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**NVC LIGHTING HOLDING LIMITED**

**雷士照明控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 2222)**

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2010**

**Highlights:**

- Our revenue from sales for the year ended 31 December 2010 amounted to US\$471,725,000, representing an increase of 54.3% from US\$305,770,000 recorded in the year ended 31 December 2009.
- Our gross profit from sales for the year ended 31 December 2010 amounted to US\$137,253,000, representing an increase of 63.3% from US\$84,030,000 recorded in the year ended 31 December 2009.
- Our profit before tax for the year ended 31 December 2010 amounted to US\$82,316,000, representing an increase of 309.3% from US\$20,110,000 recorded in the year ended 31 December 2009.
- Profit attributable to owners of the Company for the year ended 31 December 2010 amounted to US\$71,338,000, representing an increase of 455.5% from US\$12,843,000 recorded in the year ended 31 December 2009.
- Basic earnings per share of the Group for the year ended 31 December 2010 was 2.69 US cents.
- The board of directors has proposed a final dividend of HK3 cents per share for the year ended 31 December 2010.

The board of directors (the “Board”) of NVC Lighting Holding Limited (the “Company”) is pleased to announce the annual results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2010 (the “Reporting Period”).

## CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

		Year ended 31 December	
		2010	2009
	Notes	US\$'000	US\$'000
<b>REVENUE</b>	2	<b>471,725</b>	305,770
Cost of sales		<b>(334,472)</b>	(221,740)
<b>GROSS PROFIT</b>		<b>137,253</b>	84,030
Other income and gains	3	<b>13,329</b>	7,659
Selling and distribution costs		<b>(36,347)</b>	(20,654)
Administrative expenses		<b>(30,097)</b>	(26,588)
Other expenses		<b>(1,291)</b>	(633)
Finance income		<b>1,938</b>	755
Finance costs	4	<b>(2,598)</b>	(8,737)
Net fair value loss on convertible redeemable preference shares		<b>–</b>	(15,780)
Share of profits of an associate		<b>129</b>	58
<b>PROFIT BEFORE TAX</b>		<b>82,316</b>	20,110
Income tax expense	5	<b>(8,422)</b>	(5,420)
<b>PROFIT FOR THE YEAR</b>		<b>73,894</b>	14,690
Attributable to:			
Owners of the Company		<b>71,338</b>	12,843
Non-controlling interests		<b>2,556</b>	1,847
		<b>73,894</b>	14,690
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
Basic	6	<b>2.69 US cents</b>	0.58 US cents
Diluted	6	<b>2.53 US cents</b>	0.53 US cents

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION***31 December 2010*

		<b>31 December</b>	
		<b>2010</b>	<b>2009</b>
	<i>Notes</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>84,817</b>	67,824
Prepaid land lease payments		<b>11,536</b>	11,570
Goodwill		<b>34,121</b>	33,896
Other intangible assets		<b>53,032</b>	52,916
Investment in an associate		<b>689</b>	540
Deferred tax assets		<b>2,537</b>	1,329
Long-term deferred expenditure		<b>64</b>	72
Other non-current financial assets		<b>–</b>	221
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b>186,796</b>	168,368
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Inventories	<i>8</i>	<b>68,591</b>	47,567
Trade and other receivables	<i>9</i>	<b>119,503</b>	85,795
Prepayments		<b>8,494</b>	6,692
Short-term deposits		<b>60,648</b>	3,258
Cash and cash equivalents		<b>182,766</b>	44,034
		<hr/>	<hr/>
<b>Total current assets</b>		<b>440,002</b>	187,346
		<hr/>	<hr/>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	<i>10</i>	<b>51,297</b>	54,769
Other payables and accruals		<b>44,438</b>	41,864
Interest-bearing loans	<i>11</i>	<b>–</b>	6,093
Income tax payable		<b>3,442</b>	3,208
		<hr/>	<hr/>
<b>Total current liabilities</b>		<b>99,177</b>	105,934
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		<b>340,825</b>	81,412
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>527,621</b>	249,780
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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)**

31 December 2010

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

Year ended 31 December 2010

	<b>Year ended 31 December</b>	
	<b>2010</b>	2009
	<i>US\$'000</i>	<i>US\$'000</i>
Net cash flows from operating activities	<b>36,878</b>	42,073
Net cash flows used in investing activities	<b>(89,135)</b>	(25,048)
Net cash flows from financing activities	<b>187,702</b>	4,849
	<hr/>	<hr/>
Net increase in cash and cash equivalents	<b>135,445</b>	21,874
Cash and cash equivalents at beginning of year	<b>44,034</b>	22,085
Effect of foreign exchange rate changes, net	<b>3,287</b>	75
	<hr/>	<hr/>
Cash and cash equivalents at end of year	<b>182,766</b>	44,034
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# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Attributable to owners of the Company											
	Issued capital (US\$'000)	Share premium (US\$'000)	Equity component of convertible preference shares (US\$'000)	Shareholders' contribution (US\$'000)	Statutory reserve (US\$'000)	Employee equity benefit reserve (US\$'000)	Foreign currency translation reserve (US\$'000)	Retained earnings (US\$'000)	Proposed final dividends (US\$'000)	Total (US\$'000)	Non-controlling interests (US\$'000)	Total equity (US\$'000)
<b>At 1 January 2010</b>	-	23,556	54,481	879	7,157	2,172	9,627	66,320	-	164,192	3,526	167,718
Profit for the year	-	-	-	-	-	-	-	71,338	-	71,338	2,556	73,894
Other comprehensive income:												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	8,231	-	-	8,231	143	8,374
Total comprehensive income for the year	-	-	-	-	-	-	8,231	71,338	-	79,569	2,699	82,268
Transfer to statutory reserve	-	-	-	-	3,288	-	-	(3,288)	-	-	-	-
Issue of new shares in the initial public offering ("IPO"), net of share issue expenses	-	191,824	-	-	-	-	-	-	-	191,824	-	191,824
Conversion of preference shares to ordinary shares	-	113,728	(54,481)	-	-	-	-	-	-	59,247	-	59,247
Exercise of share options	-	5,709	-	-	-	(1,148)	-	-	-	4,561	-	4,561
Employee share option arrangements	-	-	-	-	-	744	-	-	-	744	-	744
Dividend distributed by a subsidiary to the non-controlling shareholder	-	-	-	-	-	-	-	-	-	-	(2,223)	(2,223)
2010 interim dividend	-	(7,876)	-	-	-	-	-	-	-	(7,876)	-	(7,876)
Proposed 2010 final dividends	-	(11,811)	-	-	-	-	-	-	11,811	-	-	-
<b>At 31 December 2010</b>	<b>-</b>	<b>315,130</b>	<b>-</b>	<b>879</b>	<b>10,445</b>	<b>1,768</b>	<b>17,858</b>	<b>134,370</b>	<b>11,811</b>	<b>492,261</b>	<b>4,002</b>	<b>496,263</b>
<b>At 1 January 2009</b>	-	23,556	6,988	879	5,525	2,098	9,499	55,109	-	103,654	1,679	105,333
Profit for the year	-	-	-	-	-	-	-	12,843	-	12,843	1,847	14,690
Other comprehensive income:												
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	128	-	-	128	-	128
Total comprehensive income for the year	-	-	-	-	-	-	128	12,843	-	12,971	1,847	14,818
Transfer to statutory reserve	-	-	-	-	1,632	-	-	(1,632)	-	-	-	-
Equity component of preference shares arising from changes in term of conversion feature	-	-	47,493	-	-	-	-	-	-	47,493	-	47,493
Employee share option arrangements	-	-	-	-	-	74	-	-	-	74	-	74
<b>At 31 December 2009</b>	<b>-</b>	<b>23,556</b>	<b>54,481</b>	<b>879</b>	<b>7,157</b>	<b>2,172</b>	<b>9,627</b>	<b>66,320</b>	<b>-</b>	<b>164,192</b>	<b>3,526</b>	<b>167,718</b>

## NOTES TO FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

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

#### STATEMENT OF COMPLIANCE

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

#### BASIS OF CONSOLIDATION

##### **Basis of consolidation from 1 January 2010**

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

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

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

If the Group loses control over a subsidiary, it:

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

##### **Basis of consolidation prior to 1 January 2010**

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

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

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

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

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



## IMPACT OF NEW AND REVISED IFRSs

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements. The adoption of these new and revised IFRSs has had no significant effect on the financial statements of the current year or the prior year.

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

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

## IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

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

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

<sup>1</sup> *Effective for annual periods beginning on or after 1 February 2010*

<sup>2</sup> *Effective for annual periods beginning on or after 1 July 2010*

<sup>3</sup> *Effective for annual periods beginning on or after 1 January 2011*

<sup>4</sup> *Effective for annual periods beginning on or after 1 July 2011*

<sup>5</sup> *Effective for annual periods beginning on or after 1 January 2012*

<sup>6</sup> *Effective for annual periods beginning on or after 1 January 2013*

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

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

## 2. REVENUE AND SEGMENT INFORMATION

Revenue represents the invoice value of the goods sold, after allowance for returns and trade discounts.

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

- (a) Lamp products segment produces a range of light bulbs and tubes for compact fluorescent lamps, high intensity discharge (“HID”) lamps, fluorescent lamps, halogen lamps and light emitting diode (“LED”) lamps;
- (b) Luminaire products segment produces complete lighting units each of which consists of a lighting fixture, a lamp, an outer shell for lamp alignment and protection, and a lighting electronic appliance; and
- (c) Lighting electronic products segment produces transformers, electronic and inductive ballasts for fluorescent and HID lamps, and HID ballast boxes.

## 2. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information represents the revenue and gross profit from external customers. For the year ended 31 December 2010, the Group recorded revenue of US\$471,725,000, representing an increase of 54.3% as compared with US\$305,770,000 recorded in the year ended 31 December 2009.

	Revenue		Gross Profit	
	Year ended 31 December		Year ended 31 December	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
Luminaire products	258,300	153,799	82,319	41,841
Lamp products	157,624	118,048	43,603	34,410
Lighting electronics products	55,801	33,923	11,331	7,779
Total	471,725	305,770	137,253	84,030
<b>Unallocated items</b>				
Other income and gains			13,329	7,659
Selling and distribution costs			(36,347)	(20,654)
Administrative expenses			(30,097)	(26,588)
Other expenses			(1,291)	(633)
Finance income			1,938	755
Finance costs			(2,598)	(8,737)
Net fair value loss on convertible redeemable preference shares			–	(15,780)
Share of profits of an associate			129	58
Profit before tax			82,316	20,110
Income tax expense			(8,422)	(5,420)
Profit for the year			73,894	14,690

## 3. OTHER INCOME AND GAINS

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

#### 4. FINANCE COSTS

	<u>Year ended 31 December</u>	
	2010 <i>US\$'000</i>	2009 <i>US\$'000</i>
Interest expense on convertible redeemable preference shares	1,315	7,763
Interest on bank loans	1,283	974
	<u>2,598</u>	<u>8,737</u>

#### 5. INCOME TAX EXPENSE

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

The subsidiaries of the Group located in PRC have been subject to enterprise income tax ("EIT") at the rate of 25% since 2008. Pursuant to the effective PRC income tax laws and regulations when these subsidiaries were established, some subsidiaries were eligible to enjoy a two-year EIT exemption followed by a three-year 50% EIT reduction holiday and other preferential tax policies (for example, the tax incentives for high-tech enterprises). The table below sets out the applicable tax rates for the Group's PRC subsidiaries in 2010:

	2010	2009
Huizhou NVC	12.5%	12.5%
Chongqing NVC	7.5%	7.5%
Zhejiang NVC	25.0%	25.0%
Jiangshan Phoebus	12.5%	12.5%
Zhangpu Phoebus	12.5%	12.5%
Sunny	15.0%	15.0%
Shanghai Arcata	12.5%	Exemption

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

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

## 5. INCOME TAX EXPENSE (Continued)

The reconciliation between income tax expense based on applicable tax rates and accounting profit/(loss) is as follows:

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

## 6. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

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

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

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

	<b>Year ended 31 December</b>	
	<b>2010</b>	2009
	<i>US cents</i>	<i>US cents</i>
Earnings per share		
– Basic	2.69	0.58
– Diluted	<u><u>2.53</u></u>	<u><u>0.53</u></u>

**6. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY**  
(Continued)

	<b>Year ended 31 December</b>	
	<b>2010</b> <i>US\$'000</i>	<b>2009</b> <i>US\$'000</i>
Profit attributable to equity holders of the Company	<b>71,338</b>	12,843
Less: Profit attributable to holders of Series A-1/Series A-2/Series B preference shares	<b>(7,504)</b>	(5,154)
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	<b>63,834</b>	7,689
Add: Interest expense of Series A-1 preference shares	<b>455</b>	–
Profit attributable to holders of Series A-1/Series A-2 preference shares	<b>5,507</b>	–
Profit attributable to ordinary equity holders of the Company used in the diluted earnings per share calculation	<b>69,796</b>	7,689
	<b>Year ended 31 December</b>	
	<b>2010</b> <i>'000 Shares</i>	<b>2009</b> <i>'000 Shares</i>
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<b>2,377,250</b>	1,326,930
Effect of dilution – weighted average number of ordinary shares:		
Share options	<b>133,357</b>	114,374
Series A-1 preference shares	<b>213,090</b>	–
Series A-2 preference shares	<b>37,253</b>	–
	<b>2,760,950</b>	1,441,304

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

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

**7. DIVIDEND**

Pursuant to a meeting of the Board held on 24 August 2010, the Company declared an interim dividend of HK2 cents per share totaling HK\$61,284,000, of which an amount of HK\$4,164,000 has not been collected as at the date of this announcement.

The Board has proposed a final dividend of HK3 cents per share and it is expected that the final dividend payable will amount to HK\$91,926,000 (equivalent to approximately US\$11,811,000) (before tax) based on the 3,064,213,000 issued shares as at 31 December 2010 and is subject to approval by the shareholders in annual general meeting.

## 8. INVENTORIES

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

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

## 9. TRADE AND OTHER RECEIVABLES

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

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

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

## 9. TRADE AND OTHER RECEIVABLES (Continued)

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

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

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

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

## 10. TRADE AND BILLS PAYABLES

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

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

<sup>(1)</sup> Average trade and bills payables equal to the trade and bills payables at the beginning of the year plus trade and bills payables at the end of the year, divided by two. Turnover of average trade and bills payables (in days) equals average trade and bills payables divided by cost of sales and then multiplied by 365.



## 10. TRADE AND BILLS PAYABLES (Continued)

An ageing analysis of the trade and bills payables as at the end of the Reporting Period, based on the invoice date, is as follows.

	31 December	
	2010 US\$'000	2009 US\$'000
Within 3 months	50,194	53,383
Between 4 and 6 months	526	902
Between 7 and 12 months	193	120
Between 1 and 2 years	102	261
Over 2 years	282	103
	<u>51,297</u>	<u>54,769</u>

## 11. INTEREST-BEARING LOANS

As at 31 December 2010, the Group had no interest-bearing loans.

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

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **OVERALL BUSINESS REVIEW**

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

### **MARKET REVIEW**

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

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

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

## **BUSINESS REVIEW**

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

### **Sales and distribution**

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

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

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

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

## Production

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

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

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

*Notes:*

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

## **Product research and development**

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

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

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

## **Quality control**

During the Reporting Period, Huizhou NVC, a subsidiary of the Group, passed the AAAA-class "Good Behavior Standardised Enterprise" Certification in Guangdong, representing the highest honour for all enterprises. It also passed the inspection and review on laboratories undertaken by China National Accreditation Service for Conforming Assessment, and received the relevant certificate on 4 August 2010. The Group's T5 lamp tubes passed the Certification of China Quality Certification Centre. By jointly investing RMB700,000, the Group's Zhejiang production centre and Philips established the Mercury Chemical Analysis Laboratory. The laboratory is in a leading position in respect of the quantitative detection of mercury.

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

## **Brand promotion**

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

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

## **FINANCIAL REVIEW**

### **Revenue**

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

### ***Revenue by product segment***

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

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

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

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

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

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

## Revenue by geography

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

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

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



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

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

	<b>Year ended 31 December</b>	
	<b>2010</b> <i>US\$'000</i>	2009 <i>US\$'000</i>
Energy-saving products	<b>283,964</b>	183,810
Non-energy-saving products	<b>187,761</b>	121,960
Total	<b><u>471,725</u></b>	<u>305,770</u>

### **Cost of sales**

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

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

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

## Gross profit and gross profit margin

Gross profit is calculated by revenue less cost of sales.

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

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

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

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

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

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

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

	<b>Year ended 31 December</b>			
	<b>2010</b>		<b>2009</b>	
	<i>US\$'000</i>	<i>%</i>	<i>US\$'000</i>	<i>%</i>
NVC brand	<b>108,085</b>	<b>32.9%</b>	53,229	27.8%
Non-NVC brand	<b>29,168</b>	<b>20.3%</b>	30,801	26.9%
<b>Total</b>	<b><u>137,253</u></b>	<b><u>29.1%</u></b>	<b><u>84,030</u></b>	<b><u>27.5%</u></b>

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

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

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

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

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

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

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

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

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

## Other income and gains

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

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

## Selling and distribution costs

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

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

## Administrative expenses

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

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

## **Other expenses**

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

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

## **Finance income**

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

## **Finance costs**

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

## **Net fair value loss on convertible redeemable preference shares**

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

## **Share of profits of an associate**

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

## Income tax expense

Income tax expense represents our current income tax and deferred income tax. The Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies are domiciled and operated. Further information on the tax rates is provided in note 5 to the financial statement on page 12 to page 13 of this announcement.

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

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

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

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

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

## Exchange differences on translation of foreign operations

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

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

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

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

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

## CASH FLOW AND LIQUIDITY

### Cash flows

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

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

### *Cash flows from operating activities*

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



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

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

### ***Cash flows used in investing activities***

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

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

### ***Cash flows from financing activities***

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

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

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

## Liquidity

### *Net current assets and working capital sufficiency*

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

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

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

## Capital management

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

	31 December	
	2010	2009
	US\$'000	US\$'000
Interest-bearing loans	–	6,386
Convertible redeemable preference shares	–	57,932
Total debt	–	64,318
Less: cash and short-term deposits	(243,414)	(47,292)
Net debt	<u>(243,414)</u>	<u>17,026</u>
Total equity attributable to owners of the Company	<u>492,261</u>	<u>164,192</u>
Gearing ratio	0.0%	10.4%

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

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

## Inventory analysis

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

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

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

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

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

## Trade and other receivables

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

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

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

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

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

## Capital expenditure

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

## Trade and bills payables

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

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

<sup>(1)</sup> Average trade and bills payables equal to the trade and bills payables at the beginning of the year plus trade and bills payables at the end of the year, divided by two. Turnover of average trade and bills payables (in days) equals average trade and bills payables divided by cost of sales and then multiplied by 365.

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

## Interest-bearing loans

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

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

## Pledge of assets

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

## Convertible redeemable preference shares

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

## Off-balance sheet arrangement

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

## Contingent liabilities

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

## Capital commitments

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

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

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



## Operating leases commitments

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

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

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

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

## PROSPECTS

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

According to the “CPC Central Committee’s Proposals for Formulating the 12th Five-Year Plan for China’s Economic and Social Development” passed at the Fifth Plenary Session of the 17th CPC Central Committee, energy-saving and environmental-friendly industry and new energy industry are among the newly emerging industries which will be given the first priority for the development around the world. In the meantime, the urbanisation process will also become an important driver for the development of lighting enterprises in the future. The Group expects that the PRC central government will continue to implement the program of energy conservation and emission reduction, which will drive the growth of green lighting projects in 2011. On the other hand, the continuous progress of urbanisation and industrialisation and the acceleration of the construction of new rural areas will further boost the demand for lighting products and create greater development potential for the industry. We will enhance construction of our distribution channels, further expand the coverage of our distribution network, penetrate deeper into existing markets and explore new distribution models as well.

The implementation of the central government’s 4-trillion-yuan stimulus package plan which started last year is entering its third year, and a number of major projects will have been completed one after another and the lighting projects will be started, which will bring opportunities to the lighting industry. Moreover, as Professional Engineering Customers have greater demand for lighting solutions, there will be further concentration in the industry in which our customers operate. The Group will focus on developing major brand customer chains, large engineering projects, industrial lighting projects and display lighting projects, to consolidate NVC’s brand position as a “Luminous Environment Expert (光環境專家)” in the industry and further expand its market share.

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

The Group has been committed to its philosophy and goal of “Becoming a World Famous Brand and the Best Player in the Industry”. The Group will continue to make further progress in manufacturing energy-saving and low-carbon products with its professionalism and dedication. We are committed to creating a beautiful, comfortable, safe and energy-efficient lighting environment for a wide variety of customers, a harmonious quality life and better living environment.

## **CONTINUING CONNECTED TRANSACTIONS**

Save as disclosed in the announcement dated 10 March 2011, continuing connected transactions of the Group for the year ended 31 December 2010 were within the annual caps set out in the Prospectus as revised in the announcement dated 24 December 2010.

## **MERGER AND ACQUISITION**

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

## **USE OF PROCEEDS FROM THE GLOBAL OFFERING**

We do not propose to use the proceeds from the Global Offering in a manner different from that detailed in the Prospectus of the Company dated 7 May 2010.

## **MARKET RISKS**

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

## **FOREIGN CURRENCY RISK**

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

## **COMMODITY PRICE RISK**

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

## **LIQUIDITY RISK**

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

## **CREDIT RISK**

The major concentration of credit risk arises from our exposure to a substantial number of trade receivables and other receivables from debtors. We have policies in place to ensure that the sales of products are made to customers with an appropriate credit limit, and we have strict control over credit limits of other receivables. Our cash and short-term deposits are mainly deposited with registered banks in China. We also have policies that limit our credit exposure to any financial institutions. The carrying amounts of trade and other receivables, short-term deposits and cash and cash equivalents included in the consolidated balance sheet represent our maximum exposure to credit risk in relation to our financial assets. We have no other financial assets which carry significant exposure to credit risk. In 2010, we entered into a number of one-year insurance contracts with China Export & Credit Insurance Corporation to cover up to 90% of the uncollectible amount of our overseas sales for the period from 1 November 2010 to 31 October 2011 provided that the aggregate amount of compensation does not exceed US\$15 million for overseas sales. The credit insurance contracts for domestic sales are currently under renewal. We purchased such insurance in order to minimise our exposure to credit risk as we expand our business. We plan to renew such insurance contracts as they become due.

## **FINAL DIVIDEND**

The Board of Directors has proposed to declare a final dividend of HK3 cents per share for the year ended 31 December 2010 payable to the shareholders whose names appear on the register of members of the Company on Friday, 24 June 2011. Based on the 3,064,213,000 shares in issue as at 31 December 2010, it is expected that the final dividend payable will amount to approximately HK\$91,926,000 (equivalent to approximately US\$11,811,000) (before tax).

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed from Tuesday, 21 June 2011 to Friday, 24 June 2011 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the final dividend and 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, 20 June 2011.

## **EMPLOYEES**

As at 31 December 2010, the Group had approximately 9,988 employees (31 December 2009: 10,375). 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.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

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

## **SUBSEQUENT INVESTMENT**

A resolution was approved by the Board on 23 March 2011, pursuant to which the Company intends to invest US\$1,020,000 to establish a joint venture in India with Mr. Zhangxiao (the product supervisor of Huizhou NVC) and other third parties. The Company will own 51% equity interests in the joint venture which will be engaged in the trading of lighting products.

## **CORPORATE GOVERNANCE**

The Directors are of the opinion that, as at 31 December 2010, the Company has complied with the Code, except for the code provision A.2.1 which requires that the role of chairman and chief executive officer should be separated and should not be performed by the same individual.

Under the code provision A.2.1, the role of chairman and chief executive officer should be separated and should not be performed by the same individual. As the duties of chairman of the Company and chief executive officer of the Company are performed by Mr. Wu Changjiang, the Company has deviated from the Code. Mr. Wu Changjiang is the chairman and chief executive officer of the Company and the founder of the Group. The Board believes that it is necessary to vest the roles of chairman and chief executive officer in the same person due to its unique role, Mr. Wu Changjiang's experience and established market reputation in the PRC lighting industry, and the importance of Mr. Wu Changjiang in the strategic development of the Company. The dual role arrangement helps provide strong and consistent market leadership and is critical for efficient business planning and decision making of the Company. As all major decisions are made in consultation with members of the Board and relevant Board committees, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the Code and maintaining a high standard of corporate governance practices of the Company.

## **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 from the listing of the shares of the Company on 20 May 2010 up to 31 December 2010.

## **AUDIT COMMITTEE**

The Company established an audit committee on 27 April 2010 with written terms of reference in compliance with the Code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee has three members who are all independent non-executive Directors. Mr. Alan Russell Powrie has been appointed as the chairman of the audit committee. The audit committee has reviewed and discussed the final results for the year ended 31 December 2010.

## REMUNERATION COMMITTEE

The Company established a remuneration committee on 27 April 2010 with the primary duties of establishing and reviewing the policy and structure of remuneration for the Directors and senior management. The remuneration committee has three members, namely Mr. Yan Andrew Y, Mr. Alan Russell Powrie and Mr. Karel Robert Den Daas. Mr. Yan Andrew Y has been appointed as the chairman of the remuneration committee.

## CHANGE IN DIRECTORS' INFORMATION

Under the Rule 13.51B(1) of the Listing Rules, the Company would like to disclose that Mr. YAN Andrew Y (being a Non-executive Director of the Company) has been appointed as a director of the following three companies:

<b>Company Name</b>	<b>Position</b>
Mobi Development Co., Ltd.	Non-executive director
China Hui Yuan Juice Group Limited	Non-executive director
Global Education and Technology Group Ltd.	director

## PUBLICATION OF ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The Group's audited annual results will be included in the Company's annual report for the year ended 31 December 2010 which will be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.nvc-lighting.com.cn](http://www.nvc-lighting.com.cn) and will be dispatched to the Company's shareholders in due course.

## REVIEW OF ACCOUNTS

The Audit Committee has reviewed with Management and the Company's external auditor, the consolidated financial statements for the year ended 31 December 2010 including the accounting principles and practices adopted by the Group.

## APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our appreciation to the management team and staff of the Group for their contribution during the Reporting Period and also to give our sincere gratitude to all our shareholders for their continued support.

## DEFINITIONS

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

“Champion Alliance”	the first pan-home industry alliance in China which consists of the six largest brands in the domestic home products industry, namely, Optima Kitchen, Dongpeng Ceramic, Nature Flooring, NVC Lighting, Red Apple Furniture and Midea Central Air Conditioning, for the purpose of promoting the cross-industries upgrading of the home industry and providing consumers with the most trusted all-in-one home solutions.
“China” or “PRC”	the People’s Republic of China, but for the purpose of this announcement and for geographical reference only and except where the context requires, references in this announcement to “China” and the “PRC” do not apply to Taiwan, the Macau Special Administrative Region and the Hong Kong Special Administrative Region.
“Chongqing NVC”	Chongqing NVC Lighting Co., Ltd.* (重慶雷士照明有限公司), a wholly foreign-owned enterprise with limited liability incorporated in the PRC on 1 December 2006 and our direct wholly-owned subsidiary.
“Code”	the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.
“Company” or “our Company”	NVC Lighting Holding Limited (雷士照明控股有限公司), a company incorporated in the BVI on 2 March 2006 and subsequently redomiciled to the Cayman Islands on 30 March 2010 as an exempted company with limited liability under the laws of the Cayman Islands.
“Corresponding Year”	means the year ended 31 December 2009 or year ended 31 December 2010 (as the context may require).
“Director(s)”	the director(s) of the Company.
“Group”	our Company and its subsidiaries.
“Huizhou NVC”	NVC Lighting Technology Co., Ltd.* (惠州雷士光電科技有限公司), a wholly foreign-owned enterprise with limited liability incorporated in the PRC on 29 April 2006 and our direct wholly-owned subsidiary.
“Jiangshan 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.

“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange.
“Mianyang Leici”	Mianyang Leici Electronic Technology Co., Ltd.* (綿陽雷磁電子科技有限公司), a limited liability company incorporated in the PRC, 35% of its equity interest being held by Huizhou NVC and its remaining equity interest being held by China Electronics Technology Group Corporation No. 9 Academy (中國電子科技集團第九研究所*) (as to 36%), Wen Jiatao (文家濤) (as to 15%) and Zhao Qiyi (趙七一) (as to 14%).
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.
“ODM”	original design manufacturing, a type of manufacturing under which the manufacturer is responsible for the design and production of the products and the products are marketed and sold under the customer’s brand name.
“OEM”	original equipment manufacturing whereby products are manufactured in accordance with the customer design and specification and are marketed under the customer’s brand name.
“Professional Engineering Customers”	Professional engineering customers mainly represent professional engineering projects in connection with railways, highways, airports, subways, tunnels, bridges, municipal lighting, energy-efficiency remodification and reconstruction and construction of urban infrastructures.
“Reporting Period”	the year ended 31 December 2010.
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).
“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.
“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 (Manufacturing) Limited, a private company incorporated in England and Wales on 31 May 2007, 80% of its equity interest held by the Company and its remaining issued share capital being held by two independent third parties, namely, Mr. Henry Hangmin Sun (as to 10%) and Mr. Steven Mark Jacobs (as to 10%).



“US\$” or “US Dollar”	United States dollars, the lawful currency of the United States.
“we”, “us” or “our”	our Company or our Group (as the context may require).
“World Through”	World Through Investments Limited (世通投資有限公司), a limited liability company incorporated in the BVI on 5 August 2005 and our wholly-owned subsidiary.
“Zhangpu Phoebus”	Zhangpu Phoebus Lighting Co., Ltd.* (漳浦菲普斯照明有限公司), a limited liability company incorporated in the PRC on 9 May 2004 and our indirect wholly-owned subsidiary.
“Zhejiang NVC”	Zhejiang NVC Lamps Co., Ltd.* (浙江雷士燈具有限公司), a limited liability company incorporated in the PRC on 28 September 2007, a 51% equity interest of which is held by Huizhou NVC and the remaining 49% equity interest of which is held by Zhejiang Tonking Investment Co., Ltd.

\* denotes English translation of the name of a Chinese company or entity, or vice versa, and is provided for identification purposes only

By Order of the Board  
**NVC LIGHTING HOLDING LIMITED**  
**WU Changjiang**  
*Chairman*

Hong Kong, 23 March 2011

As at the date of this announcement, the directors of the Company are:

*Executive Directors:*

WU Changjiang  
WU Jiannong  
MU Yu

*Non-executive Directors:*

XIA Lei  
YAN Andrew Y  
LIN Ho-Ping  
HUI Ming Yunn, Stephanie

*Independent non-executive Directors:*

Alan Russell POWRIE  
Karel Robert DEN DAAS  
WANG Jinsui