighting Engineering Corp. Ltd (深圳金照明工程公司) from 2000 to 2004 and Shenzhen Jinyueliang Lighting Technology Co., Ltd (深圳市金悦亮光源技術有限公司) 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 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. QIAN Genyue (錢根躍), aged 60, is the general manager of our Shanghai Research and Development Centre. He has over 22 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 Group, 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 Germany's DEKRA (the former KEMA Quality) laboratory.

## Joint Company Secretaries

Ms. LO Yee Har, Susan (盧綺霞), aged 55, 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)[2], aged 46, was appointed as a joint company secretary on 24 March 2010. Ms. Kam is a director 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 20 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 a fellow 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).

[2] Ms. Kam Mei Ha Wendy resigned as the joint company secretary of the Company and Miss Leung Ching Ching was appointed to fill the vacancy left by Ms. Kam Mei Ha Wendy with effect from 1 April 2014.

The directors present their report together with the audited financial statements for the year ended 31 December 2013.

## 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 in the Group's principal activities. The analysis of the principal activities of the Group during the year ended 31 December 2013 is set out in the consolidated statement of profit or loss of the financial statements on page 73.

## Results and Dividends

The Group's profit for the Reporting Period and the state of affairs of the Company and the Group as at 31 December 2013 are set out in the consolidated financial statements on pages 73 to 176 of this annual report.

An interim dividend of HK$1 cent per ordinary share was paid on 18 September 2013.

The Board proposed to declare a final dividend of HK$2 cents (equivalent to approximately RMB1.6 cents) per ordinary share for the year ended 31 December 2013. Upon shareholders' approval at the forthcoming annual general meeting, the final dividend will be payable on or around Friday, 27 June 2014 to the shareholders whose names appear on the register of members of the Company at close of business on Tuesday, 10 June 2014. Based on the 3,128,448,000 shares in issue as at 31 December 2013, it is expected that the final dividend payable will amount to approximately HK$62,569,000 (equivalent to approximately RMB49,192,000) (before tax). Final dividends proposed are classified as a separate allocation of share premium within the equity section of the statement of financial position. No shareholder has waived or agreed to waive any dividends.

## Closure of Register of Members

The Register of Members will be closed from Tuesday, 27 May 2014 to Thursday, 29 May 2014 (both days inclusive) and from Friday, 6 June 2014 to Tuesday, 10 June 2014 (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 Monday, 26 May 2014. 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, 5 June 2014.

## 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 2013, approximately HK$367 million was used for capital expenditure, approximately HK$316 million was used for the continual implementation of our branding strategies and enhancement of our sales network (particularly in overseas markets), approximately HK$147 million was used for enhancing our research and development efforts, approximately HK$291 million was used for our expansion plans, both in the PRC and the international markets and approximately HK$147 million was used for working capital and other general corporate purposes.

## Financial Highlights

A summary of the published 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 29 to the consolidated financial statements on page 158 of this annual report. As at 31 December 2013, the Group's total current interest-bearing loans and borrowings amounted to RMB47,117,000 (2012: RMB94,387,000) and we had no non-current interest-bearing loans and borrowings.

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

## Property, Plant and Equipment

Details of movements in the property, plant and equipment for the Reporting Period are set out in note 14 to the consolidated financial statements on pages 129 to 131 of this annual report.

## Share Capital

Details of movements in the share capital for the Reporting Period are set out in note 31 to the consolidated financial statements on page 160 of this annual report.

## Reserves

Details of movements in the reserves of the Company and the Group for the Reporting Period are set out in note 33 to the consolidated financial statements on pages 163 to 164 and the consolidated statement of changes in equity on pages 77 to 78 of this annual report.

## Distributable Reserves

As at 31 December 2013, the Company's reserves available for distribution amounted to RMB1,608,799,000, of which RMB49,192,000 has been proposed as a final dividend for the Reporting Period.

## Public Float

As of the date of this annual report, based on the information publicly available to the Company and to the best knowledge of the directors, the Company has maintained the prescribed public float under the Listing Rules for the Reporting Period and at any time prior to the date of this annual report.

## Pre-emptive Rights

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

## Tax Allowances

The Company is not aware of any particular tax allowances granted to the Company's shareholders due to their interests in its securities.

## Directors

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

### Executive Directors

| | |
|---|---|
| MU Yu | appointed on 1 October 2006 |
| WU Changjiang | appointed on 21 June 2013 |
| WANG Dongming | appointed on 21 June 2013 |

### Non-executive Directors

| | |
|---|---|
| YAN Andrew Y | appointed on 4 October 2006 and resigned on 3 April 2013 |
| LIN Ho-Ping | appointed on 4 October 2006 |
| ZHU Hai | appointed on 20 October 2011 |
| WANG Donglei | appointed on 11 January 2013 |

### Independent Non-executive Directors

| | |
|---|---|
| WANG Jinsui | appointed on 27 April 2010 |
| YUNG Tse Kwong, Steven | appointed on 8 November 2012 and retired on 21 June 2013 |
| LEE Kong Wai, Conway | appointed on 28 November 2012 |
| WU Ling | appointed on 21 June 2013 |

## Directors' and Senior Management's Biographies

Directors' and senior management's biographies are set out in the section headed "Directors and Senior Management" on pages 31 to 38 of this annual report.

## Directors' Service Contracts

The relevant information on Directors' service contracts is set out in the section headed "Non-executive Directors and Re-election of Directors" in the "Corporate Governance Report" on page 60 of this annual report.

## Directors' Interests in Contracts

Save as in the connected transactions and continuing connected transactions as disclosed below, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the Reporting Period.

## Confirmation of Independence from the Independent Non-executive Directors

The Company has received from each of the Independent Non-executive Directors, namely WANG Jinsui, YUNG Tse Kwong, Steven, LEE Kong Wai, Conway and WU Ling, 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 2013 or their respective date of retirement 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 2013, 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:

### Long positions in the Company

| Name of Director | Nature of interest | Class of shares | Number of shares/share options | Percentage of the total shares issued |
|---|---|---|---|---|
| Wu Changjiang | Beneficial owner | Share options *(Note 1)* | 30,476,000 (L) *(Note 2)* | 0.97% |
| | Beneficial owner | Ordinary shares | 53,608,000 (L) | 1.71% |
| | Interest of a controlled corporation | Ordinary shares | 240,208,992 (L) *(Note 3)* | 7.68% |
| | Interest of a controlled corporation | Ordinary shares | 239,789,000 (S) *(Note 3)/(Note 4)* | 7.66% |
| Mu Yu | Beneficial owner | Share options *(Note 1)* | 97,000 (L) | 0.0031% |
| Lin Ho-Ping | Beneficial owner | Share options *(Note 1)* | 532,000 (L) | 0.017% |
| | Beneficial owner | Ordinary shares | 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 were held by NVC Inc. which is 100% beneficially owned by Mr. Wu Changjiang, and therefore, Mr. Wu Changjiang is deemed to be interested in all these shares.

4 (S) represents short position.

Save as disclosed above, as at 31 December 2013, none of the Directors or chief executives of the Company have or are deemed to have interests or short positions in the shares, underlying shares or debentures of the Company or 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 2013, 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 | Nature of Interest | Class of shares | Number of shares/share options | Percentage of the total shares issued |
|---|---|---|---|---|
| Elec-Tech International (H.K.) Company Limited | Beneficial owner | Ordinary shares | 633,301,000 (L) *(Note 1)* | 20.24% |
| Elec-Tech International Co., Ltd. | Interest of a controlled corporation | Ordinary shares | 633,301,000 (L) *(Note 2)* | 20.24% |
| SB Asia Investment Fund II L.P. | Beneficial owner | Ordinary shares | 578,711,000 (L) | 18.50% |
| NVC Inc. | Beneficial owner<br>Beneficial owner | Ordinary shares<br>Ordinary shares | 240,208,992 (L)<br>239,789,000 (S)<br>*(Note 3)* | 7.68%<br>7.66% |
| Schneider Electric Asia Pacific Limited | Beneficial owner | Ordinary shares | 288,371,000 (L) | 9.22% |
| Schneider Electric Industries SAS | Interest of a controlled corporation | Ordinary shares | 288,371,000 (L) *(Note 4)* | 9.22% |
| Schneider Electric SA | Interest of a controlled corporation | Ordinary shares | 288,371,000 (L) *(Note 4)* | 9.22% |

| Name of shareholder | Nature of Interest | Class of shares | Number of shares/share options | Percentage of the total shares issued |
|---|---|---|---|---|
| GS Direct, L.L.C. | Beneficial owner | Ordinary shares | 177,351,000 (L) | 5.67% |
| The Goldman Sachs Group, Inc. | Interest of a controlled corporation | Ordinary shares | 187,335,757 (L) *(Note 5)* | 5.99% |

*Notes:*

1 (L) represents long position.

2 These shares were held by Elec-Tech International (H.K.) Company Limited. As Elec-Tech International (H.K.) Company Limited is a wholly-owned subsidiary of Elec-Tech International Co., Ltd., Elec-Tech International Co., Ltd. is deemed to be interested in all these shares.

3 (S) represents short position.

4 These shares were 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 Industries SAS and Schneider Electric SA are deemed to be interested in these shares.

5 These shares were held by GS Direct, L.L.C. (177,351,000 shares), Goldman Sachs (Asia) Finance (5,725,000 shares), Goldman Sachs International (3,987,000 shares), Goldman Sachs Asset Management, L.P. (272,000 shares) and Goldman, Sachs & Co. (757 shares), respectively. As all these companies are held by The Goldman Sachs Group, Inc. directly or indirectly, The Goldman Sachs Group, Inc. is deemed to be interested in the shares held by the aforesaid companies in the Company.

Saved as disclosed above, as at 31 December 2013, 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 under the Option Scheme 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 ten years and ends on 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 was 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 2013, 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 2013 | Number of shares outstanding as at 31 December 2013 | Exercise price (HK$ per share) | Date of grant | Expiry date | Percentage of the number of Shares outstanding as at 31 December 2013 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 | 97,000 | 97,000 | 2.1 | 24 March 2010 | 24 March 2016 | 0.0031% |
| Yan Andrew Y *(Note 1)* | Share options | Director | 532,000 | – | 2.1 | 24 March 2010 | 24 March 2015 | – |
| Lin Ho-Ping | Share options | Director | 532,000 | 532,000 | 2.1 | 24 March 2010 | 24 March 2015 | 0.017% |
| Others (including senior management) | Share options | Employees and others | 7,150,000 | 7,000,000 | 2.1 | 24 March 2010 | 24 March 2016 | 0.22% |
| | | | 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 | | | 41,787,000 | 41,105,000 | | | | 1.31% |

*Note:*

1. Mr. Yan Andrew Y resigned as Non-executive Director of the Company with effect from 3 April 2013.

For further details, please refer to note 32 to the consolidated financial statements on pages 161 to 162 of this annual report 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, none of the share options was exercised.

During the Reporting Period, out of the share options granted under the Pre-IPO Share Option Scheme, 682,000 share options lapsed due to the resignation of two employees and one director. The lapsed share options are as follows:

| Number of share options lapsed | Exercise price | Date of grant | Expiry date |
|---|---|---|---|
| 532,000 | HK$2.1 | 24 March 2010 | 24 March 2015 |
| 150,000 | 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

Neither the Company nor its subsidiaries had 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 in the connected transactions and continuing connected transactions as disclosed below and those disclosed in the following paragraphs by the Company, 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.

Mr. Wang Donglei, a Non-executive Director and the Chairman of the Company, holds 90% equity interest in Wuhu Elec-Tech Investment Co., Ltd.* (蕪湖德豪投資有限公司), Wuhu Elec-Tech Investment Co., Ltd.* (蕪湖德豪投資有限公司) in turn holds 21.04% of the shares of Elec-Tech International Co., Ltd., and Elec-Tech International Co., Ltd. in turn holds 20.24% of the shares (633,301,000 shares as at 31 December 2013) of the Company. Mr. Wang is also a director and chairman of Elec-Tech International Co., Ltd.. To the best knowledge of the Company, Elec-Tech International Co,, Ltd. was established on 14 May 1996 with issued capital of RMB1,166,400,000 as at 31 December 2013. It was listed on the Shenzhen Stock Exchange in June 2004. Based on the preliminary annual result of Elec-Tech International Co., Ltd. dated 28 February 2014 (unaudited and subject to further adjustment), its operating revenue for the year 2013 is approximately RMB3,117,271,000, its net profit is approximately RMB9,364,000 and total assets is approximately RMB11,000,113,000. The principal business of Elec-Tech International Co., Ltd. is production and sale of small household appliances and LED products, while the Group's subsidiaries are principally engaged in the production and sale of lamp products, luminaire products and lighting electronic products, including a variety of LED lamps, luminaires and electrical products. As a result, Mr. Wang Donglei is deemed to be interested, directly or indirectly, in the business that competes or may compete with that of the Company and/or its subsidiaries.

As the Board of the Company is independent from the board of directors of Elec-Tech International Co., Ltd. and the above director does not control the Board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the business of Elec-Tech International Co., Ltd.

## Controlling Shareholders and Their Pledge of Shares

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

## Connected Transactions and Continuing Connected Transactions

During the Reporting Period, the Group had the following continuing connected transactions, which need to be disclosed in compliance with the requirements of Chapter 14A of the Listing Rules. Further details of these continuing connected transactions are set out as below and in the announcements of the Company dated 19 December 2012, 20 March 2013, 11 June 2013 and 28 August 2013.

## Continuing Connected Transactions Exempted from Independent Shareholders' Approval

### Renewed framework trademark licensing agreement

We entered into a renewed framework trademark licensing agreement on 19 December 2012 with Sheng Di Ai Si, Chongqing Enlin and Shandong NVC, which are associates (as defined under the Listing Rules) of Mr. Wu Changjiang, the then 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 are 3% of each licensee's sales (including value added tax) of products using licensed trademarks. The trademark licence fees were agreed following arm's length negotiations and were on normal commercial terms. The term of this renewed framework trademark licensing agreement is three years commencing on 1 January 2013 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 renewed framework trademark licensing agreement for the years ended 31 December 2013, 2014 and 2015 are US$4,000,000, US$4,350,000 and US$4,830,000, respectively.

During the Reporting Period, the actual amount of trademark licence fees received by us under the renewed framework trademark licensing agreement was RMB11,393,000 which did not exceed the annual cap.

### Framework contract manufacturing agreement

We entered into a framework contract manufacturing agreement on 19 December 2012 with Shandong NVC, which is an associate (as defined under the Listing Rules) of Mr. Wu Changjiang, the then substantial shareholder (as defined under the Listing Rules) of the Company, pursuant to which, Shandong NVC, as a contract manufacturer, produces and supplies to us residential luminaires based on our design and technical standards and labels those residential luminaires with our brands. Under the framework contract manufacturing agreement, the prices charged by Shandong NVC 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 1 January 2013. According to this agreement, Shandong NVC is not permitted to cooperate with other contract manufacturing clients whose products are identical or similar to ours during the contract period.

The maximum aggregate annual amounts payable to Shandong NVC under the framework contract manufacturing agreement for the years ended 31 December 2013, 2014 and 2015 are US$1,000,000, US$1,100,000 and US$1,200,000, respectively.

During the Reporting Period, the actual amount paid by us to Shandong NVC under the framework contract manufacturing agreement was RMB805,000 which did not exceed the annual cap.

### Renewed framework contract manufacturing agreement

We entered into a renewed framework contract manufacturing agreement on 28 August 2013 with Chongqing En Wei Xi, which is an associate (as defined under the Listing Rules) of Mr. Wu Changjiang, the then 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. 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 renewed framework contract manufacturing agreement is three years commencing on 1 January 2013. 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.

The maximum aggregate annual amounts payable to Chongqing En Wei Xi under the renewed framework contract manufacturing agreement for the years ended 31 December 2013, 2014 and 2015 are RMB50,000,000, RMB60,000,000 and RMB72,000,000, respectively.

During the Reporting Period, the actual amount paid by us to Chongqing En Wei Xi under the renewed framework contract manufacturing agreement was RMB17,401,000 which did not exceed the annual cap.

### Framework finished products purchase agreement

We entered into a framework finished products purchase agreement on 28 August 2013 with Sheng Di Ai Si, which is an associate (as defined under the Listing Rules) of Mr. Wu Changjiang, the then Executive Director and substantial shareholder (as defined under the Listing Rules) of the Company, pursuant to which, the Company agreed to purchase home furnishing lamp from Sheng Di Ai Si on a non-exclusive basis. The quality, quantity and technical standards of the lamp delivered by Sheng Di Ai Si must meet the Company's standards as set out in the sub-contract for each purchase order. The prices charged by Sheng Di Ai Si 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 1 January 2013.

The maximum aggregate annual amounts payable to Sheng Di Ai Si under the framework finished products purchase agreement for the years ended 31 December 2013, 2014 and 2015 are RMB30,000,000, RMB56,000,000 and RMB96,000,000, respectively.

During the Reporting Period, the actual amount paid by us to Sheng Di Ai Si under the framework finished products purchase agreement was RMB4,379,000 which did not exceed the annual cap.

### Supply and demand cooperation agreement

On 13 February 2012, the Company entered into the supply and demand cooperation agreement with Chongqing Enlin, pursuant to which Chongqing Enlin shall produce and supply to the Company lights, heater and ventilator for kitchen and bathroom use based on our design and technical standards and label those products with our brands. As Chongqing Enlin is an associate of Mr. Wu Changjiang and Mr. Wu is a substantial shareholder and the then Executive Director and chief executive officer of the Company, the transactions under the agreement therefore constitute continuing connected transactions of the Company. The agreement has a term of two years, and the purpose of signing of the agreement by the Company is to enhance our operation efficiency through outsourcing the production of relevant products. The fees charged by Chongqing Enlin were agreed based on arm's length negotiations with reference to the prevailing market rates. For the year ended 31 December 2012, the actual amount of transactions under the agreement is about RMB27,010,000. During the preparation of the annual financial statements of the Company for the year ended 31 December 2012, the Board noted that the applicable percentages of these transactions are more than 0.1% but less than 5%. The Board took immediate actions to approve, confirm and ratify the transactions under the agreement and published an announcement according to the requirements of Rule 14A.47 of the Listing Rules on 20 March 2013.

During the Reporting Period, the actual amount paid by us to Chongqing Enlin under the supply and demand cooperation agreement was RMB154,000, and the applicable percentages of these transactions were not more than 0.1%.

### Renewed framework raw material purchase agreement

We entered into a renewed framework raw material purchase agreement dated 19 December 2012 with World Bright, Quzhou Aushite and Jiangshan Youhe, which are associates (as defined under the Listing Rules) of Mr. Wu Jiannong, a director and a substantial shareholder (as defined under the Listing Rules) of Zhejiang NVC, a subsidiary of the Company, pursuant to which, we agreed to purchase raw materials (on a non-exclusive basis) including glass tubes from World Bright, phosphor powder from Quzhou Aushite and tools and accessories from Jiangshan Youhe. The quality, quantity and technical standards of the raw materials delivered by these suppliers must meet the Company's 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 the renewed framework raw material purchase agreement is three years commencing from 1 January 2013.

The maximum aggregate annual amounts payable by us to World Bright, Quzhou Aushite and Jiangshan Youhe under the renewed framework raw material purchase agreement for the years ended 31 December 2013, 2014 and 2015 are US$19,790,000, US$21,770,000 and US$23,940,000, respectively.

During the Reporting Period, the actual amount paid by us to World Bright, Quzhou Aushite and Jiangshan Youhe under the renewed framework raw material purchase agreement was RMB35,397,000, which did not exceed the annual cap.

### Renewed framework equipment purchase agreement

We entered into a renewed framework equipment purchase agreement dated 19 December 2012 with Jiangshan Youhe, which is an associate (as defined under the Listing Rules) of Mr. Wu Jiannong, a director and a substantial shareholder (as defined under the Listing Rules) of Zhejiang NVC, a subsidiary of the Company, pursuant to which we purchase manufacturing equipment and software from Jiangshan Youhe. The fees charged by Jiangshan Youhe will be agreed based on arm's length negotiations with reference to the prevailing market rates. The term of this renewed framework equipment purchase agreement is three years commencing on 1 January 2013.

The maximum aggregate annual amounts payable by us under the renewed framework equipment purchase agreement for the years ended 31 December 2013, 2014 and 2015 are US$1,360,000, US$900,000 and US$900,000, respectively.

During the Reporting Period, the actual amount paid by us under the renewed framework equipment purchase agreement was RMB396,000 which did not exceed the annual cap.

### Trademark licensing agreement

Huizhou NVC, a wholly owned subsidiary of the Company entered into a trademark licensing agreement on 11 June 2013 with ETIC, which is a substantial shareholder (as defined under the Listing Rules) of the Company, pursuant to which, Huizhou NVC grants ETIC, a non-transferrable right to use certain registered trademarks of the Company, including "NVC" and "雷士", as well as granting ETIC the right to use the Company's registered trademark in combination with ETIC's own brand as "NVCETI" and "雷士德豪" on ETIC's LED lamp products. The licensing is worldwide but is exclusive only on certain ETIC's LED lamp products. The trademark licensing fee is agreed based on arm's length negotiations and is on normal commercial terms. The term of the trademark lisensing agreement is three years commencing on 11 June 2013.

The maximum aggregate annual amounts of trademark licence fees receivable by us under the trademark licensing agreement for the years ended 31 December 2013, 2014 and 2015 are RMB16,000,000, RMB27,000,000 and RMB55,000,000, respectively.

During the Reporting Period, the actual amount of trademark licence fees received by us under the trademark licensing agreement was RMB899,000 which did not exceed the annual cap.

### Framework finished products and raw materials purchase agreement

We entered into a framework finished products and raw materials purchase agreement on 28 August 2013 with ETIC, which is a substantial shareholder (as defined under the Listing Rules) of the Company, pursuant to which, the Company agreed to purchase finished products and raw materials including but not limited to LED chips and LED lamp products from ETIC on a non-exclusive basis. The quality, quantity and technical standards of the products delivered by ETIC must meet the Company's standards as set out in the sub-contract for each purchase order. The prices charged by ETIC will be agreed following arm's length negotiations between the parties with reference to the prevailing market rates. The term of the framework agreement is three years commencing on 1 January 2013.

The maximum aggregate annual amounts payable to ETIC under the framework finished products and raw materials purchase agreement for the years ended 31 December 2013, 2014 and 2015 are RMB130,000,000, RMB170,000,000 and RMB170,000,000, respectively.

During the Reporting Period, the actual amount paid by us to ETIC under the framework finished products and raw materials purchase agreement was RMB722,000 which did not exceed the annual cap.

### Framework sales agreement

We entered into a framework sales agreement on 28 August 2013 with ETIC, which is a substantial shareholder (as defined under the Listing Rules) of the Company, pursuant to which, the Company agreed to sell finished products including but not limited to LED luminaire products to ETIC on a non-exclusive basis. The quality, quantity and technical standards of the products delivered by the Group must meet ETIC and its subsidiaries' standards as set out in the sub-contract for each sales order. The prices paid by ETIC will be agreed following arm's length negotiations between the parties with reference to the prevailing market rates. The term of the framework agreement is three years commencing on 1 January 2013.

The maximum aggregate annual amounts receivable by us under the framework sales agreement for the years ended 31 December 2013, 2014 and 2015 are RMB50,000,000, RMB100,000,000 and RMB100,000,000, respectively.

During the Reporting Period, we did not have any transaction with ETIC arising from the framework sales agreement.

Pursuant to rule 14A.37 of the Listing Rules, the above Continuing Connected Transactions have been reviewed by the independent non-executive Directors of the 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 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.

The Company confirms that all the transactions as disclosed in note 37 to the consolidated financial statements on pages 167 to 169 of this annual report satisfied relevant disclosure requirements set out under Chapter 14A of the Listing Rules.

## Disclosures pursuant to Rules 13.21 and 13.22 of the Listing Rules

The Board is not aware of any circumstances resulting in the responsibility of disclosure under Rules 13.21 and 13.22 of the Listing Rules.

## Contracts of Significance

Saved as the connected transactions and continuing connected transactions disclosed above, no contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its parent company was a party and in which a director of the Company had a material interest whether directly or indirectly, subsisted during the Reporting Period or at the end of the Reporting Period.

## Remuneration Policy

The Group's remuneration policy is to compensate our employees based on their performance, 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 and note 9 to the consolidated financial statements on pages 122 to 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 of 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 are charged in the statements of profit or loss 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 RMB45,647,000. Details of the Group's contributions to the housing fund and pension scheme are set out in note 6 and note 8 to the consolidated 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.

## Charitable Contributions

During the Reporting Period, the Group made donations of approximately RMB1,331,000.

## Major Customers and Suppliers

During the Reporting Period, the revenue from the sales to our top five customers accounted for less than 30% of the Group's total revenue and the purchases of goods and services from our top five suppliers accounted for less than 30% of the Group's total purchases from suppliers.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

## Compliance with the Code on Corporate Governance Practices and the Code on Corporate Governance

During the reporting period, the Company had complied with the principles and codes provisions set out in the Corporate Governance Code, except for code provision A.5.1 during the period starting from 21 June 2013 to 30 July 2013. Please refer to Corporate Governance Report on pages 58 to 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 page 58 of this annual report.

## 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.

## 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
**WANG Donglei**
*Chairman*

Hong Kong, 26 March 2014

# Corporate Governance Report

The Board of the Company is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2013.

## Corporate Governance Practices

The Board of the Company has committed to achieving high corporate governance standards.

The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code, which was set out in Appendix 14 of the Listing Rules.

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Directors are of the opinion that, the Company had complied with the provisions of the principles and codes as set out in the CG Code, except for code provision A.5.1 of the CG Code. The details of deviation are set out in this Corporate Governance Report. On 30 July 2013, the Board re-appointed the members of the Board Committees to comply with code provision A.5.1 of the CG Code. Save as disclosed above, the Company had fully complied with the principles and code provisions as set out in the CG Code.

## Model Code for Securities Transactions

The Company has adopted the Model Code which was set out in Appendix 10 to the Listing Rules as its code of conduct regarding director's securities transaction.

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 2013.

The Company has also established written guidelines no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company (the "Employees Written Guidelines").

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

## Board of Directors

### Board Composition

The Board of the Company comprises the following directors:

| | |
|---|---|
| **Executive Directors:** | Mr. MU Yu<br>Mr. WU Changjiang *(Chief Executive Officer)* *(Appointed on 21 June 2013)*<br>Mr. WANG Dongming *(Appointed on 21 June 2013)* |
| **Non-executive Directors:** | Mr. YAN Andrew Y *(Resigned on 3 April 2013)*<br>Mr. LIN Ho-Ping<br>Mr. ZHU Hai<br>Mr. WANG Donglei *(Chairman)* |
| **Independent Non-executive Directors:** | Mr. WANG Jinsui<br>Mr. YUNG Tse Kwong, Steven *(Retired on 21 June 2013)*<br>Mr. LEE Kong Wai, Conway<br>Ms. WU Ling *(Appointed on 21 June 2013)* |

The biographical information of the directors are set out in the section headed "Directors and Senior Management" on pages 31 to 38 of the annual report.

Except for that Mr. Wang Dongming and Mr. Wang Donglei are brothers, none of the members of the Board is related to one another.

### Chairman and Chief Executive Officer

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

Mr. Wu Changjiang was appointed as the Chief Executive Office of the Company on 11 January 2013. On 3 April 2013, Mr. Yan Andrew Y resigned as Chairman, Non-executive Director and from all the positions held in the Board committee of the Company and Mr. Wang Donglei took the place of Mr. Yan Andrew Y for the position of the Chairman of the Company on the same day.

As present, the positions of Chairman and Chief Executive Officer are held by Mr. Wang Donglei and Mr. Wu Changjiang respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and overall daily management and operations.

### Independent Non-executive Directors

Mr. Yung Tse Kwong, Steven retired as an Independent Non-executive Director of the Company and Ms. Wu Ling was appointed as an Independent Non-executive Director of the Company at the general annual meeting held on 21 June 2013.

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 representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors are independent.

### Non-executive Directors and Re-election of Directors

Code provision A.4.1 of the CG Code stipulates that Non-executive Directors shall be appointed for a specific term, subject to re-election, while code provision A.4.2 of the CG Code states that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

The procedures and process of appointment, re-election and removal of Directors are set out in the Company's articles of association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of Independent Non-executive Directors.

Each of the Executive Directors of the Company has entered into a service contract with the Company for a term of three years with effect from their respective date of appointment unless terminated by not less than three months' written notice served by either the Executive Directors or the Company. Each of the Non-executive Directors and Independent Non-executive Directors of the Company has signed an appointment letter with the Company for a term of three years with effect from their respective date of appointment. The above appointments are subject to the provisions of retirement and rotation of Directors under the Company's Articles of Association.

In accordance with Article 84(1) and (2) of the Company's Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at an annual general meeting at least once every three years, and any directors so to retire shall be those Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. Accordingly, Mr. Mu Yu, Mr. Lin Ho-Ping and Mr. Wang Jinsui will be subject to re-election on the forthcoming annual general meeting. None of the directors who are proposed for re-election or any other Directors of the Company has a service contract with us that is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leading and controlling of the Company and overseeing the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board make decisions objectively in the interests of the Company.

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company and may request the joint company secretaries and senior management to provide services and advice. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company.

The Board reserves for its decision on all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company.

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.

## Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a Director of a listed company in compliance with the requirement of the CG Code on continuous professional development during the Reporting Period:

| Name of Director | Corporate Governance/ Updates on Laws, Rules and Regulations: Read Materials | Corporate Governance/ Updates on Laws, Rules and Regulations: Attend Seminars/ Briefings | Accounting/Financial/ Management or Other Professional Skills: Read Materials | Accounting/Financial/ Management or Other Professional Skills: Attend Seminars/ Briefings |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| MU Yu | ✓ | | | |
| WU Changjiang *(Note 1)* | ✓ | ✓ | | |
| WANG Dongming *(Note 2)* | ✓ | ✓ | | |
| **Non-executive Directors** | | | | |
| YAN Andrew Y *(Note 3)* | | | | |
| LIN Ho-Ping | ✓ | | | |
| ZHU Hai | ✓ | | | |
| WANG Donglei *(Note 4)* | ✓ | ✓ | | |
| **Independent Non-executive Directors** | | | | |
| WANG Jinsui | ✓ | | | |
| YUNG Tse Kwong, Steven *(Note 5)* | ✓ | | | |
| LEE Kong Wai, Conway | ✓ | ✓ | | |
| WU Ling *(Note 6)* | ✓ | ✓ | | |

*Notes:*

1. Mr. WU Changjiang was appointed on 21 June 2013.
2. Mr. WANG Dongming was appointed on 21 June 2013.
3. Mr. YAN Andrew Y resigned on 3 April 2013.
4. Mr. WANG Donglei was appointed on 11 January 2013.
5. Mr. YUNG Tse Kwong, Steven retired on 21 June 2013.
6. Ms. WU Ling was appointed on 21 June 2013.

## Board Committees

The Board has established four committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee and Strategy and Planning Committee, to oversee particular aspects of the Company's affairs. Audit Committee, Remuneration Committee, Nomination Committee and Strategy and Planning Committee are established with defined written terms of reference. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of Audit Committee, Remuneration Committee and Nomination Committee are Independent Non-executive Directors.

### Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the Reporting Period, the Audit Committee held two meetings to review annual and interim financial results and reports in respect of the year ended 31 December 2012 and the interim period ended 30 June 2013 as well as significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors, and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice without the presence of the Executive Directors.

Rule 3.21 of the Listing Rules requires the audit committee to comprise a minimum of three members with independent non-executive directors in majority and at least one member with appropriate professional qualifications or accounting or related financial management expertise.

During the Reporting Period, Mr. Yung Tse Kwong, Steven retired as an Independent Non-executive Director of the Company on 21 June 2013. Therefore, he was no longer the member of the Audit Committee. His retirement resulted in the Company's non-compliance with Rule 3.21 of the Listing Rules. On 30 July 2013, the Board re-appointed the members of the Audit Committee to comply with Rule 3.21 of the Listing Rules. At present, the Audit Committee has three members namely Mr. Lin Ho-Ping, Mr. Wang Jinsui and Mr. Lee Kong Wai, Conway. Mr. Lee Kong Wai, Conway has been appointed as the chairman of the Audit Committee.

## Remuneration Committee

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee adopted the model set out in item (ii) under the code provision B.1.2(c) of the CG Code, i.e., making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management.

During the Reporting Period, the Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the Executive Directors and senior management and other related matters.

Rule 3.25 of the Listing Rules requires an issuer to establish a remuneration committee chaired by independent non-executive director and comprising a majority of independent non-executive directors.

During the Reporting Period, Mr. Yan Andrew Y and Mr. Yung Tse Kwong, Steven resigned and retired as Non-executive Director and Independent Non-executive Director of the Company with effect from 3 April 2013 and 21 June 2013 respectively. Therefore, they were no longer the members of the Remuneration Committee. On 30 July 2013, the Board re-appointed the members of the Remuneration Committee. At present, the Remuneration Committee has five members namely Mr. Wu Changjiang, Mr. Zhu Hai, Mr. Wang Jinsui, Mr. Lee Kong Wai, Conway and Ms. Wu Ling. Mr. Wang Jinsui has been appointed as the chairman of the Remuneration Committee.

In addition to the information about remuneration disclosed in note 8 and note 9 to the consolidated financial statements on pages 122 to 125 of this annual report, the remuneration of other senior management of the Company falls in the following bands:

| | **Number of Members of Senior Management** |
|---|---|
| Nil to HK$1,000,000 | 1 |
| HK$1,000,001 to HK$1,500,000 | 2 |
| HK$1,500,001 to HK$2,000,000 | – |
| Over HK$2,000,000 | – |

## Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of Independent Non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The Board has set measurable objectives (in terms of gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) to implement the Board diversity policy and review such objects from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The Nomination Committee will review the Board diversity policy, as appropriate, to ensure its continued effectiveness from time to time.

During the Reporting Period, no meeting was convened by the Nomination Committee. The Nomination Committee will meet once a year to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors, and to consider the qualifications of the retiring directors standing for election at the Annual General Meeting.

Code provision A.5.1 of the CG Code requires an issuer to establish a nomination committee chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.

During the Reporting Period, Mr. Yung Tse Kwong, Steven retired as an Independent Non-executive Director of the Company on 21 June 2013. Therefore, he was no longer the chairman of the Nomination Committee. His retirement resulted in the Company's non-compliance with code provision A.5.1. On 30 July 2013, the Board re-appointed the members of the Nomination Committee. At present, the Nomination Committee has three members namely Mr. Wang Donglei, Mr. Lee Kong Wai, Conway and Ms. Wu Ling. Mr. Wang Donglei has been appointed as the chairman of the Nomination Committee.

### Strategy and Planning Committee

The Strategy and Planning Committee was established on 30 July 2013. The primary function of the Strategy and Planning Committee is to propose and formulate the strategic development plan of the Company for the Board's consideration. The Strategy and Planning Committee has five members, namely Mr. Wu Changjiang, Mr. Zhu Hai, Mr. Wang Donglei, Mr. Wang Jinsui and Ms. Wu Ling. Mr. Wang Donglei has been appointed as the chairman of the Strategy and Planning Committee. During the Reporting Period, no meeting was convened by the Strategy and Planning Committee.

### Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

## Attendance Record of Directors and Committee Members

During the Reporting Period, the Company held five Board meetings in total. The attendance record of each director at the Board and Board committee meetings and the general meetings of the Company held during the Reporting Period is set out in the table below:

| | Attendance/Number of Meetings | | | | |
|---|---|---|---|---|---|
| **Name of Director** | **Board** | **Nomination Committee** | **Remuneration Committee** | **Audit Committee** | **Annual General Meeting** |
| Mr. MU Yu | 5/5 | | | | 0/1 |
| Mr. WU Changjiang *(Note 1)* | 1/2 | | 0/0 | | |
| Mr. WANG Dongming *(Note 2)* | 2/2 | | | | |
| Mr. YAN Andrew Y *(Note 3)* | 2/3 | | 1/1 | | |
| Mr. LIN Ho-Ping *(Note 4)* | 5/5 | 0/0 | | 1/1 | 0/1 |
| Mr. ZHU Hai | 4/5 | | 1/1 | | 0/1 |
| Mr. WANG Donglei *(Note 5)* | 5/5 | 0/0 | | | 1/1 |
| Mr. WANG Jinsui *(Note 6)* | 5/5 | 0/0 | 1/1 | 2/2 | 1/1 |
| Mr. YUNG Tse Kwong, Steven *(Note 7)* | 3/3 | 0/0 | 1/1 | 1/1 | 0/1 |
| Mr. LEE Kong Wai, Conway *(Note 8)* | 5/5 | 0/0 | 1/1 | 2/2 | 1/1 |
| Ms. WU Ling *(Note 9)* | 0/2 | 0/0 | 0/0 | | |

*Notes:*

1. Mr. WU Changjiang was appointed on 21 June 2013 and joined Remuneration Committee and Strategy and Planning Committee on 30 July 2013.
2. Mr. WANG Dongming was appointed on 21 June 2013.
3. Mr. YAN Andrew Y resigned on 3 April 2013 and was no longer a member of Remuneration Committee.
4. Mr. LIN Ho-Ping joined Audit Committee on 30 July 2013 and was no longer a member of Nomination Committee.
5. Mr. WANG Donglei was appointed on 11 January 2013 and joined Nomination Committee and Strategy and Planning Committee on 30 July 2013.
6. Mr. WANG Jinsui joined Strategy and Planning Committee on 30 July 2013 and was no longer a member of Nomination Committee since then.
7. Mr. YUNG Tse Kwong, Steven retired on 21 June 2013 and was no longer the chairman of Nomination Committee and members of Audit Committee and Remuneration Committee.
8. Mr. LEE Kong Wai, Conway joined Nomination Committee on 30 July 2013.
9. Ms. WU Ling was appointed on 21 June 2013 and joined Remuneration Committee, Nomination Committee and Strategy and Planning Committee on 30 July 2013.

Apart from regular Board meetings, the Chairman also held one meeting with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors during the Reporting Period.

## Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2013.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 71 to 72.

## Auditor's Remuneration

The remuneration paid to the Company's external auditor of the Company in respect of audit services and non-audit services for the Reporting Period amounted to RMB3,800,000 and RMB671,000 respectively.

An analysis of the remuneration paid to the external auditor of the Company, Messrs Ernst & Young, in respect of audit services and non-audit services for the Reporting Period is set out below:

| **Service Category** | **Fees Paid/ Payable (RMB'000)** |
|---|---|
| Audit Services | 3,800 |
| Non-audit Services | |
| Tax planning and advisory service for Hong Kong subsidiaries | 361 |
| Transfer pricing documentary preparation and advisory service for PRC subsidiaries | 310 |
| | 671 |
| | 4,471 |

## Internal Controls

During the Reporting Period, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

## Company Secretary

Ms. Lo Yee Har Susan and Ms. Kam Mei Ha Wendy[3] of Tricor Services Limited, external service provider, have been engaged by the Company as its joint company secretaries. Their primary contact person at the Company is Mr. TAN Ying, vice-president and Chief Financial Officer of the Company.

3 Ms. Kam Mei Ha Wendy resigned as the joint company secretary of the Company and Miss Leung Ching Ching was appointed to fill the vacancy left by Ms. Kam Mei Ha Wendy with effect from 1 April 2014.

## Shareholders' Rights

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at shareholders' meetings, including the election of individual directors. Pursuant to the Listing Rules, all resolutions put forward at shareholders' meetings will be voted on by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands and poll results will be posted on the websites of the Company and the Stock Exchange after each shareholders' meeting.

### Convening an Extraordinary General Meeting by Shareholders

Pursuant to article 58 of the Company's Articles of Association, an extraordinary general meeting (the "EGM") may be convened by the Board upon requisition of one or more shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of the deposit of the requisition, the Board fails to proceed to convene such EGM, the requisitionist(s) himself (themselves) may do so in the same manner, while all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The requisitionist(s) must state the objects clearly in the requisition, sign the requisition and deposit the same to the Board or the company secretaries or the primary contact person of the Company.

### Putting Forward Proposals at General Meetings

There are no provisions allowing shareholders to put forward new resolutions at the general meetings under the Cayman Islands Companies Law (2013 Revision) or the Articles of Association of the Company. However, shareholders who wish to put forward proposal at general meetings may convene an EGM following the procedures set out above.

### Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company.

*Note:* The Company will not normally deal with verbal or anonymous enquiries.

### Primary Contact Person

Shareholders may send their requisitions, proposed resolutions for the general meeting or enquiries to the Board as mentioned above to the primary contact person of the Company as set out below:

| | |
|---|---|
| Name: | The Chairman of NVC Lighting Holding Limited |
| Address: | Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong |
| Fax: | (852) 2956 2192 |

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

## Communication 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 endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. The chairman of the Board as well as chairmen of Audit Committee, Remuneration Committee and Nomination Committee and, in their absence, other members of the respective committees will make themselves available at the annual general meetings to meet shareholders and answer their enquiries.

During the Reporting Period, the Company did not make any changes to its Articles of Association. An up-to-date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

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.

## 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
**WANG Donglei**
*Chairman*

Hong Kong
26 March 2014

EY 安永

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**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 176, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, 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.

## Auditors' responsibility *(continued)*

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

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

## 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 2013, 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*

26 March 2014

# Consolidated Statement of Profit or Loss

Year ended 31 December 2013

| | Notes | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **REVENUE** | 5 | **3,773,816** | 3,546,036 |
| Cost of sales | | **(2,976,413)** | (2,784,689) |
| **Gross profit** | | **797,403** | 761,347 |
| Other income and gains | 5 | **91,611** | 159,858 |
| Selling and distribution costs | | **(270,855)** | (254,092) |
| Administrative expenses | | **(258,783)** | (315,580) |
| Other expenses | | **(2,618)** | (231,429) |
| Finance costs | 7 | **(2,701)** | (4,677) |
| Share of profit of an associate | | **401** | 1,054 |
| **PROFIT BEFORE TAX** | 6 | **354,458** | 116,481 |
| Income tax expense | 10 | **(72,351)** | (67,937) |
| **PROFIT FOR THE YEAR** | | **282,107** | 48,544 |
| Attributable to: | | | |
| Owners of the parent | 11 | **244,884** | 8,416 |
| Non-controlling interests | | **37,223** | 40,128 |
| | | **282,107** | 48,544 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | | | |
| Basic | 13 | **RMB7.83 cents** | RMB0.27 cents |
| Diluted | 13 | **RMB7.83 cents** | RMB0.27 cents |

Details of the dividends proposed for the year ended 31 December 2013 are disclosed in note 12 to the consolidated financial statements.

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2013

| | Notes | **2013** **RMB'000** | 2012 RMB'000 |
|---|---|---|---|
| **PROFIT FOR THE YEAR** | | **282,107** | 48,544 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences on translation of foreign operations | | **(17,295)** | (1,132) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **264,812** | 47,412 |
| Attributable to: | | | |
| Owners of the parent | *11* | **227,589** | 7,284 |
| Non-controlling interests | | **37,223** | 40,128 |
| | | **264,812** | 47,412 |

# Consolidated Statement of Financial Position

31 December 2013

| | Notes | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | 882,133 | 842,756 |
| Prepaid land lease payments | 15 | 56,108 | 52,202 |
| Goodwill | 17 | 21,161 | 21,161 |
| Other intangible assets | 18 | 301,751 | 307,069 |
| Investment in an associate | 20 | 6,763 | 6,362 |
| Deferred tax assets | 21 | 41,322 | 42,451 |
| Prepayments for purchase of property, plant and equipment | 24 | 3,078 | 23,331 |
| **Total non-current assets** | | 1,312,316 | 1,295,332 |
| **CURRENT ASSETS** | | | |
| Inventories | 22 | 651,707 | 698,400 |
| Trade and bills receivables | 23 | 1,268,212 | 818,890 |
| Prepayments, deposits and other receivables | 24 | 81,176 | 94,005 |
| Other current assets | 25 | 16,919 | 16,079 |
| Short-term deposits | 26 | 89,492 | 379,233 |
| Cash and cash equivalents | 26 | 1,349,152 | 1,214,744 |
| | | 3,456,658 | 3,221,351 |
| Non-current assets classified as held for sale | 16 | – | 17,606 |
| **Total current assets** | | 3,456,658 | 3,238,957 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 27 | 510,352 | 431,606 |
| Other payables and accruals | 28 | 319,754 | 282,523 |
| Interest-bearing loans and borrowings | 29 | 47,117 | 94,387 |
| Government grants | 30 | 1,909 | 6,208 |
| Income tax payable | | 21,147 | 24,975 |
| **Total current liabilities** | | 900,279 | 839,699 |
| **NET CURRENT ASSETS** | | 2,556,379 | 2,399,258 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 3,868,695 | 3,694,590 |

*continued/...*

| | Notes | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Government grants | *30* | **13,576** | 15,841 |
| Deferred tax liabilities | *21* | **94,494** | 96,016 |
| **Total non-current liabilities** | | **108,070** | 111,857 |
| **Net assets** | | **3,760,625** | 3,582,733 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | *31* | **2** | 2 |
| Reserves | *33* | **3,627,676** | 3,473,648 |
| Proposed final dividend | *12* | **49,192** | 38,051 |
| | | **3,676,870** | 3,511,701 |
| **Non-controlling interests** | | **83,755** | 71,032 |
| **Total equity** | | **3,760,625** | 3,582,733 |

**WANG Donglei**
*Director*

**WU Changjiang**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2013

| | Attributable to owners of the parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital RMB'000 (note 31) | Share premium* RMB'000 (note 33) | Equity reserve RMB'000 | Shareholders' contribution RMB'000 (note 33) | Statutory reserve** RMB'000 (note 33) | Employee equity benefit reserve RMB'000 (note 33) | Foreign currency translation reserve RMB'000 (note 33) | Retained profits RMB'000 (note 33) | Proposed final dividend RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **At 1 January 2012** | 2 | 2,067,321 | (4,158) | 6,416 | 84,923 | 12,945 | (86,890) | 1,486,183 | 89,607 | 3,656,349 | 55,404 | 3,711,753 |
| Profit for the year | – | – | – | – | – | – | – | 8,416 | – | 8,416 | 40,128 | 48,544 |
| Other comprehensive income: | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | – | – | – | – | – | – | (1,132) | – | – | (1,132) | – | (1,132) |
| Total comprehensive income for the year | – | – | – | – | – | – | (1,132) | 8,416 | – | 7,284 | 40,128 | 47,412 |
| Transfer to statutory reserve | – | – | – | – | 950 | – | – | (950) | – | – | – | – |
| Repurchase of shares | – | (39,009) | – | – | – | – | – | – | – | (39,009) | – | (39,009) |
| Exercise of share options | – | 986 | – | – | – | (137) | – | – | – | 849 | – | 849 |
| Employee share option arrangements *(note 32)* | – | – | – | – | – | 1,800 | – | – | – | 1,800 | – | 1,800 |
| Dividend paid to a non-controlling shareholder | – | – | – | – | – | – | – | – | – | – | (24,500) | (24,500) |
| Adjustment to final 2011 dividend declared *(note 12)* | – | (172) | – | – | – | – | – | – | (89,607) | (89,779) | – | (89,779) |
| Interim 2012 dividend *(note 12)* | – | (25,793) | – | – | – | – | – | – | – | (25,793) | – | (25,793) |
| Proposed final 2012 dividend *(note 12)* | – | (38,051) | – | – | – | – | – | – | 38,051 | – | – | – |
| **At 31 December 2012** | 2 | 1,965,282 | (4,158) | 6,416 | 85,873 | 14,608 | (88,022) | 1,493,649 | 38,051 | 3,511,701 | 71,032 | 3,582,733 |

*continued/...*

| | Attributable to owners of the parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital RMB'000 (note 31) | Share Premium* RMB'000 (note 33) | Equity reserve RMB'000 | Shareholders' contribution RMB'000 (note 33) | Statutory Reserve** RMB'000 (note 33) | Employee equity benefit reserve RMB'000 (note 33) | Foreign currency translation reserve RMB'000 (note 33) | Retained profits RMB'000 (note 33) | Proposed final dividend RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **At 1 January 2013** | 2 | 1,965,282 | (4,158) | 6,416 | 85,873 | 14,608 | (88,022) | 1,493,649 | 38,051 | 3,511,701 | 71,032 | 3,582,733 |
| Profit for the year | - | - | - | - | - | - | - | 244,884 | - | 244,884 | 37,223 | 282,107 |
| Other comprehensive income: | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | - | - | - | - | - | - | (17,295) | - | - | (17,295) | - | (17,295) |
| Total comprehensive income for the year | - | - | - | - | - | - | (17,295) | 244,884 | - | 227,589 | 37,223 | 264,812 |
| Transfer to statutory reserve | - | - | - | - | 11,666 | - | - | (11,666) | - | - | - | - |
| Lapse of share options *(note 32)* | - | 1,158 | - | - | - | (1,158) | - | - | - | - | - | - |
| Employee share option arrangements *(note 32)* | - | - | - | - | - | 486 | - | - | - | 486 | - | 486 |
| Dividend paid to a non-controlling shareholder | - | - | - | - | - | - | - | - | - | - | (24,500) | (24,500) |
| Adjustment to final 2012 dividend declared *(note 12)* | - | 25 | - | - | - | - | - | - | (38,051) | (38,026) | - | (38,026) |
| Interim 2013 dividend *(note 12)* | - | (24,880) | - | - | - | - | - | - | - | (24,880) | - | (24,880) |
| Proposed final 2013 dividend *(note 12)* | - | (49,192) | - | - | - | - | - | - | 49,192 | - | - | - |
| **At 31 December 2013** | 2 | 1,892,393 | (4,158) | 6,416 | 97,539 | 13,936 | (105,317) | 1,726,867 | 49,192 | 3,676,870 | 83,755 | 3,760,625 |

* The share premium account includes the premium arising from the subscription of new ordinary shares.

** In accordance with the Company Law of the People's Republic of China (the "PRC"), each of the subsidiaries of the Company that was registered in the PRC is required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with PRC GAAP, to the statutory reserve until the balance of the reserve funds reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of the registered capital.

# Consolidated Statement of Cash Flows

Year ended 31 December 2013

| | Notes | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **354,458** | 116,481 |
| Adjustments for: | | | |
| Finance income | *5* | **(28,407)** | (20,010) |
| Finance costs | *7* | **2,701** | 4,677 |
| Share of profit of an associate | | **(401)** | (1,054) |
| Loss on disposal of items of property, plant and equipment | *6* | **552** | 4,956 |
| Depreciation of items of property, plant and equipment | *6* | **109,052** | 95,389 |
| Amortisation of prepaid land lease payments | *6* | **1,530** | 2,139 |
| Amortisation of other intangible assets | *6* | **9,614** | 27,391 |
| Amortisation of long-term deferred expenditure | *6* | **–** | 350 |
| Impairment of property, plant and equipment | *6* | **260** | 949 |
| Impairment of trade receivables | *6* | **9,524** | 1,952 |
| Impairment/(reversal of impairment) of prepayments and other receivables | *6* | **(7,374)** | 30,162 |
| Write-down of inventories to net realisable value | *6* | **26,981** | 16,494 |
| Impairment of goodwill | *6* | **–** | 210,126 |
| Impairment of other intangible assets | *6* | **–** | 15,895 |
| Government grants released to the statement of profit or loss | *5* | **(38,444)** | (46,422) |
| Compensation for production halts, machinery relocation and installation | *5* | **–** | (33,286) |
| Gain on disposal of items of property, plant and equipment in relocation | *5* | **–** | (13,986) |
| Unrealized exchange difference | | **(9,197)** | (11,034) |
| Equity-settled share option expense | | **486** | 1,800 |
| | | **431,335** | 402,969 |
| Decrease/(increase) in inventories | | **19,307** | (8,848) |
| Decrease/(increase) in trade and bills receivables | | **(459,679)** | 67,188 |
| Decrease in other receivables and prepayments | | **16,682** | 65,934 |
| Increase in other current assets | | **(840)** | (6,778) |
| Increase in trade payables | | **78,728** | 45,201 |
| Increase in other payables and accruals | | **36,241** | 63,852 |
| Receipt of government grants | *30* | **31,880** | 59,564 |
| Cash generated from operations | | **153,654** | 689,082 |
| Income tax paid | | **(76,716)** | (69,913) |
| **Net cash flows from operating activities** | | **76,938** | 619,169 |

*continued/...*

| | Notes | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | **31,908** | 19,418 |
| Proceeds from disposal of items of property, plant and equipment | | **7,777** | 280 |
| Proceeds from disposal of prepaid land lease payments | | **286** | – |
| Purchases of items of property, plant and equipment | | **(125,703)** | (176,686) |
| Additions to other intangible assets | *18* | **(4,441)** | (1,328) |
| Proceeds from sales of other intangible assets | | **145** | 3 |
| Decrease in short-time deposits | | **289,741** | 99,278 |
| **Net cash flows from/(used in) investing activities** | | **199,713** | (59,035) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from exercise of share options | *32* | **–** | 849 |
| Dividend paid to a non-controlling shareholder | | **(24,500)** | (24,500) |
| Dividends paid | | **(61,715)** | (118,955) |
| Repurchase of shares | | **–** | (39,009) |
| New bank loans | *29* | **30,000** | 149,900 |
| Repayment of bank loans | *29* | **(80,000)** | (109,351) |
| Interest paid | *7* | **(2,701)** | (4,677) |
| **Net cash flows used in financing activities** | | **(138,916)** | (145,743) |
| Net increase in cash and cash equivalents | | **137,735** | 414,391 |
| Cash and cash equivalents at beginning of year | | **1,200,357** | 784,544 |
| Effect of foreign exchange rate changes, net | | **(6,057)** | 1,422 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **1,332,035** | 1,200,357 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | *26* | **1,199,008** | 1,124,861 |
| Non-pledged time deposits with original maturity of less than three months when acquired | *26* | **150,144** | 89,883 |
| Cash and cash equivalents as stated in the consolidated statement of financial position | | **1,349,152** | 1,214,744 |
| Bank overdraft | *29* | **(17,117)** | (14,387) |
| **Cash and cash equivalents as stated in the consolidated statement of cash flows** | | **1,332,035** | 1,200,357 |

# Statement of Financial Position

31 December 2013

| | Notes | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *14* | 2,660 | 3,109 |
| Investments in subsidiaries | *19* | 692,881 | 736,514 |
| **Total non-current assets** | | 695,541 | 739,623 |
| **CURRENT ASSETS** | | | |
| Due from subsidiaries | *19* | 457,190 | 268,326 |
| Other receivables and prepayments | *24* | 3,277 | 6,765 |
| Short-term deposits | *26* | – | 355,998 |
| Cash and cash equivalents | *26* | 302,892 | 217,924 |
| **Total current assets** | | 763,359 | 849,013 |
| **CURRENT LIABILITIES** | | | |
| Due to subsidiaries | *19* | 48,145 | 47,839 |
| Other payables and accruals | *28* | 4,002 | 3,384 |
| **Total current liabilities** | | 52,147 | 51,223 |
| **NET CURRENT ASSETS** | | 711,212 | 797,790 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 1,406,753 | 1,537,413 |
| **Net assets** | | 1,406,753 | 1,537,413 |
| **EQUITY** | | | |
| Issued capital | *31* | 2 | 2 |
| Reserves | *33* | 1,357,559 | 1,499,360 |
| Proposed final dividend | *12* | 49,192 | 38,051 |
| **Total equity** | | 1,406,753 | 1,537,413 |

**WANG Donglei**
*Director*

**WU Changjiang**
*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's shares were listed on the Main Board of Stock Exchange of Hong Kong Limited.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the manufacture and sale of lamps, luminaires, lighting electronic products and related products. Information on the Group's subsidiaries is provided in note 19. Information on other related party relationships and transactions is provided in note 37.

The financial statements are presented in Renminbi ("RMB"), which is different from the Company's functional currency (United States dollars). These financial statements are presented in RMB because management considers that a substantial majority of the Group's transactions are denominated in RMB and the Group primarily generates and expends cash in RMB. Accordingly, RMB presents more reliable and more relevant information about the Group's transactions.

## 2.1 Basis of Preparation

These financial statements 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. They have been prepared under the historical cost convention, except for certain financial instruments that have been measured at fair value. The consolidated financial statements are presented in RMB and all values are rounded to the nearest thousand ('000) except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

## 2.1 Basis of Preparation *(continued)*

**Basis of consolidation** *(continued)*

The Group reassesses whether or not in controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 Changes in Accounting Policies and Disclosures

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

| | |
|---|---|
| IFRS 1 Amendments | Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans* |
| IFRS 7 Amendments | Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* |
| IFRS 10 | *Consolidated Financial Statements* |
| IFRS 11 | *Joint Arrangements* |
| IFRS 12 | *Disclosure of Interests in Other Entities* |
| IFRS 10, IFRS 11 and IFRS 12 Amendments | Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance* |
| IFRS 13 | *Fair Value Measurement* |
| IAS 1 Amendments | Amendments to IAS 1 *Presentation of Financial Statements – Presentation of items of Other Comprehensive Income* |
| IAS 19 Amendments | Amendments to IAS 19 *Employee Benefits* |
| IAS 27 (Revised) | *Separate Financial Statements* |
| IAS 28 (Revised) | *Investments in Associates and Joint Ventures* |
| IAS 36 Amendments | Amendments to IAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (early adopted) |
| IFRIC 20 | *Stripping Costs in the Production Phase of a Surface Mine* |
| *Annual Improvements 2009-2011 Cycle* | Amendments to a number of IFRSs issued in May 2012 |

## 2.2 Changes in Accounting Policies and Disclosures *(continued)*

Other than as further explained below regarding the impact of IFRS 10, IFRS 13 and IAS 36 Amendments, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and addresses the issues in SIC 12 *Consolidation Special Purpose Entities*. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in IFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled. The application of IFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investee as at 1 January 2013.

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 rather provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. IFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in IFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by IFRS 13 for the fair value measurements of financial instruments are included in note 39 to the consolidated financial statements.

The IAS 36 Amendments remove the unintended disclosure requirement made by IFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. The Group has early adopted the amendments in these financial statements. The amendments have had no impact on the financial position or performance of the Group. Disclosures about the Group's impaired non-financial assets are included in note 17 and note 18 to the consolidated financial statements.

## 2.3 Issued but not yet Effective International Financial Reporting Standards

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

| | |
|---|---|
| IFRS 9 | *Financial Instruments*[4] |
| IFRS 9, IFRS 7 and IAS 39 Amendments | *Hedge Accounting and amendments to IFRS 9, IFRS 7 and IFRS 39*[4] |
| IFRS 10, IFRS 12 and IAS 27 (revised) | Amendments to IFRS 10, IFRS 12 and IAS 27 (revised) – *Investment Entities*[1] |
| IFRS 14 | *Regulatory Deferral Accounts*[3] |
| IAS 19 Amendments | Amendments to IAS 19 *Employee Benefits-Defined Benefit Plans: Employee Contributions*[2] |
| IAS 32 Amendments | Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1] |
| IAS 39 Amendments | Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1] |
| IFRIC 21 | *Levies*[1] |
| IFRS Amendments | *Annual Improvements to IFRSs 2010-2012 Cycle*[2] |
| IFRS Amendments | *Annual Improvements to IFRSs 2011-2013 Cycle*[2] |

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 January 2016
4 No mandatory effective date yet determined but is available for adoption

## 2.3 Issued but not yet Effective International Financial Reporting Standards *(continued)*

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

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 October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated as 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. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

In November 2013, the IASB added to IFRS 9 the requirements related to hedge accounting and made some related changes to IAS 39 and IFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to IFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to IFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other IFRS 9 requirements at the same time.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of IFRS 9 was removed by the IASB in November 2013 and a mandatory effective date will be determined after the entire replacement of IAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

## 2.3 Issued but not yet Effective International Financial Reporting Standards *(continued)*

Amendments to IFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (revised). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The IAS 39 Amendments provide an exception to the requirement of discontinuing hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. For continuance of hedge accounting under this exception, all of the following criteria must be met: (i) the novations must arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and (iii) the novations do not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing. The Group expects that the amendments will not have any impact on the Group as hedge accounting does not apply to the Group.

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The Group expects to adopt the interpretation from 1 January 2014.

The *Annual Improvements to IFRSs 2010-2012 Cycle* and *Annual Improvements to IFRSs 2011-2013 Cycle* set out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 July 2014. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

## 2.4 Summary of Significant Accounting Policies

### Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss 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.

### Associate

An associate is an 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an 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. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associate is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. 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 an associate is included as part of the Group's investment in an associate.

The results of the associate are included in the Company's statement of profit or loss 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.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### 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 to measure 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 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-related 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the 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 acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Business combinations and goodwill *(continued)*

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.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or 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 has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

### Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Fair value measurement *(continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### Impairment of non-financial assets

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 of disposal, 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 statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an 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 statement of profit or loss 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.

## 2.4 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).

### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets held for sale". 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 statement of profit or loss 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.

## 2.4 Summary of Significant Accounting Policies *(continued)*

**Property, plant and equipment** *(continued)*

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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 its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Buildings | 18 to 40 years |
| Leasehold improvements | 5 years |
| Plant, machinery and equipment | 3 to 10 years |
| Furniture and fixtures | 2 to 5 years |
| Motor vehicles | 4 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 including 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 statement of profit or loss 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.

## 2.4 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 46 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 statement of profit or loss on the straight-line basis over the period of the land use rights.

### Non-current assets held for sale

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

Non-current assets (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

***Change to a plan of sale***

If an entity has classified an asset (or disposal group) as held for sale, but the asset is not available for immediate sale or the sale is not highly probable, the entity shall cease to classify the asset (or disposal group) as held for sale.

The entity shall measure a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of: a) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and b) its recoverable amount at the date of the subsequent decision not to sell.

The entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale in profit or loss from continuing operations in the period in which the asset is not available for immediate sale or the sale is not highly probable.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value 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.

***Computer software***

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

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Intangible assets (other than goodwill) *(continued)*

***Research and development costs***

All research costs are charged to the statement of profit or loss 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 the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to ten years, commencing from the date when the products are put into commercial production.

### Leases

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 statement of profit or loss 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 statement of profit or loss 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.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Investments and other financial assets

***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, 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.

***Subsequent measurement***

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

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

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

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Investments and other financial assets *(continued)*

***Loans and receivables***

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

***Held-to-maturity investments***

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold then to maturity. Held-to-maturity investments 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 fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other expenses.

The Group had no held-to-maturity financial investments during the years ended 31 December 2013 and 2012.

***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 as 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.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Investments 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 statement of profit or loss 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 statement of profit or loss in other gains or losses. 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 statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group had no available-for-sale financial investments during the years ended 31 December 2013 and 2012.

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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 if 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 Group continues to recognise the transferred asset 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.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exist if one or more events that occurred after the initial recognition of the asset have 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 whether impairment exists individually 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.

The amount of any impairment loss identified 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 yet 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).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. 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 write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Impairment of financial assets *(continued)*

***Assets carried at cost***

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

***Available-for-sale financial investments***

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

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

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

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Financial liabilities

***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, 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.

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

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

***Subsequent measurement***

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

***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 statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate 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 statement of profit or loss.

### Derecognition of 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position 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.

### 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 statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

The Group did not have any derivative financial instruments as at 31 December 2013.

### Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### 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 that 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 statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### 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 statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

### 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:

- 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

- 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.

## 2.4 Summary of Significant Accounting Policies *(continued)*

**Income tax** *(continued)*

Deferred income tax assets are recognised for all deductible temporary differences, the carryforward 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 carryforward of unused tax credits and unused tax losses can be utilised, except:

- 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

- 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.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### 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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to the statement of profit or loss over the expected useful lives of the relevant assets 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, on the following basis:

***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 over 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.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Share-based payments

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 payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

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

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in the employee benefit expense. 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 statement of profit or loss 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, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, 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 earnings per share.

## 2.4 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 statement of profit or loss when they become payable in accordance with the rules of the central pension scheme.

### 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.

### 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.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Dividends

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

Interim dividends are simultaneously proposed and declared, 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 currencies

As disclosed in note 1 to the consolidated financial statements, the consolidated financial statements are presented in RMB, which is different from the Company's functional currency of US$. 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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated 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 recognised in the statement of profit or loss.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

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 measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the 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 currencies of the Company and certain subsidiaries are currencies other than RMB. 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 prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

## 2.4 Summary of Significant Accounting Policies *(continued)*

**Foreign currencies** *(continued)*

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 RMB, the component of other comprehensive income relating to that particular subsidiary is recognised in the statement of profit or loss.

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

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and certain subsidiaries, whose functional currencies are not RMB, are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and certain subsidiaries, whose functional currencies are not RMB, which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

## 3. 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 their accompanying disclosures, and the disclosure of contingent liabilities. 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***

In 2011, the board of directors resolved to dissolve Zhangpu Phoebus Lighting Co., Ltd. ("Zhangpu Phoebus") and, on 19 December 2011, resolved to sell the land and buildings of Zhangpu Phoebus. However, the Group discontinued the deal with former potential buyer in 2013. Due to the absence of an immediate plan to sell the assets, management ceased to classify these assets as held for sale as at 31 December 2013.

## 3. Significant Accounting Judgements and Estimates *(continued)*

### Estimation uncertainty

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

***Corporate income taxes***

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

***Deferred tax assets***

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are set out in note 21 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 21 to the consolidated financial statements.

***Development costs***

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the consolidated 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. The carrying amount of goodwill as at 31 December 2013 was RMB21,161,000 (2012: RMB21,161,000). Further details are given in note 17 to the consolidated financial statements.

## 3. 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 projections including whether these cash flow projections 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 for 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 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 32 to the consolidated financial statements, 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 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.

***Useful lives of other intangible assets***

The Group determines the estimated useful lives for its intangible assets based on their best estimate on the expected future cash flows from the assets. The useful lives of the Group's trademarks were estimated to be indefinite. Intangible assets with indefinite useful lives are tested for impairment at least annually and at other times when such an indication exists. Further details are set out in note 18 to the consolidated financial statements.

## 4. 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 need 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 reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, unallocated income and gains as well as head office and corporate expenses are excluded from such measurement.

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.

Since total assets and liabilities for each reportable segment are not regularly provided to the chief operating decision maker, the directors are of the opinion that the disclosure of such amounts is not necessary.

## 4. Operating Segment Information *(continued)*

| | 2013 | | | |
|---|---|---|---|---|
| | Lamp products RMB'000 | Luminaire products RMB'000 | Lighting electronic products RMB'000 | Consolidated RMB'000 |
| **Segment revenue:** | | | | |
| Sales to external customers | 1,379,551 | 2,122,477 | 271,788 | 3,773,816 |
| Intersegment sales | 39,427 | – | 71,398 | 110,825 |
| | 1,418,978 | 2,122,477 | 343,186 | 3,884,641 |
| *Reconciliation* | | | | |
| Elimination of intersegment sales | | | | (110,825) |
| Revenue | | | | 3,773,816 |
| **Segment results** | 263,354 | 446,582 | 51,947 | 761,883 |
| *Reconciliation* | | | | |
| Elimination of intersegment results | | | | (9,370) |
| Interest income | | | | 28,407 |
| Unallocated income and gains | | | | 63,204 |
| Corporate and other unallocated expenses | | | | (487,366) |
| Finance costs | | | | (2,701) |
| Share of profit of an associate | | | | 401 |
| Profit before tax | | | | 354,458 |
| **Other segment information:** | | | | |
| Impairment loss/(reversal of impairment loss) of trade receivables and prepayments | 4,902 | 3,154 | – | 8,056 |
| Unallocated impairment loss/(reversal of impairment loss) of other receivables associated with head office and corporate assets | | | | (5,906) |
| **Total impairment loss of trade and other receivables and prepayments** | | | | 2,150 |

## 4. Operating Segment Information *(continued)*

| | 2013 | | | |
|---|---|---|---|---|
| | Lamp products RMB'000 | Luminaire products RMB'000 | Lighting electronic products RMB'000 | Consolidated RMB'000 |
| **Impairment loss of property, plant and equipment** | 260 | – | – | 260 |
| **Write-down of inventories to net realisable value** | 6,744 | 18,349 | 1,888 | 26,981 |
| Depreciation and amortisation | 43,897 | 44,607 | 5,615 | 94,119 |
| Unallocated depreciation and amortisation associated with head office and corporate assets | | | | 26,077 |
| **Total depreciation and amortisation** | | | | 120,196 |
| Capital expenditure | 79,284 | 44,073 | 3,204 | 126,561 |
| Unallocated capital expenditure associated with head office and corporate assets | | | | 23,974 |
| **Total capital expenditure*** | | | | 150,535 |

## 4. Operating Segment Information *(continued)*

| | 2012 | | | |
|---|---|---|---|---|
| | Lamp products RMB'000 | Luminaire products RMB'000 | Lighting electronic products RMB'000 | Consolidated RMB'000 |
| **Segment revenue:** | | | | |
| Sales to external customers | 1,311,542 | 1,940,435 | 294,059 | 3,546,036 |
| Intersegment sales | 88,454 | – | 90,864 | 179,318 |
| | 1,399,996 | 1,940,435 | 384,923 | 3,725,354 |
| *Reconciliation* | | | | |
| Elimination of intersegment sales | | | | (179,318) |
| Revenue | | | | 3,546,036 |
| **Segment results** | 229,193 | 414,341 | 56,849 | 700,383 |
| *Reconciliation* | | | | |
| Elimination of intersegment results | | | | (10,524) |
| Interest income | | | | 20,010 |
| Unallocated income and gains | | | | 139,848 |
| Corporate and other unallocated expenses | | | | (729,613) |
| Finance costs | | | | (4,677) |
| Share of profit of an associate | | | | 1,054 |
| Profit before tax | | | | 116,481 |
| **Other segment information:** | | | | |
| Impairment loss of trade receivables and prepayments | 870 | 25,269 | – | 26,139 |
| Unallocated impairment loss/(reversal of impairment loss) of other receivables associated with head office and corporate assets | | | | 5,975 |
| **Total impairment loss of trade and other receivables and prepayments** | | | | 32,114 |

## 4. Operating Segment Information *(continued)*

| | 2012 | | | |
|---|---|---|---|---|
| | Lamp products RMB'000 | Luminaire products RMB'000 | Lighting electronic products RMB'000 | Consolidated RMB'000 |
| **Impairment loss of property, plant and equipment** | 949 | – | – | 949 |
| **Write-down of inventories to net realisable value** | 6,331 | 8,816 | 1,347 | 16,494 |
| Depreciation and amortisation | 58,809 | 37,964 | 5,846 | 102,619 |
| Unallocated depreciation and amortisation associated with head office and corporate assets | | | | 23,586 |
| **Total depreciation and amortisation** | | | | 126,205 |
| Capital expenditure | 65,533 | 59,865 | 6,435 | 131,833 |
| Unallocated capital expenditure associated with head office and corporate assets | | | | 50,578 |
| **Total capital expenditure*** | | | | 182,411 |

* Capital expenditure consists of additions to property and equipment and other intangible assets.

## 4. Operating Segment Information *(continued)*

### Geographical information

***(a) Revenue from external customers***

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Mainland China | **2,516,892** | 2,496,843 |
| Other countries | **1,256,924** | 1,049,193 |
| | **3,773,816** | 3,546,036 |

The revenue information of continuing operations above is based on the locations of the customers.

***(b) Non-current assets***

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Mainland China | **1,213,679** | 1,192,310 |
| Other countries | **57,315** | 60,571 |
| | **1,270,994** | 1,252,881 |

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets.

### Information about major customers

No revenue derived from sales to a single customer of the Group amounted to 10% or more of the Group's total revenue for the year ended 31 December 2013 (2012: None).

## 5. Revenue, Other Income and Gains

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

An analysis of revenue, other income and gains is as follows:

| | *Notes* | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|---|
| Revenue | | | |
| Sale of goods | | **3,773,816** | 3,546,036 |
| Other income | | | |
| Government grants | *(a)* | **38,444** | 46,422 |
| Compensation for production halts, machinery relocation and installation | | **–** | 33,286 |
| Trademark licence fees | *(b)* | **14,791** | 15,268 |
| Distribution commission | *(b)* | **–** | 6,430 |
| Bank interest income | | **28,115** | 19,751 |
| Other interest income | | **292** | 259 |
| Rental income | | **2,235** | 2,176 |
| Others | | **7,276** | 8,629 |
| | | **91,153** | 132,221 |
| Gains | | | |
| Gain on disposal of items of property, plant and equipment in relocation | | **–** | 13,986 |
| Gain on sale of scrap materials | | **443** | 2,617 |
| Exchange gain, net | | **15** | 11,034 |
| | | **458** | 27,637 |
| | | **91,611** | 159,858 |

*Notes:*

(a) Various government grants have been received by the Group's PRC subsidiaries as tax subsidies and incentives for research and development activities and the expansion of production capacity of energy-saving lamps. 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 30).

(b) In the current year, the Group licensed the "NVC" trademark to a limited number of related companies at 1% to 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 6% to 8% of the relevant sales. Since 1 April 2012, the Group has stopped managing products of related parties which were sold in its distribution network, accordingly, no distribution commission was recorded since then. Details of the related party transactions are set out in note 37 to the consolidated financial statements.

## 6. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

| | Notes | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| Cost of inventories sold | | **2,949,432** | 2,768,195 |
| Depreciation | | **109,052** | 95,389 |
| Amortisation of computer software, customer relationships and patents* | *18* | **4,957** | 21,711 |
| Research and development costs: | | | |
| Deferred expenditure amortised* | *18* | **4,657** | 5,680 |
| Current year expenditure | | **50,980** | 70,029 |
| Less: Government grants released** | | **(5,584)** | (5,832) |
| | | **45,396** | 64,197 |
| | | **50,053** | 69,877 |
| Impairment of property, plant and equipment | *14* | **260** | 949 |
| Amortisation of prepaid land lease payments | *15* | **1,530** | 2,139 |
| Impairment of goodwill*** | *17* | **–** | 210,126 |
| Impairment of other intangible assets | *18* | **–** | 15,895 |
| Minimum lease payments | | **16,708** | 15,532 |
| Amortisation of long-term deferred expenditure | | **–** | 350 |
| Auditors' remuneration | | **4,471** | 3,800 |
| Employee benefit expense (excluding directors' and chief executive's remuneration *(note 8)*: | | | |
| Wages and salaries | | **451,745** | 404,711 |
| Equity-settled share option expense | *32* | **486** | 840 |
| Pension scheme contributions (defined contribution scheme) | | **48,058** | 53,863 |
| Other welfare expenses | | **23,617** | 43,949 |
| | | **523,906** | 503,363 |
| Write-down of inventories to net realisable value | *22* | **26,981** | 16,494 |
| Impairment of trade receivables | *23* | **9,524** | 1,952 |
| Impairment/(reversal of impairment) of prepayments and other receivables | *24* | **(7,374)** | 30,162 |
| Bank interest income | *5* | **(28,115)** | (19,751) |
| Other interest income | *5* | **(292)** | (259) |
| Loss on disposal of items of property, plant and equipment*** | | **552** | 4,956 |

## 6. Profit Before Tax *(continued)*

* The amortisation of computer software, customer relationships and patents and the amortisation of deferred development costs for the year are included in "Cost of sales" and "Administrative expenses" in the consolidated statement of profit or loss.

** Various government grants have been received for setting up research activities in Chongqing City, Guangdong and Zhejiang Province, Mainland China, to support the development of energy saving products and LED products. The government grants released have been deducted from the research and development costs to which they relate. Government grants received for which related expenditure has not yet been undertaken are included in government grants in the statement of financial position. There are no unfulfilled conditions or contingencies relating to these grants.

*** The impairment of goodwill and loss on disposal of items of property, plant and equipment were included in "Other expenses" in the consolidated statement of profit or loss.

## 7. Finance Costs

An analysis of finance costs is as follows:

| | **2013** | 2012 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Interest on bank loans | **2,461** | 4,144 |
| Other interest expenses | **240** | 533 |
| | **2,701** | 4,677 |

## 8. Directors' and Chief Executive's Remuneration

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

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Fees | 2,496 | 1,623 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 3,359 | 2,762 |
| Performance-related bonuses* | 2,018 | 1,882 |
| Equity-settled share option expense | – | 960 |
| Pension scheme contributions | 68 | 94 |
| | 5,445 | 5,698 |
| | 7,941 | 7,321 |

* 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.

### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Mr. Karel Robert DEN DAAS | – | 162 |
| Mr. Alan Russell POWRIE | – | 188 |
| Mr. WANG Jinsui | 399 | 275 |
| Mr. YUNG Tse Kwong, Steven[1] | 190 | 60 |
| Mr. LEE Kong Wai, Conway | 399 | 38 |
| Ms. WU Ling[2] | 211 | – |
| | 1,199 | 723 |

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

## 8. Directors' and Chief Executive's Remuneration *(continued)*

### (b) Executive directors, non-executive directors and the chief executive

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Performance-related bonuses RMB'000 | Equity-settled share option expense RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
| **Executive directors:** | | | | | | |
| Mr. WU Changjiang[3] | – | 1,510 | 1,710 | – | 32 | 3,252 |
| Mr. MU Yu | – | 1,489 | 205 | – | 36 | 1,730 |
| Mr. WANG Dongming[2] | – | 360 | 103 | – | – | 463 |
| | – | 3,359 | 2,018 | – | 68 | 5,445 |
| **Non-executive directors:** | | | | | | |
| Mr. YAN Andrew Y[1] | 100 | – | – | – | – | 100 |
| Mr. LIN Ho-Ping, Brandon | 399 | – | – | – | – | 399 |
| Mr. ZHU Hai | 399 | – | – | – | – | 399 |
| Mr. WANG Donglei[4] | 399 | – | – | – | – | 399 |
| | 1,297 | – | – | – | – | 1,297 |
| | 1,297 | 3,359 | 2,018 | – | 68 | 6,742 |

## 8. Directors' and Chief Executive's Remuneration *(continued)*

### (b) Executive directors, non-executive directors and the chief executive *(continued)*

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Performance-related bonuses RMB'000 | Equity-settled share option expense RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
| **Executive directors:** | | | | | | |
| Mr. WU Changjiang[3] | – | 1,141 | 1,680 | 925 | 28 | 3,774 |
| Mr. MU Yu | – | 992 | 202 | 3 | 36 | 1,233 |
| | – | 2,133 | 1,882 | 928 | 64 | 5,007 |
| **Non-executive directors:** | | | | | | |
| Mr. YAN Andrew Y[1] | 254 | – | – | 16 | – | 270 |
| Ms. HUI Ming Yunn, Stephanie[1] | 158 | – | – | – | – | 158 |
| Mr. LIN Ho-Ping, Brandon | 244 | – | – | 16 | – | 260 |
| Mr. ZHU Hai | 244 | – | – | – | – | 244 |
| | 900 | – | – | 32 | – | 932 |
| **Chief executive** | | | | | | |
| Mr. ZHANG Kaipeng[5] | – | 629 | – | – | 30 | 659 |
| | 900 | 2,762 | 1,882 | 960 | 94 | 6,598 |

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

1 Mr. YAN Andrew Y and Ms. HUI Ming Yunn, Stephanie resigned as directors of the Company on 3 April 2013 and 24 August 2012, respectively. Mr. YUNG Tse Kwong, Steven, retired as a director of the Company on 21 June 2013.

2 Ms. WU Ling and Mr WANG Dongming were appointed as directors of the Company on 21 June 2013.

3 Mr. WU Changjiang resigned as a director and the chief executive of the Company on 24 May 2012 and was appointed as the chief executive and director of the Company on 11 January 2013 and 21 June 2013, respectively.

4 Mr. WANG Donglei was appointed as a non-executive director and was elected as chairman of the board of directors of the Company on 11 January 2013 and 3 April 2013, respectively.

5 Mr. Zhang Kaipeng was appointed as the chief executive of the Company on 24 May 2012 and resigned on 25 November 2012.

## 9. Five Highest Paid Employees

The five highest paid employees during the year included two directors (2012: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2012: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | 4,014 | 3,194 |
| Performance-related bonuses | 616 | 655 |
| Pension scheme contributions | 64 | 56 |
| | 4,694 | 3,905 |

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

| | Number of employees | |
|---|---|---|
| | 2013 | 2012 |
| Nil to HK$1,000,000 | – | – |
| HK$1,000,001 to HK$1,500,000 | – | 2 |
| HK$1,500,001 to HK$2,000,000 | 1 | – |
| Over HK$2,000,000 | 2 | 1 |
| | 3 | 3 |

## 10. Income Tax

The Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies within the Group are domiciled and operate. No provision for Hong Kong profits tax or United Kingdom ("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 2013 (2012: Nil).

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Group: | | |
| Current – Mainland China: | | |
| Charge for the year | 74,304 | 74,373 |
| (Overprovision)/underprovision in prior years | (1,416) | 236 |
| Deferred *(note 21)* | (537) | (6,672) |
| Total tax charge for the year | 72,351 | 67,937 |

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the country in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the statutory rate to the effective tax rate, is as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | RMB'000 | % | RMB'000 | % |
| Profit before tax | 354,458 | | 116,481 | |
| Tax at the statutory tax rate | 88,615 | 25 | 29,120 | 25 |
| Tax exemption | – | – | (1,729) | (1.5) |
| Lower tax rates enacted by local authority | (21,452) | (6.1) | (29,306) | (25.2) |
| Income not subject to tax | (100) | – | (263) | (0.2) |
| Expenses not deductible for tax | 3,722 | 1.1 | 62,823 | 53.9 |
| Adjustments in respect to current income tax of previous periods | (1,416) | (0.4) | 236 | 0.2 |
| Tax losses not recognised | 3,659 | 1.0 | – | – |
| Tax losses utilised from previous periods | (4,803) | (1.4) | – | – |
| Effect on opening deferred tax of change in tax rates | 4,126 | 1.2 | 7,056 | 6.1 |
| Tax charge at the Group's effective rate | 72,351 | 20.4 | 67,937 | 58.3 |

## 10. Income Tax *(continued)*

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

Chongqing NVC Lighting Co., Ltd. ("Chongqing NVC") and NVC Lighting (China) Co., Ltd. ("NVC China"), two subsidiaries located in the west of China, were recognised as western development enterprises by the local tax authority and are entitled to the preferential tax rate of 15% until 2020 according to a local tax policy on western development issued in 2011.

Shanghai Arcata Electronics Co., Ltd. ("Shanghai Arcata"), a subsidiary located in Shanghai as a foreign-invested enterprise, was eligible to apply for a two-year EIT exemption followed by a three-year 50% EIT reduction holiday starting from 2008 in accordance with the then effective PRC income tax laws and regulations. Thus, the applicable tax rate for Shanghai Arcata for 2012 was 12.5%. Shanghai Arcata was recognised as a high-tech enterprise by the PRC tax authority and entitled a preferential tax rate of 15% in 2013.

Zhejiang Jiangshan Sunny Electron Co., Ltd. ("Sunny") and Jiangshan Phoebus Lighting Electron Co., Ltd. ("Jiangshan Phoebus") were recognised as high-tech enterprises by the PRC tax authority and entitled a preferential tax rate of 15% for three years starting from year 2011 and 2012, respectively.

Zhejiang NVC Lamps Co., Ltd. ("Zhejiang NVC") is subject to EIT at the statutory tax rate of 25% for the years ended 31 December 2013 and 2012.

## 11. Profit Attributable to Owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2013 included a loss of RMB23,880,000 (2012: loss of RMB15,646,000) which has been dealt with in the financial statements of the Company (note 33).

## 12. Dividends

| | **2013** | 2012 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Interim – HK1 cent (2012: HK1 cent) per ordinary share | **24,880** | 25,793 |
| Proposed final – HK2 cents (2012: HK1.5 cents) per ordinary share | **49,192** | 38,051 |
| | **74,072** | 63,844 |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 13. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 3,128,448,000 (2012: 3,150,396,000) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. 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 or conversion of all dilutive potential ordinary shares into ordinary shares. No adjustment had been made to the basic earnings per share amounts presented for the year ended 31 December 2013 and 2012 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

The calculations of basic and diluted earnings per share are based on:

| | **2013** | 2012 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Earnings: | | |
| Profit attributable to ordinary equity holders of the parent | **244,884** | 8,416 |

| | **Number of shares** | |
|---|---|---|
| | **2013** | 2012 |
| | **'000** | '000 |
| Shares | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **3,128,448** | 3,150,396 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Share options | **–** | – |
| | **3,128,448** | 3,150,396 |

## 14. Property, Plant and Equipment

### Group

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Decoration expenditures RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | | | |
| At 31 December 2012 and at 1 January 2013: | | | | | | | | |
| Cost | 398,052 | 39,534 | 525,210 | 45,830 | 35,457 | 49,926 | 8,758 | 1,102,767 |
| Accumulated depreciation and impairment | (34,528) | (22,250) | (154,442) | (27,082) | (15,797) | – | (5,912) | (260,011) |
| Net carrying amount | 363,524 | 17,284 | 370,768 | 18,748 | 19,660 | 49,926 | 2,846 | 842,756 |
| At 1 January 2013, net of accumulated depreciation | 363,524 | 17,284 | 370,768 | 18,748 | 19,660 | 49,926 | 2,846 | 842,756 |
| Additions | 969 | 639 | 48,878 | 16,143 | 2,465 | 74,661 | 2,339 | 146,094 |
| Reclassification from assets held for sale *(note 16)* | 11,734 | – | – | – | – | – | – | 11,734 |
| Impairment | – | – | (260) | – | – | – | – | (260) |
| Depreciation provided during the year | (12,892) | (7,131) | (71,853) | (7,184) | (5,433) | – | (4,559) | (109,052) |
| Disposals | (440) | – | (5,543) | (2,209) | (80) | (57) | – | (8,329) |
| Transfers | 53,596 | – | 55,726 | 1,942 | – | (120,094) | 8,830 | – |
| Exchange realignment | (596) | (51) | (13) | (34) | (116) | – | – | (810) |
| At 31 December 2013, net of accumulated depreciation and impairment | 415,895 | 10,741 | 397,703 | 27,406 | 16,496 | 4,436 | 9,456 | 882,133 |
| At 31 December 2013: | | | | | | | | |
| Cost | 466,190 | 40,137 | 623,217 | 56,607 | 37,017 | 4,436 | 19,927 | 1,247,531 |
| Accumulated depreciation and impairment | (50,295) | (29,396) | (225,514) | (29,201) | (20,521) | – | (10,471) | (365,398) |
| Net carrying amount | 415,895 | 10,741 | 397,703 | 27,406 | 16,496 | 4,436 | 9,456 | 882,133 |

## 14. Property, Plant and Equipment *(continued)*

### Group

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Decoration expenditures RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **31 December 2012** | | | | | | | | |
| At 31 December 2011 and at 1 January 2012: | | | | | | | | |
| Cost | 376,893 | 32,798 | 421,378 | 39,377 | 28,174 | 98,047 | 8,758 | 1,005,425 |
| Accumulated depreciation | (38,562) | (14,717) | (97,262) | (21,016) | (9,285) | – | (2,993) | (183,835) |
| Net carrying amount | 338,331 | 18,081 | 324,116 | 18,361 | 18,889 | 98,047 | 5,765 | 821,590 |
| At 1 January 2012, net of accumulated depreciation | 338,331 | 18,081 | 324,116 | 18,361 | 18,889 | 98,047 | 5,765 | 821,590 |
| Additions | 1,242 | 6,653 | 81,256 | 6,431 | 6,391 | 79,110 | – | 181,083 |
| Impairment | – | – | (949) | – | – | – | – | (949) |
| Depreciation provided during the year | (12,489) | (7,499) | (61,493) | (6,742) | (5,183) | – | (2,919) | (96,325) |
| Disposals | (55,228) | – | (9,313) | (257) | (481) | (23) | – | (65,302) |
| Transfers | 89,205 | – | 37,115 | 888 | – | (127,208) | – | – |
| Exchange realignment | 2,463 | 49 | 36 | 67 | 44 | – | – | 2,659 |
| At 31 December 2012, net of accumulated depreciation and impairment | 363,524 | 17,284 | 370,768 | 18,748 | 19,660 | 49,926 | 2,846 | 842,756 |
| At 31 December 2012: | | | | | | | | |
| Cost | 398,052 | 39,534 | 525,210 | 45,830 | 35,457 | 49,926 | 8,758 | 1,102,767 |
| Accumulated depreciation and impairment | (34,528) | (22,250) | (154,442) | (27,082) | (15,797) | – | (5,912) | (260,011) |
| Net carrying amount | 363,524 | 17,284 | 370,768 | 18,748 | 19,660 | 49,926 | 2,846 | 842,756 |

## 14. Property, Plant and Equipment *(continued)*

**Company**

| | Motor vehicle RMB'000 |
|---|---|
| **31 December 2013** | |
| At 1 January 2013, net of accumulated depreciation | **3,109** |
| Additions | **–** |
| Depreciation provided during the year | **(449)** |
| At 31 December 2013, net of accumulated depreciation | **2,660** |
| At 31 December 2013: | |
| Cost | **3,262** |
| Accumulated exchange realignment | **(88)** |
| Accumulated depreciation | **(514)** |
| Net carrying amount | **2,660** |

At 31 December 2013, no property, plant and equipment were pledged (31 December 2012: Nil).

## 15. Prepaid Land Lease Payments

| | Group | |
|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 |
| Carrying amount at 1 January | **53,516** | 71,149 |
| Reclassification from assets held for sale *(note 16)* | **5,872** | – |
| Disposals | **(286)** | (15,494) |
| Recognised during the year | **(1,530)** | (2,139) |
| Carrying amount at 31 December | **57,572** | 53,516 |
| Current portion included in prepayments, deposits and other receivables *(note 24)* | **(1,464)** | (1,314) |
| Non-current portion | **56,108** | 52,202 |

The leasehold lands are situated in Mainland China, and are held under long term leases ranging from 46 to 50 years.

## 16. 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. However, the Group discontinued the deal with former potential buyer in 2013. Due to the absence of an immediate plan to sell the assets, the directors are of the opinion that the assets should cease to be classified as held for sale as at 31 December 2013. Details of the movements are as follows:

| | RMB'000 |
|---|---|
| At 1 January 2013 | **17,606** |
| Cease to be classified as held for sale | |
| Property, plant and equipment *(note 14)* | **(11,734)** |
| Prepaid land lease payments *(note 15)* | **(5,872)** |
| At 31 December 2013 | **–** |

Due to the cease to be classified as held for sale, the adjusted depreciation and amortisation of the assets amounting to RMB1,556,000 and RMB286,000, respectively, are recorded in statement of profit or loss for the year ended 31 December 2013.

## 17. Goodwill

**Group**

| | **2013**<br>**RMB'000** | 2012<br>RMB'000 |
|---|---|---|
| At 1 January | | |
| Cost | **231,287** | 231,287 |
| Accumulated impairment | **(210,126)** | (210,126) |
| Net carrying amount | **21,161** | 21,161 |
| Cost at 1 January, net of accumulated impairment | **21,161** | 231,287 |
| Impairment during the year | **–** | (210,126) |
| At 31 December | **21,161** | 21,161 |

## 17. Goodwill *(continued)*

### Impairment testing of goodwill

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

***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 RMB7,369,000 as at 31 December 2013 (2012: RMB7,369,000).

The recoverable amount of the lighting electronic products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 19.27% (2012: 20.08%). The growth rate used to extrapolate the cash flows of the electronic products unit beyond the five-year period is 2% (2012: 2%) which was the same as the long term average growth rate of the lighting industry.

As at 31 December 2013, 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 (2012: Nil).

***Spot luminaries products 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 RMB10,999,000 as at 31 December 2013 (2012: RMB10,999,000).

The recoverable amount of the spot luminaries products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 18.95% (2012: 19.68%). The growth rate used to extrapolate the cash flows of the spot luminaries products unit beyond the five-year period is zero (2012: zero) as the spot luminaries products cash-generating unit has reached its full production capacity.

As at 31 December 2013, 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 (2012: Nil).

## 17. Goodwill *(continued)*

### Impairment testing of goodwill *(continued)*

***Decorative fluorescent luminaries products cash-generating unit in Chongqing NVC***

The carrying amount of goodwill allocated to the decorative fluorescent luminaries products cash-generating unit in Chongqing NVC amounted to RMB2,133,000 as at 31 December 2013 (2012: RMB2,133,000).

The recoverable amount of the decorative fluorescent luminaries products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 19.07% (2012: 20.56%). The growth rate used to extrapolate the cash flows of the decorative fluorescent luminaries products unit beyond the five-year period is zero (2012: zero) as the decorative fluorescent luminaries products cash-generating unit has reached its full production capacity.

As at 31 December 2013, 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 (2012: Nil).

The carrying amounts of goodwill allocated to the cash-generating units are as follows:

| | **2013** | | | | |
|---|---|---|---|---|---|
| **Group** | **Lighting electronic products RMB'000** | **Spot luminaries products RMB'000** | **Decorative fluorescent luminaries products RMB'000** | **Others RMB'000** | **Total RMB'000** |
| Carrying amount of goodwill | **7,369** | **10,999** | **2,133** | **660** | **21,161** |

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Lighting electronic products RMB'000 | Spot luminaries products RMB'000 | Decorative fluorescent luminaries products RMB'000 | Others RMB'000 | Total RMB'000 |
| Carrying amount of goodwill | 7,369 | 10,999 | 2,133 | 660 | 21,161 |

## 17. Goodwill *(continued)*

### Impairment testing of goodwill *(continued)*

***Decorative fluorescent luminaries products cash-generating unit in Chongqing NVC*** *(continued)*

Assumptions were used in the value in use calculation of each cash-generating unit for 31 December 2013 and 31 December 2012. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

*Budgeted gross margins* – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, 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* – 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 from where raw materials are sourced.

The values assigned to the key assumptions on market development of lamp products, lighting electronic products, spot luminaries products and decorative fluorescent luminaries products, discount rates and raw materials price inflation are consistent with external information sources.

## 18. Other Intangible Assets

### Group

| | Trademarks RMB'000 | Computer software RMB'000 | Customer relationships RMB'000 | Deferred development costs RMB'000 | Patents RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | |
| Cost at 1 January 2013, net of accumulated amortisation | 270,000 | 5,688 | – | 23,846 | 7,535 | 307,069 |
| Additions – internal development | – | – | – | 2,651 | – | 2,651 |
| Additions – others | – | 1,790 | – | – | – | 1,790 |
| Amortisation provided during the year | – | (1,015) | – | (4,657) | (3,942) | (9,614) |
| Disposals | – | (145) | – | – | – | (145) |
| At 31 December 2013 | 270,000 | 6,318 | – | 21,840 | 3,593 | 301,751 |
| At 31 December 2013: | | | | | | |
| Cost | 270,000 | 11,228 | 37,327 | 39,659 | 71,964 | 430,178 |
| Accumulated amortisation and impairment | – | (4,910) | (37,327) | (17,819) | (68,371) | (128,427) |
| Net carrying amount | 270,000 | 6,318 | – | 21,840 | 3,593 | 301,751 |
| **31 December 2012** | | | | | | |
| Cost at 1 January 2012, net of accumulated amortisation | 270,000 | 5,368 | 11,642 | 32,134 | 29,886 | 349,030 |
| Additions – others | – | 1,328 | – | – | – | 1,328 |
| Amortisation provided during the year | – | (1,005) | (6,985) | (5,680) | (13,721) | (27,391) |
| Disposals | – | (3) | – | – | – | (3) |
| Impairment during the year | – | – | (4,657) | (2,608) | (8,630) | (15,895) |
| At 31 December 2012 | 270,000 | 5,688 | – | 23,846 | 7,535 | 307,069 |
| At 31 December 2012: | | | | | | |
| Cost | 270,000 | 9,612 | 37,327 | 37,008 | 71,964 | 425,911 |
| Accumulated amortisation and impairment | – | (3,924) | (37,327) | (13,162) | (64,429) | (118,842) |
| Net carrying amount | 270,000 | 5,688 | – | 23,846 | 7,535 | 307,069 |

## 18. Other Intangible Assets *(continued)*

The useful lives of trademarks with a net carrying amount of RMB270,000,000 (2012: RMB270,000,000) 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 2013 (2012: 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 lighting products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. Management adopted a growth rate of 14.4% and royalty rate of 3% by reference to past experience and external sources of information (2012: a growth rate of 11% and royalty rate of 3%). The discount rate applied to the cash flow projections is 17.97% (2012: 16.77%). The growth rate used to extrapolate the cash flows of the lighting products unit beyond the five-year period is 2% (2012: 2%) which was the same as the long term average growth rate of the lighting industry.

As at 31 December 2013, 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 (2012: Nil).

Assumptions were used in the value in use calculation of the lighting products cash-generating unit for 31 December 2013 and 31 December 2012. 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 unit.

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

Royalty rate – Rate is based on terms of agreements.

## 19. Investments in Subsidiaries

| | Company 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Unlisted shares, at cost | **714,415** | 736,514 |
| Impairment* | **(21,534)** | – |
| | **692,881** | 736,514 |

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB457,190,000 (2012: RMB268,326,000) and RMB48,145,000 (2012: RMB47,839,000), respectively, are unsecured, interest-free and are repayable on demand.

* Impairment of RMB21,534,000 was recognised for the unlisted investment in NVC Lighting Limited ("UK NVC") with amount of RMB21,534,000, because UK NVC was at net-liability position as at 31 December 2013 and management is in the opinion that the performance of UK NVC will not significantly improve in the foreseeable future.

The Company and its subsidiaries are collectively referred to as the Group. Particulars of the Company's principal subsidiaries are as follows:

| Company name | Place of incorporation/ registration and business | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Huizhou NVC Lighting Technology Co., Ltd. | PRC/ 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. | PRC/ Mainland China | US$4,000,000 | 100% | – | Manufacture and sale of lamps, luminaires and other lighting electronic appliances |

## 19. Investments in Subsidiaries *(continued)*

| Company name | Place of incorporation/ registration and business | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Zhejiang NVC Lamps Co., Ltd. | PRC/ Mainland China | RMB20,000,000 | – | 51% | Manufacture and sale of lamps and related products |
| Zhejiang Jiangshan Sunny Electron Co., Ltd. | PRC/ Mainland China | RMB10,000,000 | – | 100% | Manufacture and sale of light tubes for energy-saving lamps and related products |
| Jiangshan Phoebus Lighting Electron Co., Ltd. | PRC/ 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. | PRC/ Mainland China | US$3,000,000 | – | 100% | Manufacture and sale of light tubes for energy-saving lamps and related products |
| Shanghai Arcata Electronics Co., Ltd. | PRC/ Mainland China | US$10,000,000 | – | 100% | Manufacture and sale of lamp transformers and other lighting electronic products |
| World Through Investments Limited | BVI/ Mainland China | US$50,000 | 100% | – | Investment holding |
| NVC Lighting Limited | England and Wales/the UK | GBP2,000,000 | 100% | – | Trading of lamps, luminaires and other lighting products |
| Hong Kong TYU Technology Co., Ltd. | Hong Kong/ Mainland China | HK$200,000 | 100% | – | Trading of lamps, luminaires and other lighting products |

## 19. Investments in Subsidiaries *(continued)*

| Company name | Place of incorporation/ registration and business | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Hong Kong NVC Lighting Limited * | Hong Kong/ Mainland China | HK$1 | – | 100% | Investment holding |
| NVC Lighting (China) Co., Ltd. ** | PRC/ Mainland China | HK$200,000,000 | – | 100% | Research, development, manufacture and sale of lamps, luminaries and lighting electronic products |

* The name of Hong Kong Max Rich Holdings Limited was changed to Hong Kong NVC Lighting Limited on 3 September 2013.

** NVC China was registered as a wholly-foreign-owned subsidiary under the PRC law and the registered capital was paid up in May 2013. The name of NVC Lighting (Chongqing) Co., Ltd. was changed to NVC Lighting (China) Co., Ltd. on 21 March 2014.

Details of the Group's subsidiary that have material non-controlling interests are set out below:

| | **2013** | 2012 |
|---|---|---|
| Percentage of equity interest held by non-controlling interest: | | |
| Zhejiang NVC | **51%** | 51% |

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Profit for the year allocated to non-controlling interests: | | |
| Zhejiang NVC | **37,223** | 40,128 |
| Dividends paid to non-controlling interests: | | |
| Zhejiang NVC | **24,500** | 24,500 |
| Accumulated balances of non-controlling interests at the reporting dates: | | |
| Zhejiang NVC | **83,755** | 71,032 |

## 19. Investments in Subsidiaries *(continued)*

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company elimination:

| Zhejiang NVC | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Revenue | 794,680 | 695,860 |
| Total expense | (718,714) | (613,966) |
| Profit for the year | 75,966 | 81,894 |
| Total comprehensive for the year | 75,966 | 81,894 |
| Current assets | 373,203 | 330,155 |
| Non-current assets | 28,588 | 28,394 |
| Current liabilities | (230,862) | (213,587) |
| Non-current liabilities | – | – |
| Net cash flows from operating activities | 147,334 | 1,258 |
| Net cash flows used in investing activities | (3,337) | (9,616) |
| Net cash flows used in financing activities | (102,134) | (13,402) |
| Net increased/(decrease) in cash and cash equivalents | 41,863 | (21,760) |

## 20. Investment in an Associate

| | Group | |
|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 |
| Share of net assets | 6,763 | 6,362 |

## 20. Investment in an Associate *(continued)*

Particulars of the associate are as follows:

| Name | Place of incorporation/ registration and business | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|
| Mianyang Leici Electronic Technology Co., Ltd.* ("Mianyang Leici") | PRC/ Mainland China | 35 | Research and development, production and sale of magnetic electronic components, lighting electronics and photoelectric components |

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

The Group's shareholding in the associate is held through a wholly-owned subsidiary of the Company.

The following table illustrates the summarised financial information of Mianyang Leici reconciled to the carrying amount in the consolidated financial statements:

| | **31 December 2013 RMB'000** | 31 December 2012 RMB'000 |
|---|---|---|
| Current assets | **41,485** | 49,157 |
| Non-current assets | **13,560** | 14,610 |
| Current liabilities | **(34,833)** | (44,314) |
| Liabilities | **(889)** | (1,276) |
| Net assets | **19,323** | 18,177 |
| Proportion of the Group's ownership | **35%** | 35% |
| Carrying amount of the investment | **6,763** | 6,362 |

## 20. Investment in an Associate *(continued)*

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Revenues | **66,781** | 63,135 |
| Profit for the year | **1,146** | 3,010 |
| Total comprehensive income for the year | **1,146** | 3,010 |
| Dividend received | **–** | – |

## 21. Deferred Tax

The movements in deferred tax assets and liabilities are as follows:

### Deferred tax assets

| | 2013 | | | |
|---|---|---|---|---|
| Group | Fair value adjustments arising from business combinations RMB'000 | Deductible temporary differences RMB'000 | Losses available for offsetting against future taxable profits RMB'000 | Total RMB'000 |
| At 1 January 2013 | 691 | 37,853 | 3,907 | 42,451 |
| Deferred tax credited/(charged) to the statement of profit or loss during the year *(note 10)* | (391) | 3,182 | (3,776) | (985) |
| Exchange realignment | – | (13) | (131) | (144) |
| At 31 December 2013 | 300 | 41,022 | – | 41,322 |

## 21. Deferred Tax *(continued)*

### Deferred tax assets *(continued)*

| Group | 2012<br>Fair value adjustments arising from business combinations<br>RMB'000 | Deductible temporary differences<br>RMB'000 | Losses available for offsetting against future taxable profits<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| At 1 January 2012 | 2,424 | 24,710 | 2,892 | 30,026 |
| Deferred tax credited/(charged) to the statement of profit or loss during the year *(note 10)* | (1,733) | 13,417 | 859 | 12,543 |
| Exchange realignment | – | (274) | 156 | (118) |
| At 31 December 2012 | 691 | 37,853 | 3,907 | 42,451 |

The Group has accumulated tax losses of RMB17,549,000 as at 31 December 2013 (2012: RMB13,331,000), which are generated by UK NVC, a subsidiary incorporated in the UK. Deferred tax assets have not been recognised in respect of the losses as UK NVC has been loss-making for two years and it is not considered probable that there will be taxable profits in the foreseeable future against which the accumulated tax losses can be utilised.

### Deferred tax liabilities

| **Group** | **2013**<br>**Fair value adjustments arising from business combinations**<br>**RMB'000** | **Taxable temporary differences arising from relocation**<br>**RMB'000** | **Total**<br>**RMB'000** |
|---|---|---|---|
| At 1 January 2013 | **77,416** | **18,600** | **96,016** |
| Deferred tax credited to the statement of profit or loss during the year *(note 10)* | **(1,019)** | **(503)** | **(1,522)** |
| At 31 December 2013 | **76,397** | **18,097** | **94,494** |

## 21. Deferred Tax *(continued)*

**Deferred tax liabilities** *(continued)*

| Group | 2012<br>Fair value adjustments arising from business combinations<br>RMB'000 | Taxable temporary differences arising from relocation<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|
| At 1 January 2012 | 90,145 | – | 90,145 |
| Deferred tax charged/(credited) to the statement of profit or loss during the year *(note 10)* | (12,729) | 18,600 | 5,871 |
| At 31 December 2012 | 77,416 | 18,600 | 96,016 |

Pursuant to the Corporate Income Tax Law of China, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10% for the unremitted profits of PRC subsidiaries. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2013, the Group has not recognised deferred tax liabilities of RMB181,152,000 (2012: RMB159,685,000) in respect of temporary differences relating to the unremitted profits of subsidiaries amounting to RMB1,811,515,000 (2012: RMB1,596,854,000). Such tax amounts would be payable on the distribution of these retained profits. It has not been recognised as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

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

## 22. Inventories

| | Group 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Raw materials | **130,146** | 179,911 |
| Work in progress | **20,211** | 11,963 |
| Finished goods | **501,350** | 506,526 |
| | **651,707** | 698,400 |

The write-down of inventories recognised as an expense for the year ended 31 December 2013 amounted to RMB26,981,000 (2012: RMB16,494,000), which was recorded in "Cost of sales" in the consolidated statement of profit or loss.

## 23. Trade and Bills Receivables

| | Group 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Trade receivables | **1,159,667** | 710,739 |
| Impairment | **(18,847)** | (18,393) |
| Trade receivables, net | **1,140,820** | 692,346 |
| Bills receivable | **127,392** | 126,544 |
| | **1,268,212** | 818,890 |

Trade receivables of the Group represented proceeds receivable from sale of goods. The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit periods generally range from 30 to 180 days for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balance. Trade receivables are non-interest-bearing.

## 23. Trade and Bills Receivables *(continued)*

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

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Within 3 months | **787,893** | 532,034 |
| 4 to 6 months | **234,106** | 85,397 |
| 7 to 12 months | **84,184** | 26,390 |
| 1 to 2 years | **9,357** | 45,037 |
| Over 2 years | **25,280** | 3,488 |
| | **1,140,820** | 692,346 |

The movements in provision for impairment of trade receivables are as follows:

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| At 1 January | **18,393** | 16,350 |
| Impairment losses recognised *(note 6)* | **9,920** | 1,952 |
| Amount written off as uncollectible | **(8,884)** | (66) |
| Reversed *(note 6)* | **(396)** | – |
| Exchange realignment | **(186)** | 157 |
| At 31 December | **18,847** | 18,393 |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB9,920,000 (2012: RMB1,952,000) with a carrying amount before provision of RMB45,159,000 (2012: RMB4,188,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in both interest and/or principal payments and only a portion of the receivables is expected to be recoverable.

## 23. Trade and Bills Receivables *(continued)*

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

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Neither past due nor impaired | **1,087,020** | 669,684 |
| Less than 2 months past due | **16,133** | 14,484 |
| 2 to 6 months past due | **2,070** | 4,663 |
| 7 to 12 months past due | **251** | 1,077 |
| Over 1 year past due | **107** | 202 |
| | **1,105,581** | 690,110 |

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The maturity profile of the bills receivable of the Group as at the end of the reporting period is as follows:

| | **2013** | 2012 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Within 6 months | **127,392** | 126,544 |

As at 31 December 2013, the fair value of trade and bills receivables approximates to their carrying amount largely due to their short-term maturity.

## 24. Prepayments, Deposits and Other Receivables

**Group**

| | Notes | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| Non-current assets: | | | |
| Prepayments for purchase of property, plant and equipment | | 3,078 | 23,331 |
| Current assets: | | | |
| Prepayments | (a) | 63,034 | 52,400 |
| Impairment | (a) | (22,720) | (24,188) |
| | | 40,314 | 28,212 |
| Deposits and other receivables | (b) | 40,929 | 71,894 |
| Impairment | (b) | (67) | (6,101) |
| | | 40,862 | 65,793 |
| | | 81,176 | 94,005 |

**Company**

| | Notes | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| Current assets: | | | |
| Prepayments | | 56 | 595 |
| Other receivables | (c) | 3,221 | 6,170 |
| | | 3,277 | 6,765 |

## 24. Prepayments, Deposits and Other Receivables *(continued)*

*Notes:*

(a) Prepayments of the Group

The amount mainly represented prepayments for raw materials and the current portion of prepaid land lease payments.

The breakdown of prepayments is as follows:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Prepaid land lease payments – current portion | **1,464** | 1,314 |
| Prepayments to third parties | **36,737** | 26,898 |
| Amount due from an entity over which a close family member of Mr. WU Changjiang, a director of the Company, has significant influence | **24,833** | 24,188 |
| | **63,034** | 52,400 |
| Impairment | **(22,720)** | (24,188) |
| Prepayments, net | **40,314** | 28,212 |

The impairment related to an amount due from an entity over which a close family member of Mr. WU Changjiang, a director of the Company, has significant influence.

As at 31 December 2013, the fair value of prepayments approximates to their carrying amount largely due to their short-term maturity.

## 24. Prepayments, Deposits and Other Receivables *(continued)*

*Notes: (continued)*

(b) Deposits and other receivables of the Group

The breakdown of deposits and other receivables is as follows:

| | *Notes* | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|---|
| Deposits and receivables from third parties | *(i)* | **33,266** | 43,664 |
| Due from individuals | | **1,986** | 4,147 |
| Amount due from Mr. WU Changjiang, a director of the Company | | **219** | – |
| Amounts due from other related parties | *(ii)* | **5,458** | 24,083 |
| | | **40,929** | 71,894 |
| Impairment | | **(67)** | (6,101) |
| Deposits and other receivables, net | | **40,862** | 65,793 |

(i) The deposits and receivables from third parties are unsecured, non-interest-bearing and have no fixed terms of repayment.

(ii) The amounts due from other related parties (note 37) consist of the following:

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Entities over which a close family member of Mr. WU Changjiang, a director of the Company, has significant influence | **4,559** | 23,990 |
| Other | **899** | 93 |
| | **5,458** | 24,083 |

The amounts due from entities over which a close family member of Mr. WU Changjiang, a director of the Company, has significant influence represented trademark licence fees and distribution commission receivable by the Group. The credit terms granted to these related companies range from 10 to 105 days. The balances are unsecured and non-interest-bearing.

## 24. Prepayments, Deposits and Other Receivables *(continued)*

*Notes: (continued)*

(b) Deposits and other receivables of the Group *(continued)*

An aged analysis of the deposits and other receivables as at the end of the reporting period, based on the transaction date and net of provisions, is as follows:

| | **Group** | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Within 1 year | **19,418** | 45,558 |
| 1 to 2 years | **20,452** | 18,350 |
| Over 2 years | **992** | 1,885 |
| | **40,862** | 65,793 |

As at 31 December 2013, the fair value of prepayments, deposits and other receivables approximate to their carrying amount largely due to their short-term maturity.

(c) Other receivables of the Company

| | **2013** | 2012 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Receivables from third parties | **3,002** | 6,170 |
| Due from Mr. WU Changjiang, a director of the Company | **219** | – |
| | **3,221** | 6,170 |

As at 31 December 2013, the fair value of other receivables approximate to their carrying amount largely due to their short-term maturity.

## 25. Other Current Assets

| | Group 2013 RMB'000 | Group 2012 RMB'000 |
|---|---|---|
| Deductible valued-added tax | **16,919** | 16,079 |

## 26. Cash and Short-Term Deposits

**Group**

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Cash and bank balances | **1,349,152** | 1,124,861 |
| Time deposits: | | |
| Non-pledged time deposits | **83,300** | 464,421 |
| Pledged time deposits | **6,192** | 4,695 |
| | **1,438,644** | 1,593,977 |
| Less: | | |
| Non-pledged time deposits with original maturity of more than three months when acquired | **(83,300)** | (374,538) |
| Pledged time deposits | **(6,192)** | (4,695) |
| | **(89,492)** | (379,233) |
| | **1,349,152** | 1,214,744 |

## 26. Cash and Short-Term Deposits *(continued)*

**Company**

| | **2013** | 2012 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Cash and bank balances | **302,892** | 128,041 |
| Time deposits: | | |
| Non-pledged time deposits | **–** | 445,881 |
| | **302,892** | 573,922 |
| Less: | | |
| Non-pledged time deposits with original maturity of more than three months when acquired | **–** | (355,998) |
| | **302,892** | 217,924 |

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB1,226,884,000 (2012: RMB1,252,083,000). 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.

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

As at 31 December 2013, the fair values of cash and bank balances and short-term deposits approximate to their carrying amounts largely due to their short-term maturity.

## 27. Trade Payables

| | Group 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Trade payables to third parties | **501,965** | 404,561 |
| Trade payables to related parties | **8,387** | 27,045 |
| | **510,352** | 431,606 |

Trade payables to related parties (as defined in note 37) include the following:

| | Group 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Entities controlled by Mr. WU Jiannong, a director of Zhejiang NVC and the substantial shareholder of Signkey Group Limited ("Signkey"), a former substantial shareholder of the Company | **1,006** | 10,879 |
| An entity over which the Group indirectly has significant influence through its associate | **3,951** | 10,115 |
| Entities over which a close family member of Mr. WU Changjiang, a director of the Company, has significant influence | **9** | 6,051 |
| Entity with significant influence over the Group | **3,421** | – |
| | **8,387** | 27,045 |

Trade payables are non-interest-bearing and are normally settled on terms of 30 to 60 days.

## 27. Trade Payables *(continued)*

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

| | Group 2013 RMB'000 | Group 2012 RMB'000 |
|---|---|---|
| Within 3 months | **498,434** | 376,469 |
| 4 to 6 months | **5,783** | 11,548 |
| 7 to 12 months | **1,596** | 26,494 |
| 1 to 2 years | **4,034** | 16,109 |
| Over 2 years | **505** | 986 |
| | **510,352** | 431,606 |

## 28. Other Payables and Accruals

**Group**

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Other payables to third parties | **213,821** | 204,437 |
| Dividends payable | **1,176** | 3 |
| Advances from customers | **14,768** | 16,338 |
| Accruals | **89,614** | 60,777 |
| Amounts due to related parties | **375** | 968 |
| | **319,754** | 282,523 |

## 28. Other Payables and Accruals *(continued)*

The amounts due to related parties (as defined in note 37) are as follows:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Entities controlled by Mr. WU Jiannong, a director of Zhejiang NVC and the substantial shareholder of Signkey, a former substantial shareholder of the Company | 271 | 956 |
| Entity over which a close family member of Mr. WU Changjiang, a director of the Company, has significant influence | 104 | 12 |
| | 375 | 968 |

**Company**

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Other payables to third parties | 2,826 | 3,381 |
| Dividends payable | 1,176 | 3 |
| | 4,002 | 3,384 |

Other payables of the Group and the Company as at 31 December 2013 are non-interest-bearing and have no fixed terms of repayment.

As at 31 December 2013, the fair values of other payables and accruals approximate to their carrying amounts largely due to their short-term maturity.

## 29. Interest-Bearing Loans and Borrowings

### Group

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Contractual interest rate (%) | Maturity | RMB'000 | Contractual interest rate (%) | Maturity | RMB'000 |
| **Current** | | | | | | |
| Bank loans – unsecured [1] | 4.98 | April 2014 | 30,000 | 5.488-5.880 | February-April 2013 | 80,000 |
| Bank overdraft – unsecured [2] | Base*+2.30 | On demand | 17,117 | Base*+2.30 | On demand | 14,387 |
| Total | | | 47,117 | | | 94,387 |

1 The bank loans included RMB-denominated loans of RMB30,000,000 with an interest rate of 4.98% per annum.

2 The bank overdraft represents a GBP-denominated overdraft facility. The Group's overdraft facility, amounted to GBP2,200,000 (2012: GBP2,200,000), of which GBP1,702,000 (2012: GBP1,416,000) had been utilised as at the end of the reporting period.

* "Base" means the Bank of England base rate.

As at 31 December 2013, the fair value of interest-bearing loans and borrowings approximates to their carrying amount largely due to their short-term maturity.

## 30. Government Grants

| | Group 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| At beginning of year | **22,049** | 131,739 |
| Received during the year | **31,880** | 59,564 |
| Released to the statement of profit or loss | **(38,444)** | (46,422) |
| Utilised in relocation* | **–** | (122,832) |
| At end of year | **15,485** | 22,049 |
| Portion classified as current liabilities | **(1,909)** | (6,208) |
| Non-current portion | **13,576** | 15,841 |

Various government subsidies have been granted to the Group's PRC subsidiaries as compensation for technology research and development and as financial support for the establishment of energy-saving lamp tube production lines.

The balance at 31 December 2013 mainly represented government grants for development of LED products and other energy-saving lamp production lines. The government grants are credited to the statement of profit or loss over the estimated useful lives of the associated production lines.

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

* As the Group has completed the relocation of its production centre in Jiangshan City on 30 July 2012, a compensation amount of RMB122,832,000 was utilised upon completion of the relocation in the year ended 31 December 2012.

## 31. Share Capital

### Shares

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | US$ | RMB equivalent | US$ | RMB equivalent |
| Authorised: | | | | |
| 500,000,000,000 (2012: 500,000,000,000) ordinary shares of US$0.0000001 each | **50,000** | **341,385** | 50,000 | 341,385 |
| Issued and fully paid: | | | | |
| 3,128,448,000 (2012: 3,128,448,000) ordinary shares of US$0.0000001 each | **312.84** | **2,324.07** | 312.84 | 2,324.07 |

During the year ended 31 December 2013, no movement was noted in share capital. The movements in share capital during the year ended 31 December 2012 were as follows:

(a) The subscription rights attaching to 500,000 share options were exercised at the subscription price of HK$2.1 per share, resulting in the issue of 500,000 shares of US$0.0000001 each for a total cash consideration, before expenses, of RMB849,000. An amount of RMB137,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(b) A total of 30,065,000 shares were repurchased at a net aggregate consideration of approximately RMB39,009,000. All the repurchased shares were cancelled by the Company and accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase was charged to the share premium account.

### Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in the note 32 to the consolidated financial statements.

## 32. 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. 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 Stock Exchange of Hong Kong Limited, after which period no further options will be granted under the Scheme, but the provisions of the Scheme shall in all other respects remain in full force and effect and options under the Scheme during its life may continue to be exercisable in accordance with the Scheme and their terms of issue.

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

The following share options were outstanding under the Scheme during the year:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price per share HK$** | Number of options | Weighted average exercise price per share HK$ |
| At 1 January | **41,787,000** | **2.10** | 45,270,000 | 2.10 |
| Exercised during the year | **–** | **2.10** | (500,000) | 2.10 |
| Lapsed during the year | **(682,000)** | **2.10** | (2,983,000) | 2.10 |
| At 31 December | **41,105,000** | **2.10** | 41,787,000 | 2.10 |

For the year ended 31 December 2013, 682,000 share options lapsed due to the resignation of one director and two employees.

As at 31 December 2013, 36,705,000 (31 December 2012: 33,887,000) share options were exercisable, the weighted average exercise price of which was HK$2.10 (31 December 2012: HK$2.10).

## 32. Pre-IPO Share Option Scheme *(continued)*

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

| **2013 Number of options** | **Exercise price per share HK$** | **Exercise period** |
|---|---|---|
| **31,105,000** | **2.10** | **3/24/2012 to 3/24/2016** |
| **7,000,000** | **2.10** | **3/24/2011 to 3/24/2016** |
| **3,000,000** | **2.10** | **3/24/2012 to 6/25/2017** |
| **41,105,000** | | |

| 2012 Number of options | Exercise price per share HK$ | Exercise period |
|---|---|---|
| 31,637,000 | 2.10 | 3/24/2012 to 3/24/2016 |
| 7,150,000 | 2.10 | 3/24/2011 to 3/24/2016 |
| 3,000,000 | 2.10 | 3/24/2012 to 6/25/2017 |
| 41,787,000 | | |

The weighted average remaining contractual life of the share options outstanding as at 31 December 2013 was 1.6 years (31 December 2012: 2.5 years).

The fair value of the share options granted by the Company has been recognised in the statement of profit or loss over the vesting periods and the total amount recognised as a share option expense for the year ended 31 December 2013 totalled RMB486,000 (2012: RMB1,800,000).

At the end of the reporting period, the Company had 41,105,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 41,105,000 additional ordinary shares of the Company and additional share capital of US$4.11 (equivalent to RMB25.06) and share premium of US$11,089,000 (equivalent to RMB67,609,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 41,105,000 share options outstanding under the Scheme, which represented approximately 1.31% of the Company's shares in issue as at that date.

## 33. Reserves

### Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 77 to 78 of the annual report.

### Company

| 2013 | Share premium RMB'000 | Employee equity benefit reserve RMB'000 | Accumulated losses RMB'000 | Foreign currency translation reserve RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At 1 January 2013** | 1,965,282 | 14,608 | (308,906) | (171,624) | 1,499,360 |
| Loss for the year | – | – | (23,880) | – | (23,880) |
| Other comprehensive income for the year | – | – | – | (44,360) | (44,360) |
| Lapse of share options *(note 32)* | 1,158 | (1,158) | – | – | – |
| Employee share option arrangements *(note 32)* | 486 | – | – | – | 486 |
| Adjustment to final 2012 dividend declared *(note 12)* | 25 | – | – | – | 25 |
| Interim 2013 dividend *(note 12)* | (24,880) | – | – | – | (24,880) |
| Proposed final 2013 dividend *(note 12)* | (49,192) | – | – | – | (49,192) |
| **At 31 December 2013** | 1,892,393 | 13,936 | (332,786) | (215,984) | 1,357,559 |

## 33. Reserves *(continued)*

| 2012 | Share premium RMB'000 | Employee equity benefit reserve RMB'000 | Accumulated losses RMB'000 | Foreign currency translation reserve RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At 1 January 2012** | 2,067,321 | 12,945 | (293,260) | (168,159) | 1,618,847 |
| Loss for the year | – | – | (15,646) | – | (15,646) |
| Other comprehensive income for the year | – | – | – | (3,465) | (3,465) |
| Repurchased shares | (39,009) | – | – | – | (39,009) |
| Employee share option arrangements *(note 32)* | – | 1,800 | – | – | 1,800 |
| Exercise of share options *(note 32)* | 986 | (137) | – | – | 849 |
| Adjustment to final 2011 dividend declared | (172) | – | – | – | (172) |
| Interim 2012 dividend declared *(note 12)* | (25,793) | – | – | – | (25,793) |
| Proposed final 2012 dividend *(note 12)* | (38,051) | – | – | – | (38,051) |
| **At 31 December 2012** | 1,965,282 | 14,608 | (308,906) | (171,624) | 1,499,360 |

Employee equity benefit reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the consolidated financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

## 34. Pledge of Assets

Except for the pledged deposits mentioned in note 26, no assets of the Group were pledged as at 31 December 2013 (2012: Nil).

## 35. Operating Lease Arrangements

### (a) As lessor

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

At 31 December 2013, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Within one year | **2,064** | 2,881 |
| In the second to fifth years, inclusive | **100** | 1,743 |
| | **2,164** | 4,624 |

### (b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years. There are no restrictions placed on the Group by entering into these leases.

At 31 December 2013, the Group had total future minimum lease payments under non-cancellable operating lease falling due as follows:

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Within one year | **7,772** | 10,925 |
| In the second to fifth years, inclusive | **7,278** | 12,361 |
| | **15,050** | 23,286 |

## 36. Commitments

In addition to the operating lease commitments detailed in (note 35 (b)) above, the Group had the following capital commitments at the end of the reporting period:

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Contracted, but not provided for: | | |
| Property, plant and equipment | **8,682** | 16,272 |
| Authorised, but not contracted for: | | |
| Property, plant and equipment | **–** | 163,721 |
| Other intangible assets | **–** | 50 |
| | **–** | 163,771 |
| | **8,682** | 180,043 |

At the end of the reporting period, neither the Group nor the Company had any significant commitments.

## 37. 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 current year and the prior year are listed below:**

***Entity with significant influence over the Group***
Elec-Tech International Co., Ltd.

***Subsidiary of the entity with significant influence over the Group***
Dalian Elec-Tech Lighting Technology Co., Ltd.

***Associate***
Mianyang Leici

***Entities controlled by Mr. WU Jiannong, a director of Zhejiang NVC and the substantial shareholder of Signkey, a former 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.

***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.

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

## 37. 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* | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|---|
| **Entity with significant influence over the Group:** | | | |
| Purchase of raw materials | *(i)* | **722** | – |
| Trademark licence fee income | *(iii)* | **899** | – |
| **Subsidiary of the entity with significant influence over the Group:** | | | |
| Purchase of raw materials | *(i)* | **2,788** | – |
| **Entities controlled by Mr. WU Jiannong, a director of Zhejiang NVC and the substantial shareholder of Signkey, a former substantial shareholder of the Company:** | | | |
| Purchases of raw materials and finished goods | *(i)* | **35,397** | 72,983 |
| Purchases of machinery | *(i)* | **396** | 3,866 |
| Maintenance expense | *(i)* | **–** | 2,180 |
| **Entities over which a close family member of Mr. WU Changjiang, a director of the Company, has significant influence:** | | | |
| Sales of finished goods | *(i)* | **3,293** | – |
| Purchases of raw materials and finished goods | *(i)* | **22,585** | 10,841 |
| Purchase of parts | *(i)* | **154** | 27,010 |
| Trademark licence fee income | *(iii)* | **11,393** | 15,191 |
| Interest income | *(i)* | **–** | 3,290 |
| Distribution commission income | *(ii)* | **–** | 6,428 |
| **An entity over which the Group indirectly has significant influence through an associate:** | | | |
| Purchases of raw materials and finished goods | *(i)* | **32,075** | 40,934 |

## 37. 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% to 8% of the related parties' annual sales. The charge rate was mutually agreed by both parties.

(iii) Trademark licence fee income arose from licensing the "NVC" brand to related parties, and was charged at 1% to 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 2013 and 2012 are set out in notes 24, 27 and 28 to the consolidated financial statements.

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

| | **2013**<br>**RMB'000** | 2012<br>RMB'000 |
|---|---|---|
| Short-term employee benefits | **17,183** | 13,478 |
| Equity-settled share option expenses | **85** | 1,026 |
| | **17,268** | 14,504 |

Except for the Group's transactions with Chongqing Chidian Technology Co., Ltd. with an amount of RMB32,075,000 for the year ended 31 December 2013 (2012: RMB40,934,000), all the related party transactions listed above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

## 38. Financial Instruments by Category

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

### Financial assets

All of the Group's and the Company's financial assets categorised as loans and receivables are detailed as below:

**Group**

| | **2013 Loans and receivables RMB'000** | 2012 Loans and receivables RMB'000 |
|---|---|---|
| Trade and bills receivables | **1,268,212** | 818,890 |
| Financial assets included in prepayments, deposits and other receivables | **40,862** | 65,793 |
| Short-term deposits | **89,492** | 379,233 |
| Cash and cash equivalents | **1,349,152** | 1,214,744 |
| Total | **2,747,718** | 2,478,660 |

**Company**

| | **2013 Loans and receivables RMB'000** | 2012 Loans and receivables RMB'000 |
|---|---|---|
| Due from subsidiaries | **457,190** | 268,326 |
| Financial assets included in other receivables and prepayments | **3,221** | 6,170 |
| Short-term deposits | **–** | 355,998 |
| Cash and cash equivalents | **302,892** | 217,924 |
| Total | **763,303** | 848,418 |

## 38. Financial Instruments by Category *(continued)*

### Financial liabilities

All of the Group's and the Company's financial liabilities carried at amortized cost are as follows:

**Group**

| | **2013 Financial liabilities at amortised cost RMB'000** | 2012 Financial liabilities at amortised cost RMB'000 |
|---|---|---|
| Trade payables | **510,352** | 431,606 |
| Financial liabilities included in other payables and accruals | **215,372** | 205,408 |
| Interest-bearing loans and borrowings | **47,117** | 94,387 |
| Total | **772,841** | 731,401 |

**Company**

| | **2013 Financial liabilities at amortised cost RMB'000** | 2012 Financial liabilities at amortised cost RMB'000 |
|---|---|---|
| Due to subsidiaries | **48,145** | 47,839 |
| Other payables and accruals | **4,002** | 3,384 |
| Total | **52,147** | 51,223 |

## 39. Fair Value of Financial Instruments

Management has assessed that the fair values of cash and cash equivalents, short-term deposits, trade and bills receivable, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, and interest-bearing loans and borrowings approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Other than mentioned above, the Group did not have any other financial assets or liabilities measured at fair value as at 31 December 2013.

## 40. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise interest-bearing loans and borrowings, 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 and bills receivables, deposits and other receivables, trade payables and other 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.

## 40. Financial Risk Management Objectives and Policies *(continued)*

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 bills receivables and prepayments, deposits 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 receivables.

From year 2008, the Group entered into a number of one-year insurance contracts with China Export & Credit Insurance Corporation, which covered up to 85% and 90% of any uncollectible amount derived respectively from the domestic sales and overseas sales. The contracts were renewed in November every year, and subject to a maximum compensation amount of RMB42,000,000 for domestic sales and US$30,000,000 (equivalent to RMB182,907,000) for overseas sales in current year. The Group purchased such insurance in order to minimise the exposure to credit risk as the Group expands its business. The insurance contracts were renewed in 2013 and extended to 30 November 2014.

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

### (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.

## 40. Financial Risk Management Objectives and Policies *(continued)*

### (c) Foreign currency risk

The Group has transactional currency exposure. This exposure mainly arises from sales by an operating unit in a 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$. As a result, the Group is exposed to fluctuations in the exchange rate between US$ and RMB.

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

**2013**

| | **Increase/ (decrease) in foreign currency exchange rate %** | **Increase/ (decrease) in profit before tax RMB'000** |
|---|---|---|
| If RMB weakens against US$ | **5%** | **(4,821)** |
| If RMB strengthens against US$ | **(5%)** | **4,821** |

**2012**

| | Increase/ (decrease) in foreign currency exchange rate % | Increase/ (decrease) in profit before tax RMB'000 |
|---|---|---|
| If RMB weakens against US$ | 5% | (4,613) |
| If RMB strengthens against US$ | (5%) | 4,613 |

Bank balances and short-term deposits of the Group denominated in HK$ amounted to RMB6,326,000 as at 31 December 2013. As HK$ is pegged to US$, the directors consider that these bank balances are not subject to foreign currency risk.

## 40. 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 2013**

| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Trade payables | – | 510,352 | – | 510,352 |
| Financial liabilities included in other payables and accruals | – | 209,900 | 5,472 | 215,372 |
| Interest-bearing loans and borrowings | 17,117 | – | 30,444 | 47,561 |
| Total | 17,117 | 720,252 | 35,916 | 773,285 |

**31 December 2012**

| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Trade payables | – | 431,606 | – | 431,606 |
| Financial liabilities included in other payables and accruals | – | 200,908 | 4,500 | 205,408 |
| Interest-bearing loans and borrowings | 14,387 | 25,129 | 55,951 | 95,467 |
| Total | 14,387 | 657,643 | 60,451 | 732,481 |

## 41. 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 parent. Net debt includes interest-bearing loans and borrowings less cash and short-term deposits. The Group's policy is to maintain a gearing ratio at a reasonable level.

The gearing ratios as at the end of the reporting periods were as follows:

| | **2013** **RMB'000** | 2012 RMB'000 |
|---|---|---|
| Interest-bearing loans and borrowings | **47,117** | 94,387 |
| Total debt | **47,117** | 94,387 |
| Less: Cash and short-term deposits | **(1,438,644)** | (1,593,977) |
| Net debt | **N/A** | N/A |
| Total equity attributable to owners of the parent | **3,676,870** | 3,511,701 |
| Gearing ratio | **N/A** | N/A |

## 42. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 26 March 2014.

# Definitions

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

| | |
|---|---|
| "China" or "PRC" | the People's Republic of China, but for the purpose of this annual 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, 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 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. |
| "CG Code" | the Corporate Governance Code and Corporate Governance Report 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 British Virgin Islands on 2 March 2006 and subsequently redomiciled to the Cayman Islands on 30 March 2010 as an exempted company with limited liability under the laws of the Cayman Islands. |
| "Corresponding Period" | means the year ended 31 December 2012 or the year ended 31 December 2013 (as the context may require). |
| "Director(s)" | the director(s) of the Company. |
| "ETIC" | Elec-Tech International Co., Ltd.* (廣東德豪潤達電氣股份有限公司), a PRC incorporated company which is currently listed on the Shenzhen Stock Exchange. It is a substantial shareholder of the Company. |
| "EMC model" | EMC model, i.e. contract energy management, an energy-saving investment model which uses the fees for energy saved to pay for all of the costs in an energy-saving project. This model enables users to apply the income from energy saving in the future to upgrade the factories and facilities, lower current operation costs and increase the energy utilization efficiency. |

| | |
|---|---|
| "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. |
| "GBP" | Pound sterling, the lawful currency of the United Kingdom. |
| "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. |
| "HK$" or "Hong Kong dollars" | Hong Kong dollars, the lawful currency of Hong Kong. |
| "Hong Kong" | the Hong Kong Special Administrative Region of People's Republic of China |
| "Huizhou NVC" | Huizhou 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 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.* (衢州奧仕特照明有限公司), 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 of Hong Kong Limited. |

| | |
|---|---|
| "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. |
| "NVC China" | NVC Lighting (China) Co., Ltd.* (雷士照明(中國)有限公司), a wholly foreign-owned enterprise with limited liability incorporated in the PRC on 7 November 2012 and our indirect wholly-owned subsidiary. The name of NVC Lighting (Chongqing) Co., Ltd. (重慶雷士實業有限公司) was changed to NVC Lighting (China) Co., Ltd. (雷士照明(中國)有限公司) on 21 March 2014. |
| "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's design and specification and are marketed under the customer's brand name. |
| "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 2013. |
| "RMB" | Renminbi, the lawful currency of the PRC. |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). |
| "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. |
| "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. |

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| "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. |
| "Signkey" | Signkey Group Limited* (世紀集團有限公司), a limited liability company incorporated in the British Virgin Islands, 85% equity interest of which is owned by Mr. Wu Jiannong. |
| "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$", "USD" 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 British Virgin Islands 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.* (浙江同景投資有限公司). |

* *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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