雷士照明

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 2018

HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER 2018:

- The Group's revenue amounted to RMB4,904,848,000, representing an increase of 20.7% as compared with the Corresponding Period.
- The Group's gross profit amounted to RMB1,478,288,000, representing an increase of 26.0% as compared with the Corresponding Period.
- The Group's profit before income tax amounted to RMB63,139,000, representing a decrease of 85.5% as compared with the Corresponding Period.
- Loss attributable to owners of the parent amounted to RMB327,592,000, representing a decrease of 204.2% as compared with the Corresponding Period.
- Basic loss per share of the Company amounted to RMB8.55 cents.
- The Board of the Company has proposed to declare special dividend of HK5 cents per share (equivalent to approximately RMB4 cents per share) (2017: Nil).
- The Board of the Company has proposed not to declare final dividend (2017: HK1 cent per share).

The board of directors (the "Board") of NVC Lighting Holding Limited (the "Company") announces the annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018 (the "Reporting Period").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Year ended 31 December 2018 RMB'000	2017 RMB'000
REVENUE	*2*	**4,904,848**	4,063,163
Cost of sales		**(3,426,560)**	(2,890,305)
GROSS PROFIT		**1,478,288**	1,172,858
Other income and gains	*3*	**253,538**	127,604
Selling and distribution costs		**(517,646)**	(401,923)
Administrative expenses		**(449,166)**	(356,895)
Other expenses, net	*4*	**(612,039)**	(81,160)
Finance costs	*5*	**(59,895)**	(42,096)
Share of results of associates		**5,259**	17,468
Share of result of a joint venture		**(35,200)**	–
PROFIT BEFORE INCOME TAX		**63,139**	435,856
Income tax	*6*	**(365,475)**	(104,256)
(LOSS)/PROFIT FOR THE YEAR		**(302,336)**	331,600
Attributable to:			
Owners of the parent		**(327,592)**	314,268
Non-controlling interests		**25,256**	17,332
		(302,336)	331,600
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	*7*	**RMB(8.55) cents**	RMB9.18 cents
Diluted	*7*	**RMB(8.55) cents**	RMB7.78 cents

Details of dividends are disclosed in Note 8 on page 18 of this announcement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
(LOSS)/PROFIT FOR THE YEAR	**(302,336)**	331,600
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(10,596)**	(2,136)
Fair value change on available-for-sale financial assets	**–**	(3,000)
	(10,596)	(5,136)
Item that will not be reclassified subsequently to profit or loss:		
Fair value change on financial assets at fair value through other comprehensive income, net of tax	**6,500**	–
	(4,096)	(5,136)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(306,432)**	326,464
Attributable to:		
Owners of the parent	**(332,437)**	308,606
Non-controlling interests	**26,005**	17,858
	(306,432)	326,464

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**653,576**	619,497
Prepaid land lease payments		**44,800**	46,119
Goodwill		**1,127,376**	21,161
Other intangible assets		**678,857**	294,575
Investments in associates		**44,386**	54,518
Investment in joint ventures		**64,800**	100,000
Long term investments		**235,996**	218,026
Deferred tax assets		**72,029**	52,258
Prepayments		**449,997**	429,961
Total non-current assets		**3,371,817**	1,836,115
CURRENT ASSETS			
Inventories	*9*	**683,524**	425,384
Trade and bills receivables	*10*	**1,504,176**	1,092,554
Prepayments, deposits and other receivables		**361,313**	397,213
Income tax recoverable		**568**	11,741
Other current assets		**45,014**	41,512
Held-for-trading investments		**44,190**	88,786
Restricted bank balances and short-term deposits		**677,502**	314,422
Cash and cash equivalents		**912,998**	1,265,589
Total current assets		**4,229,285**	3,637,201
CURRENT LIABILITIES			
Trade and bills payables	*11*	**1,385,298**	820,833
Other payables and accruals		**1,324,472**	728,749
Interest-bearing loans and borrowings	*12*	**1,064,924**	24,940
Government grants		**1,612**	2,012
Income tax payable		**187,168**	34,071
Derivative financial liabilities		**10,689**	–
Convertible bonds – derivative component	*13*	**–**	11,933
Convertible bonds – liability component	*13*	**–**	421,229
Total current liabilities		**3,974,163**	2,043,767
NET CURRENT ASSETS		**255,122**	1,593,434
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,626,939**	3,429,549

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

		31 December	
		2018	2017
	Note	***RMB'000***	*RMB'000*
NON-CURRENT LIABILITIES			
Government grants		**9,138**	12,112
Deferred tax liabilities		**222,285**	87,208
Total non-current liabilities		**231,423**	99,320
Net assets		**3,395,516**	3,330,229
EQUITY			
Equity attributable to owners of the parent			
Share capital		**3**	3
Reserves		**3,101,326**	3,212,109
Proposed dividend	*8*	**185,367**	29,940
		3,286,696	3,242,052
Non-controlling interests		**108,820**	88,177
Total equity		**3,395,516**	3,330,229

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), which in collective term include all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the IASB, and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments that have been measured at fair value. These consolidated financial statements are presented in RMB and all values are rounded to the nearest thousand ('000) except when otherwise indicated.

1.2 BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

1.3 ADOPTION OF IFRSs

Adoption of new/revised IFRSs – effective 1 January 2018

In the current year, the Group has applied, for the first time, the following new/revised IFRSs, which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2018.

Amendments to IFRS 2	Classification and Measurement of Share-Based Payment Transactions
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IAS 28, Investments in Associates and Joint Ventures
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 15	Revenue from Contracts with Customers (Clarifications to IFRS 15)
IFRIC-Interpretation 22	Foreign Currency Transactions and Advance Consideration

1.3 ADOPTION OF IFRSs *(continued)*

Adoption of new/revised IFRSs – effective 1 January 2018 *(continued)*

Except as explained below, the adoption of these new/revised IFRSs has no material impact on the Group's consolidated financial statements. The impact of the adoption of IFRS 9 Financial Instruments (see Note 1.3.1 below) and IFRS 15 Revenue from Contracts with Customers (see Note 1.3.2 below) has been summarised below.

Amendments to IFRS 2 – Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

The adoption of these amendments has no impact on these financial statements as the periods to which the transition provision exemptions related have passed.

Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

Amendments IFRS 15 – Revenue from Contracts with Customers (Clarifications to IFRS 15)

The amendments to IFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted IFRS 15 and took up the clarifications in this, its first, year.

IFRIC-Interpretation 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretation specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

1.3 ADOPTION OF IFRSs *(continued)*

1.3.1 IFRS 9 Financial Instruments ("IFRS 9")

(i) Classification and measurement of financial instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment; and (3) hedge accounting. The adoption of IFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

The following table summarised the impact, net of tax, of transition to IFRS 9 on the opening balance of retained profits as of 1 January 2018 as follows (increase/(decrease)):

	RMB'000
Retained profits	
Retained profits as at 31 December 2017, as originally presented	1,822,510
Increase in expected credit losses ("ECLs") in trade receivables, net of tax *(Note 1.3.1(ii) below)*	(19,411)
Restated retained profits as at 1 January 2018	1,803,099

IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities designated at fair value through profit of loss ("FVTPL"), where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of IFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under IFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with IFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) FVTPL. The classification of financial assets under IFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed; and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under IFRS 9, embedded derivative is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

1.3 ADOPTION OF IFRSs *(continued)*

1.3.1 IFRS 9 Financial Instruments ("IFRS 9") *(continued)*

(i) Classification and measurement of financial instruments *(continued)*

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to be achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVOCI (debt instruments)	Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
FVOCI (equity instruments)	Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

1.3 ADOPTION OF IFRSs *(continued)*

1.3.1 IFRS 9 Financial Instruments ("IFRS 9") *(continued)*

(i) Classification and measurement of financial instruments (continued)

(a) As of 1 January 2018, certain listed and unlisted equity investments were reclassified from available-for-sale financial assets to financial assets at FVOCI. The Group intends to hold these equity investments for long term strategic purposes. Under IFRS 9, the Group has designated these equity investments at the date of initial application as measured at FVOCI. As a result, financial assets with a fair value of RMB22,000,000 were reclassified from available-for-sale financial assets at fair value to financial assets at FVOCI on 1 January 2018.

(b) In addition to (a) above, listed debt investments were reclassified from available-for-sale to FVOCI, as the Group's business model is to collect contractual cash flow and sell these financial assets. These listed debt investments meet the SPPI criterion. As such, listed debt investments with a fair value of RMB196,026,000 were reclassified from available-for-sale investments to financial assets at FVOCI on 1 January 2018.

The following table summarises the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	**Original classification under IAS 39**	**New classification under IFRS 9**	**Carrying amount as at 1 January 2018 under IAS 39**	**Carrying amount as at 1 January 2018 under IFRS 9**
			RMB'000	*RMB'000*
Listed and unlisted equity investments	Available-for-sale (at fair value)	FVOCI	22,000	22,000
Listed debt investments	Available-for-sale (at fair value)	FVOCI	196,026	196,026
Trade receivables	Loans and receivables	Amortised cost	792,517	792,517
Bills receivables	Loans and receivables	Amortised cost	300,037	300,037
Deposits and other receivables	Loans and receivables	Amortised cost	380,092	380,092
Listed equity investments	Held-for-trading	FVTPL	88,786	88,786
Restricted bank balances and short term deposits	Loans and receivables	Amortised cost	314,422	314,422
Cash and cash equivalents	Loans and receivables	Amortised cost	1,265,589	1,265,589

1.3 ADOPTION OF IFRSs *(continued)*

1.3.1 IFRS 9 Financial Instruments ("IFRS 9") *(continued)*

(ii) Impairment of financial assets

The adoption of IFRS 9 has changed the Group's impairment model by replacing the IAS 39 "incurred loss model" to the "ECL model". IFRS 9 requires the Group to recognise ECLs for trade receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than IAS 39. Restricted bank balances and short-term deposits, and cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current year.

Under IFRS 9, the losses allowances are measured on either of the following bases: (1) 12-month ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using IFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-month ECLs. The 12-month ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. The Group's financial assets at FVOCI are considered to have low credit risk since the credit ratings of the counterparties are high.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt investment at FVOCI, the loss allowance is recognised in other comprehensive income, instead of reducing the carrying amount of the assets.

1.3 ADOPTION OF IFRSs *(continued)*

1.3.1 IFRS 9 Financial Instruments ("IFRS 9") *(continued)*

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

Impact of the ECL model

(a) Impairment of trade and other receivables

As mentioned above, the Group applies the IFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance as at 1 January 2018 was determined as follows for trade receivables as follows:

	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Neither past due nor impaired	0.20	549,939	1,094
Less than 2 months past due	1.68	113,658	1,906
2 to 6 months past due	1.97	66,021	1,299
7 to 12 months past due	4.28	15,570	666
Over 1 year past due	87.76	215,788	189,376
		960,976	194,341

The increase in loss allowance for trade receivables upon the transition to IFRS 9 as of 1 January 2018 were RMB25,882,000. The increase also led to an increase in deferred tax assets arising from the deductible temporary differences of RMB6,471,000. The loss allowances increased by RMB26,437,000 for trade receivables during the year ended 31 December 2018.

No additional impairment for other receivables as at 1 January 2018 is recognised as the amount of additional impairment measured under the ECL model is immaterial.

(b) Impairment of debts investments at FVOCI

Debt investments at FVOCI of the Group are considered to have low credit risk where the loss allowances recognised during the year were therefore limited to 12-month ECLs.

No additional impairment for debt investments at FVOCI as at 1 January 2018 is recognised as the amount of additional impairment measured under the ECL model is immaterial.

As a result of the above changes, the impact of the new IFRS 9 impairment model results in additional impairment allowances as follows:

	RMB'000
Loss allowances for trade receivables as at 1 January 2018 under IAS 39	168,459
Additional impairment recognised for trade receivables *(Note 1.3.1(ii)(a))*	25,882
Loss allowances as a 1 January 2018 under IFRS 9	194,341

1.3 ADOPTION OF IFRSs *(continued)*

1.3.1 IFRS 9 Financial Instruments ("IFRS 9") *(continued)*

(iii) Transition

The Group has applied the transitional provision in IFRS 9 such that IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the consolidated statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of IFRS 9 (the "DIA"):

- The determination of the business model within which a financial asset is held; and
- The designation of certain investments in equity investments not held for trading as at financial assets at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

1.3 ADOPTION OF IFRSs *(continued)*

1.3.2 IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. IFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted IFRS 15 using the cumulative effect method without practical expedients. As a result, the financial information presented for 2017 has not been restated.

Presentation of contract liabilities and refund liability

Reclassification was made as at 1 January 2018 to be consistent with the terminology used under IFRS 15:

Contract liabilities recognised in relation to contracts with customers were previously presented as advances from customers. They are included in "other payables and accruals" in the consolidated statement of financial position.

Refund liabilities recognised in relation to customer's volume-based rebates were previously presented as provision for rebates. They are included in "other payables and accruals" in the consolidated statement of financial position.

Impact on the consolidated statement of financial position as at 31 December 2018 (increase/(decrease)):

Current liabilities	*RMB'000*
Other payables and accruals	
– Contract liabilities	88,278
– Advances from customers	(88,278)
– Refund liabilities	130,415
– Provision for rebates	(130,415)
Total current liabilities	–

2. REVENUE AND SEGMENT INFORMATION

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

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

(a) Domestic NVC brand
(b) Domestic non-NVC brand
(c) International NVC brand
(d) International non-NVC brand

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before income tax. The adjusted profit or loss before income tax is measured consistently with the Group's profit or loss before income tax except that interest income, finance costs, unallocated income and gains as well as head office and corporate expenses are excluded from such measurement.

2. REVENUE AND SEGMENT INFORMATION *(continued)*

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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

Segment information represents the revenue and results from external customers, detailed as below.

	Revenue year ended 31 December		Results year ended 31 December	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Domestic NVC brand	**3,286,304**	2,543,813	**1,195,684**	924,100
Domestic non-NVC brand	**342,868**	266,481	**47,731**	49,443
International NVC brand	**185,150**	280,852	**45,636**	59,023
International non-NVC brand	**1,090,526**	972,017	**189,237**	140,292
Total	**4,904,848**	4,063,163	**1,478,288**	1,172,858
Reconciliation				
Interest income			**14,287**	25,868
Recovery of bad debts			**–**	11,457
Wavier of other payables			**–**	16,718
Fair value change of held-for-trading investment			**(44,596)**	(12,004)
Unallocated income and gains			**73,831**	27,333
Corporate and other unallocated expenses#			**(974,992)**	(793,167)
Finance costs			**(59,895)**	(42,096)
Fair value change of the derivative component of convertible bonds			**82,903**	46,228
Fair value change of derivative financial liabilities			**(10,689)**	–
Fair value gain on deemed disposal of an associate			**85,958**	–
Loss on modification of terms of convertible bonds			**(78,387)**	–
Impairment on other receivables			**(319,880)**	–
Provision for losses on financial guarantee contracts			**(151,519)**	–
Share of results of associates			**5,259**	17,468
Loss on disposal of items of property, plant and equipment			**(2,229)**	(16,642)
Share of result of a joint venture			**(35,200)**	–
Impairment on other intangible assets			**–**	(18,165)
Profit before income tax			**63,139**	435,856

During the Reporting Period, depreciation and amortisation recorded in the consolidated statement of profit or loss amounted to RMB99,818,000 (2017: RMB87,841,000).

Corporate and other unallocated expenses consist of unallocated depreciation, amortisation and staff costs, freight expenses, impairment loss of trade receivables and exchange losses.

Timing of revenue recognition:

For the year ended 31 December 2018, the Group's revenue is recognised at a point in time save for the engineering income of RMB34,064,000 in Domestic NVC brand segment which is recognised over time.

3. OTHER INCOME AND GAINS

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Other income		
Government grants	**25,577**	16,532
Trademark licence fees	**1,539**	452
Bank interest income	**13,058**	25,437
Other interest income	**1,229**	431
Rental income	**7,001**	3,660
Recovery of bad debts	**–**	11,457
Waiver of other payables	**–**	16,718
Surcharge from suppliers	**7,427**	–
Logistic income	**4,204**	–
Fair value change of the derivative component of convertible bonds	**82,903**	46,228
Fair value gain on deemed disposal of an associate	**85,958**	–
Others, net	**8,796**	2,109
	237,692	123,024
Gains		
Gain on sale of scrap materials	**254**	4,580
Exchange gains, net	**15,592**	–
	15,846	4,580
	253,538	127,604

4. OTHER EXPENSES, NET

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Impairment of other receivables in respect of:		
– Due from a company under the Pledge and Guarantee Agreements	**265,564**	–
– Withdrawn amount recoverable under Guarantee Agreement 3	**55,396**	–
	320,960	–
Provision for losses on financial guarantee contracts in respect of:		
– Guarantee Agreement 1	**61,830**	–
– Guarantee Agreement 2	**60,700**	–
– Guarantee Agreement 3	**28,989**	–
	151,519	–
Loss on modification of terms of convertible bonds	**78,387**	–
Loss on disposal of items of property, plant and equipment	**2,229**	16,642
Fair value change of held-for-trading investments	**44,596**	12,004
Fair value change of derivative financial liabilities	**10,689**	–
Exchange losses, net	**–**	44,156
Others	**3,659**	8,358
	612,039	81,160

5. FINANCE COSTS

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Interest on bank loans	**35,046**	1,452
Interest on convertible bonds *(Note 13)*	**24,730**	40,262
Interest on other loans	**119**	382
	59,895	42,096

6. 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 most of the companies within the Group are domiciled and operate. No provision for United Kingdom ("UK") corporation income tax and the United States (the "US") income tax has been made as the Group had no assessable profits arising in the UK and the US during the Reporting Period. (2017: RMBNil). Taxes on the corporate income elsewhere have been calculated at the rates of tax prevailing in the countries or jurisdictions in which the Group operates.

The table below sets out the items of income tax expense in the Reporting Period.

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current – the PRC		
– Charge for the year	**292,004**	109,641
– Over-provision in prior years	**(1,719)**	(6,801)
Current – Hong Kong		
– Charge for the year	**12,171**	–
Deferred	**63,019**	1,416
Income tax for the year	**365,475**	104,256

The Company's subsidiaries operated in the PRC and Hong Kong are subject to enterprise income tax ("EIT") and Hong Kong profits tax at the statutory tax rate of 25% and 16.5% respectively. According to the preferential tax policies in the PRC, two of our subsidiaries (2017: two) were recognised as western development enterprises by the local tax authorities and were entitled to the preferential tax rate of 15%, while two of our subsidiaries (2017: one) was recognised as a high-tech enterprise by the PRC tax authorities and was entitled to the preferential tax rate of 15%.

7. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic and diluted (loss)/earnings per share attributable to ordinary equity holders of the Company is based on the following data:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
(Loss)/earnings:		
(Loss)/earnings attributable to ordinary equity holders of the parent	**(327,592)**	314,268
Effect of dilutive potential ordinary shares:		
– Interest on convertible bonds (net of tax)	**N/A**	40,262
– Fair value change of the derivative component of convertible bonds	**N/A**	(46,228)
(Loss)/earnings for the purposes of diluted (loss)/gains per share	**(327,592)**	308,302

7. **(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** *(continued)*

	Year ended 31 December	
	2018	2017
	'000	*'000*
	Number of shares	Number of shares
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	**3,832,650**	3,422,660
Effect of dilutive potential ordinary shares:		
– convertible bonds	**N/A**	540,541
Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share	**3,832,650**	3,963,201

No adjustment is made to the basic loss per share for the year ended 31 December 2018 as the potential dilutive ordinary shares have an anti-dilutive effect on the basic loss per share amount presented.

The computation of diluted earnings per share for the year ended 31 December 2017 did not assume the exercise of the Company's outstanding share options as the exercise price of those share options is higher than the average market price of shares for the year ended 31 December 2017.

8. **DIVIDEND**

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Proposed special dividend of HK5 cents per ordinary share (2017: proposed final dividend of HK1 cent per ordinary share)	**185,367**	29,940

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

No final dividend has been proposed for the year ended 31 December 2018 (2017: HK1 cent per ordinary share).

9. **INVENTORIES**

	31 December	
	2018	2017
	RMB'000	*RMB'000*
Raw materials	**131,001**	97,576
Work in progress	**16,803**	19,631
Finished goods	**535,720**	308,177
Total	**683,524**	425,384

The write-down of inventories amounted to RMB5,836,000 (2017: reversal of write-down of inventories amounted to RMB14,499,000), which was recorded in "Cost of sales" in the consolidated statement of profit or loss.

10. TRADE AND BILLS RECEIVABLES

	31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**1,286,103**	960,976
Impairment	**(220,648)**	(168,459)
Trade receivables, net	**1,065,455**	792,517
Bills receivables	**438,721**	300,037
	1,504,176	1,092,554

An aged analysis of trade receivables as at the end of the Reporting Period, based on the transaction date and net of loss allowance, is as follows:

	31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**841,395**	545,268
4 to 6 months	**153,070**	145,821
7 to 12 months	**47,741**	20,298
1 to 2 years	**14,040**	36,776
Over 2 years	**9,209**	44,354
	1,065,455	792,517

Trade receivables of the Group represented proceeds receivable mainly from sale of goods. The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit periods generally range from 30 to 180 days for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivables balance. Overdue interests of several trade receivables are calculated at annual interest rate of 12%.

As at 31 December 2018, certain trade receivables of UK NVC with carrying amounts of RMB3,467,000 (2017: RMB24,004,000) were pledged to secure the bank borrowings of UK NVC as further set out in Note 12.

The maturity of the bills receivables of the Group as at 31 December 2017 and 2018 is within 6 months.

As at 31 December 2017 and 2018, the fair value of trade and bills receivables approximate to their carrying amounts largely due to their short-term maturity.

11. TRADE AND BILLS PAYABLES

	31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade and bills payables to third parties	**1,340,224**	778,663
Trade and bills payables to related parties	**45,074**	42,170
Total	**1,385,298**	820,833

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

Bills payables are normally settled within 6 months.

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

	31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**1,322,961**	792,738
4 to 6 months	**34,811**	12,248
7 to 12 months	**14,653**	4,995
1 to 2 years	**8,357**	1,849
Over 2 years	**4,516**	9,003
	1,385,298	820,833

As at 31 December 2017 and 2018, the fair value of trade and bills payables approximated to their carrying amounts which are largely due to their short-term maturity.

12. INTEREST-BEARING LOANS AND BORROWINGS

	31 December					
	2018			2017		
	Contractual interest rate (%)	**Maturity**	***RMB'000***	*Contractual interest rate (%)*	Maturity	*RMB'000*
Current						
Bank loans – secured[1]	**Base*+1.90%**	**On demand[2]**	**3,467**	Base*+1.90%	On demand[2]	24,004
	3.30%	**On demand**	**411,815**	N/A	N/A	N/A
	PRC BDI#+0.91%	**On demand**	**50,000**	N/A	N/A	N/A
	4.72% – 6.00%	**On demand**	**150,000**	N/A	N/A	N/A
	5.66% – 6.00%	**On demand**	**100,000**	N/A	N/A	N/A
	3.20% – 4.70%	**2019**	**330,220**	N/A	N/A	N/A
	3.80% – 4.27%	**On demand**	**18,635**	N/A	N/A	N/A
Bank loans – unsecured	**4.00% per month**	**On demand**	**787**	4.00% per month	On demand	936
Total			**1,064,924**			24,940

1 The secured bank loans represented facilities secured by the pledge of certain trade and bills receivables, time deposits and certain land use rights and buildings; and corporate guarantees executed by certain subsidiaries of the Group.

2 The loan is repayable upon the collection of the factored trade receivables.

* "Base" refers to the Bank of England base rate.

"PRC BDI" refers to the PRC Benchmark deposit interest rate.

As at 31 December 2017 and 2018, the fair value of interest-bearing loans and borrowings approximates to their carrying amount largely due to the short-term maturities.

13. CONVERTIBLE BONDS

On 20 May 2016, the Company and an independent third party entered into a subscription agreement (the "Subscription Agreement") in relation to the issue of convertible bonds denominated in HK$ in an aggregate principal amount of HK$500,000,000 (the "Convertible Bonds"). The Convertible Bonds were issued on 7 June 2016.

Pursuant to the Subscription Agreement, the Convertible Bonds are convertible into fully paid ordinary shares:

(a) on or after the issue date (i.e. 7 June 2016) and up to and excluding the close of business on the second anniversary of the issue date (the "First Maturity Date"), i.e. June 2018, at an initial conversion price of HK$0.925 per share (subject to anti-dilutive adjustments); and

(b) with extension up to and excluding the close of business on the fourth anniversary of the issue date if agreed by the Company and the bondholder in writing at least 30 days prior to the First Maturity Date (the "Second Maturity Date").

The Convertible Bonds bear interest at the rate of 7.8% per annum on the principal amount of the bonds outstanding. The interest will be payable by the Company semi-annually in arrears. The outstanding amount of the Convertible Bonds will be redeemed on maturity (the date falling on the First Maturity Date or the Second Maturity Date, where applicable) at a value equal to the aggregate of (1) its principal amount outstanding; and (2) the interest accrued.

The Convertible Bonds that contain both liability and conversion option components were classified separately into their respective items on initial recognition. The embedded derivative of conversion option is therefore accounted for as a derivative. The fair values of the derivative component are determined based on the valuations performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent firm of professionally qualified valuers, using the binomial option pricing model. Changes in fair value of that component between the measurement dates are recognised in profit or loss. The fair value of the liability component is measured as the present value of the expected payments and principal repayment at maturity on initial recognition and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption.

On 4 May 2018, pursuant to an amendment deed approved by the bondholder, the Company and the bondholder agreed to amend the terms of the Convertible Bonds as follows:

(a) The conversion price, which was originally HK$0.925 per share is amended to HK$0.77 per share (subject to anti-dilutive adjustments); and

(b) The maturity date of the Convertible Bonds is extended to 7 June 2020.

Save as disclosed above, all the other terms and conditions of the Convertible Bonds shall remain unchanged. The amendments have been approved by the shareholders of the Company at the extraordinary general meeting on 15 June 2018.

Consequently, a loss arising from the modification of the terms of RMB78,387,000 (2017: RMBNil), being the difference between the carrying amount and fair value of the components of the Convertible Bonds on the date of modification, has been recognised in profit or loss during the Reporting Period.

In August 2018, the Convertible Bonds were converted in full at the conversion price of HK$0.77 per share (the "Conversion"). Accordingly, 649,350,649 shares were allotted to the bondholder pursuant to the terms and conditions of the Convertible Bonds. The liability and derivative components of the Convertible Bonds have been derecognised upon the Conversion resulting in amount of RMB444 and RMB450,492,000 credited to share capital and share premium respectively.

13. CONVERTIBLE BONDS *(continued)*

The movements of the liability component and derivative component of the Convertible Bonds during the Reporting Period and the Corresponding Period are as follows:

	Liability component of Convertible Bonds	**Derivative component of Convertible Bonds**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2017	440,272	60,230	500,502
Effective interest expense recognised to profit or loss	40,262	–	40,262
Interest paid	(33,664)	–	(33,664)
Fair value change	–	(46,228)	(46,228)
Exchange realignment	(25,641)	(2,069)	(27,710)
At 31 December 2017 and 1 January 2018	**421,229**	**11,933**	**433,162**
Effective interest expense recognised to profit or loss	**24,730**	**–**	**24,730**
Interest paid	**(21,061)**	**–**	**(21,061)**
Loss on modification of terms	**(19,891)**	**98,278**	**78,387**
Fair value change	**–**	**(82,903)**	**(82,903)**
Conversion	**(419,672)**	**(30,820)**	**(450,492)**
Exchange realignment	**14,665**	**3,512**	**18,177**
At 31 December 2018	**–**	**–**	**–**

The major inputs for the valuation of the fair value of the derivative component of the Convertible Bonds as at conversion date, modification date and 31 December 2017 are shown as follows:

	At conversion date	At modification date	2017
Share price	HK$0.630	HK$0.790	HK$0.770
Conversion price	HK$0.770	HK$0.770	HK$0.925
Risk-free rate	1.706%	1.837%	1.018%
Volatility	38.81%	39.39%	37.01%

14. PLEDGE OF ASSETS

Save for those disclosed in other parts of this announcement, at the end of the Reporting Period, certain assets of the Group were pledged as follows:

(1) As at 31 December 2018, land use rights with aggregate carrying amounts of RMB45,676,000 (31 December 2017: RMBNil) and certain buildings included in property, plant and equipment with aggregate carrying amounts of RMB257,642,000 (31 December 2017: RMB43,797,000) were pledged to secure the bank borrowings.

(2) As at 31 December 2017, land use rights with aggregate carrying amounts of RMB46,995,000 and certain buildings included in property, plant and equipment with aggregate carrying amounts of RMB238,747,000 were pledged for the Group's applications of assets preservation in certain PRC legal proceedings.

(3) As at 31 December 2018, certain trade and bills receivables with carrying amounts of RMB353,031,000 (31 December 2017: RMB24,004,000) were pledged to secure the bank borrowings.

(4) In accordance with several letters of guarantee, deposits with carrying amounts of RMB612,792,000 (31 December 2017: RMB101,525,000) were pledged for issuing letters of guarantee and borrowing facilities.

(5) The amount represented deposits with carrying amounts of RMB710,000 (31 December 2017: RMB27,561,000) pledged for the Group's applications of assets preservation in certain PRC legal proceedings.

15. ACQUISITION OF SUBSIDIARIES

During the year ended 31 December 2018, the Group acquired the entire equity interests in the Blue Light (HK) Trading Co., Limited and its subsidiaries (the "Blue Light Group") and Elec-Tech Solid State Lighting (HK) Limited and its subsidiaries (the "HKSSL Group") from independent vendors and a key management personnel of the Group. The acquisitions were made with the aims to expand the Group's existing scale of operations.

Name of entities	**Dates of acquisitions**
Blue Light Group	July 2018
HKSSL Group	November 2018

Fair value of identifiable assets and liabilities as at the respective dates of the acquisitions:

	Blue Light Group *RMB'000*	**HKSSL Group** *RMB'000*	**Total** *RMB'000*
Property, plant and equipment	8,318	34,244	42,562
Other intangible assets	2,279	388,918	391,197
Deferred tax assets	–	6,284	6,284
Non-current prepayments	–	8,832	8,832
Inventories	86,640	142,922	229,562
Trade and bills receivables	157,578	125,809	283,387
Prepayments, deposits and other receivables	319,738	30,930	350,668
Other current assets	–	11,965	11,965
Restricted bank balances and short-term deposits	–	73,867	73,867
Cash and cash equivalents	32,591	82,291	114,882
Trade and bills payables	(245,403)	(254,755)	(500,158)
Other payables and accruals	(131,001)	(52,894)	(183,895)
Interest-bearing loans and borrowings	(1,560)	–	(1,560)
Income tax recoverable/(payable)	2,459	(24,609)	(22,150)
Deferred tax liabilities	(2,500)	(61,037)	(63,537)
	229,139	512,767	741,906
Less: Non-controlling interests ("NCI") in subsidiaries of Wuhu NVC Electronic Business Co., Ltd. ("Wuhu Electronic")	(5,849)	–	(5,849)
Net identifiable assets (net of NCI)	223,290	512,767	736,057
Cash consideration	853,290	890,000	1,743,290
Add:			
Fair value of previously held equity interest in Wuhu Electronic	97,349	–	97,349
Contingent consideration in relation to the profit guarantee	1,633	–	1,633
Less: fair values of the identifiable assets and liabilities (net of NCI)	(223,290)	(512,767)	(736,057)
Goodwill	728,982	377,233	1,106,215

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The Company's external auditor has issued a qualified opinion on the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2018. An extract from the independent auditor's report is as follows:

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the "Basis for Qualified Opinion" section of our report, the consolidated financial statements present fairly, in all material respects, of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

(a) Impairment of other receivables and uncertainties relating to financial guarantee contracts

As set out in Note 33 to the consolidated financial statements, a subsidiary of the Company (the "Subsidiary") entered into several pledge and guarantee agreements in 2013 and 2014 (the "Pledge and Guarantee Agreements") with certain banks in the People's Republic of China (the "PRC"), providing guarantees to the banks for their loan facilities granted to certain borrowers. Certain counter guarantees were provided by one of the borrowers of the bank loans (the "Borrower") to the Group. During 2014, aggregate pledged time deposits of RMB550,924,000 of the Subsidiary had been withdrawn by the banks due to default of the bank loans under the guarantees of the Subsidiary.

The Group initiated legal actions to claim the counter guarantees provided by the Borrower. The directors were of the opinion that an amount of RMB265,564,000 (the "Recoverable Amount") was recoverable in prior years. Therefore other receivables of RMB550,924,000 due from the Borrower were included in "Prepayments, deposits and other receivables" in the consolidated statement of financial position as at 31 December 2014 as set out in Note 22 to the consolidated financial statements, and a provision for the irrecoverable amount of RMB285,360,000 had been recognised in profit or loss for the year ended 31 December 2014. There was no subsequent reversal of the provision or further provision recognised up to 31 December 2017. As at 31 December 2017, the other receivables of RMB550,924,000 and provision thereon of RMB285,360,000 were included in "Prepayments, deposits and other receivables" as detailed in Note 22 to the consolidated financial statements.

As at 31 December 2018, the directors assessed the amount that the Group would recover from the Borrower under the Pledge and Guarantee Agreements taking into consideration all information available, including the additional claims from other creditors against the Borrower as noted in a court announcement issued in December 2018. Based on the latest estimated value of the Borrower's assets, the priority of other creditors over the Borrower's asset and the amounts of their claims, the directors considered that the Group would not be able to recover the Recoverable Amount. Therefore an additional provision of RMB265,564,000 on the Recoverable Amount has been recognised in profit or loss in the current year. The provision was included in "Other expenses, net" in the consolidated statement of profit or loss. After the additional provision, the net carrying amount of the Recoverable Amount became RMBNil as at 31 December 2018.

As set out in Notes 33 and 34 to the consolidated financial statements, the Subsidiary also entered into guarantee agreements with another PRC bank in 2013 (the "Guarantee Agreement 1") and a PRC finance company in 2014 (the "Guarantee Agreement 2") respectively, providing guarantees to the PRC bank and the PRC finance company for their loan facilities granted to their borrowers. The outstanding loans of RMB35,497,000 and RMB34,000,000 in relation to the Guarantee Agreements 1 and 2 were in default in 2015 and 2014 respectively. The PRC bank and the PRC finance company took legal actions against the respective borrowers and the guarantors (including the Borrower and the Subsidiary as guarantors) to recover the loan balances and interests.

For the Guarantee Agreement 1, according to the first court judgement in 2016 and the final court judgement in 2017, the Subsidiary is adjudicated to be jointly liable for the payment to the PRC bank of the outstanding loan, plus interest and costs. The Subsidiary filed application of retrial of the PRC court judgements and the commencement thereof was accepted by the PRC court in January 2018, but the application was rejected according to the court judgement received by the Subsidiary in May 2018.

For the Guarantee Agreement 2, according to the first court judgement in 2016 and the final court judgement in 2017, the Subsidiary was adjudicated to be jointly liable for the payment to the PRC finance company of the outstanding loan, plus interest and costs.

As of 31 December 2017, the Subsidiary was in the process of applying for protests of the PRC court judgements in relation to Guarantee Agreements 1 and 2. Accordingly, the Group was of the view that the legal proceedings in relation to Guarantee Agreements 1 and 2 were still in progress notwithstanding the respective final court judgements and the rejection of the application of retrial in relation to Guarantee Agreement 1. Based on the view that the legal proceedings were still in progress and with reference to legal opinions obtained and other factors, the directors considered that the likelihood of the Group sustaining losses from the Guarantee Agreements 1 and 2 was remote as it was considered that the loans had sufficient underlying securities including the Borrower's guarantees and the Subsidiary is only one of the guarantors for the loans. As a result, the directors considered that no provision thereon was considered necessary as at 31 December 2017.

The Group had another litigation (defined as Guarantee Agreement 3 in (b) below) with circumstances similar to those of Guarantee Agreement 1 and Guarantee Agreement 2. As of 31 December 2018, the directors assessed whether to recognise any provision for losses arising from Guarantee Agreement 1 and Guarantee Agreement 2 with reference to all available information including the Group's experience in Guarantee Agreement 3 and latest legal opinion and considered that it was probable that the Group's application for protest of the PRC court judgements would not be successful and the Subsidiary would be adjudicated to be jointly liable for the payment to the PRC bank and PRC finance company for their losses. Accordingly full provisions for outstanding loans in relation to the Guarantee Agreements 1 and 2 plus interest and costs, in the amounts of RMB61,830,000 and RMB60,700,000 respectively, were recognised in profit or loss in the current year. The provision was included in "Other expenses, net" in the consolidated statement of profit or loss,

In our audit of 2017 consolidated financial statements, due to the inability to obtain sufficient appropriate audit evidence to ascertain whether the assessment on recoverability of the Recoverable Amount due from the Borrower and RMBNil provision for the Guarantee Agreements 1 and 2 for the year ended 31 December 2017 was appropriate, audit opinion on 2017 consolidated financial statements was modified on the above matters. Any adjustments to the Recoverable Amount due from the Borrower and any provision to be recognised as at 31 December 2017 in respect of Guarantee Agreements 1 and 2 would have a consequential impact on the amounts of provisions on the Recoverable Amount and on Guarantee Agreement 1 and Guarantee Agreement 2 recognised during the current year. Our audit opinion on the current year consolidated financial statements is also modified because of the effect of audit scope limitations in the audit of 2017 consolidated financial statements on the comparability of the related 2017 figures and 2018 figures in the consolidated financial statements.

(b) Provision for loss on financial guarantee contract

As set out in Notes 33 and 34 to the consolidated financial statements, in addition to the agreements as mentioned in the above paragraphs, the Subsidiary entered into a guarantee agreement (the "Guarantee Agreement 3") with a PRC bank in 2014, providing guarantee to the bank for a loan facility granted to its borrower. The bank loan was in default in 2014 and the bank took legal actions against the borrower and the guarantors (including the Subsidiary) to recover the bank loan balance and interest. A court order was issued to freeze assets of the guarantors (including the Subsidiary) in the amount of RMB62,000,000. As a result of the court order, bank balance of the Subsidiary in the amount of RMB55,396,000 had been frozen by the bank in 2014. According to the first court judgement in 2016 and the final court judgement in 2017, the Subsidiary is adjudicated to be jointly liable for the payment to the PRC bank of RMB60,000,000, plus interest and costs. In February 2017, the frozen bank balance of the Subsidiary was withdrawn by the court for the purpose of settlement of the claim by the PRC bank. During 2017, the Subsidiary filed an application of retrial of the PRC court judgements in relation to Guarantee Agreement 3 which was rejected by the PRC court. During 2017, the Subsidiary filed an application of protest of the PRC court judgements and the commencement of related legal proceeding was accepted by the PRC court in March 2018. Accordingly, the Group was of the view that the legal proceeding was still in progress notwithstanding the final court judgement and the rejection of the application of retrial. As at 31 December 2017, the withdrawn amount recoverable of RMB55,396,000 (the "Withdrawn Amount Recoverable") was included in "Prepayments, deposits and other receivables" in the consolidated statement of financial position as set out in Note 22 to the consolidated financial statements.

As of 31 December 2017, the directors, with reference to legal opinion obtained and other factors, considered that the likelihood of the Group sustaining losses from the guarantee was remote as it was considered that the bank loan had sufficient underlying securities and the Subsidiary is only one of the guarantors for the bank loan. The directors believed that the Withdrawn Amount Recoverable would be fully recovered upon the conclusion of the protest of the PRC court judgements and no provision on the Withdrawn Amount Recoverable was considered necessary as at 31 December 2017. In addition, the directors were of the opinion that no provision on any shortfall between the amount to be ultimately settled by the Group under the Guarantee Agreement 3 and the Subsidiary's withdrawn amount was considered necessary as at 31 December 2017.

As of 31 December 2018, the directors assessed whether the Group would be held liable for the PRC bank's loss under Guarantee Agreement 3 and as a result, whether the Group would incur loss. The directors' assessment was made with reference to all available information and the latest circumstances including the fact that it has been a significant lapse of time since the Subsidiary filed its protest with the PRC court but no positive reply has been received. The legal opinion obtained considered the likelihood of the protest being successful was significantly lowered and became remote. Based on the assessment, the directors considered that it was probable for the Group to be held liable for the PRC bank's loss under Guarantee Agreement 3. The Withdrawn Amount Recoverable of RMB55,396,000 was therefore determined to be irrecoverable and fully impaired with the corresponding amount recognised in the profit or loss for the current year. The directors also estimated there was a shortfall of RMB4,604,000 between the Group's liability under Guarantee Agreement 3 and the withdrawn amount. Provision for this shortfall plus interest and costs under Guarantee Agreement 3 of RMB28,989,000 was recognised in the profit or loss for the current year. These provisions were included in "Other expenses, net" in the consolidated statement of profit or loss.

In our audit of 2017 consolidated financial statements, due to the inability to obtain sufficient appropriate audit evidence regarding whether the Group would be held liable for the PRC bank's loss and the probability that the Group would incur loss under Guarantee Agreement 3, audit opinion on 2017 consolidated financial statements was modified on the above matters. Any adjustment to reduce the carrying amount of Withdrawn Amount Recoverable or to impair such asset of RMB55,396,000 and any provision for further loss under Guarantee Agreement 3 as of 31 December 2017 would have a consequential impact on the amount of Withdrawn Amount Recoverable impaired and the amount of provision for further loss under Guarantee Agreement 3 recognised in 2018. Our audit opinion on the current year consolidated financial statements is also modified because of the effect of audit scope limitations in the audit of 2017 consolidated financial statements on the comparability of the related 2017 figures and 2018 figures in the consolidated financial statements.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET AND BUSINESS REVIEW

In 2018, the world's economy continued to grow modestly, while the international trade slowed down and the global economy grew by 3.7%. Against such backdrop, China's GDP growth rate remained at 6.6%, and China's economy experienced an adjustment period with changes amid stability and opportunities amid risks. In 2018, there was a slump in the market of lighting products as household necessities, and the global LED lighting industry generally experienced a slow growth. According to the statistics of the China Association of Lighting Industry, the total LED lighting export of China in the first three quarters of 2018 was US$23 billion, only representing an increase of 2% as compared with the corresponding period in 2017. In terms of domestic demand, the overcapacity problem remained unsolved. With the market demand growth rate far less than the capacity growth rate, product price decreases and the fact that production of enterprises increases without increase of revenue, strategic adjustment or transformation has become an inevitable choice for the lighting industry.

At present, in the lighting industry, there is increasingly fierce competition on product, market segment, channel and brand. Through 20 years of development, the Group has built a favorable reputation of brand as well as a comprehensive and mature channel network, and realized the synchronous development in sectors including commercial and home lighting. Taking advantages of the opportunities of industry adjustment, the Group actively carried out diversified channel arrangements during the Reporting Period, so as to capture more market segment shares. During the Reporting Period, the Group acquired 100% equity interest in Blue Light (HK) Trading Co., Limited (香港蔚藍芯光貿易有限公司) ("Blue Light") in July 2018 to expand online distribution channels, thus realizing the integration of online and offline channels; and 100% equity interest in Elec-Tech Solid State Lighting (HK) Limited ("Elec-Tech") in November 2018 to enter the North American market and increase the overseas sales. Such two acquisitions represent a progress in the transformation of the Group from a manufacturing enterprise to a channel-oriented enterprise, and the strategy of extending the businesses from the domestic market to the international market. In 2018, the Group realised revenue of RMB4,904,848,000, representing an increase of 20.7% as compared with the Corresponding Period, and gross profit amounted to RMB1,478,288,000, representing an increase of 26.0% as compared with the Corresponding Period, which was generally in line with our expectation.

PRC sales

The Group mainly sells its self-owned brand in the PRC market where, NVC brand sales account for over 90% of the sales. During the Reporting Period, NVC brand products of the Group were sold mainly through 36 exclusive regional distributors who had over 3,000 exclusive outlets (100.0% coverage rate in the provincial capital; approximately 95.0% coverage rate in the prefecture-level cities), and over 4,600 counters. During the Reporting Period, the Group focused on promoting the channel development and independent operation of business departments, and established the Commercial Lighting Business Department, the Retail Business Department (former Household Product Business Department) and the E-commerce Business Department to carry out differentiation strategies for different segment channels.

In the commercial lighting sector, the Group continuously establishes and perfects the project business system to develop core capacities for small and medium-sized projects and enhance the project conversion rate. Meanwhile, it increases the tender success rate for outdoor landscape lighting projects through independently designing and developing outdoor products, and were awarded several projects each with a value of over RMB10 million, including "Bengbu Night Scene Lighting", "Zhuhai Night Scene Lighting" and "Lighting of Qingdao Olympic Sailing Centre for Shanghai Cooperation Organization Summit in Qingdao". It made great achievements with regard to key customers. It, together with distributors, entered into strategic cooperation with top 20 real estate enterprises or decoration companies in the industry during the Reporting Period. In the home lighting sector, the Group actively promoted the development of exclusive outlets for household products, especially the opening, upgrade and reconstruction of decorative lighting outlets. During the Reporting Period, it successfully opened and upgraded over 900 exclusive outlets, promoted the opening of "Zhidongfang" brand outlets, and contracted with over 50 new exclusive outlets. Meanwhile, it actively promoted the marketing model innovation, and continuously enhanced the investment in the model of group buying, so as to facilitate the increase in the terminal sales volume. Based on maintaining the advantages of commercial and home lighting channels, the Group actively made diversified channel arrangement. During the Reporting Period, it successfully acquired Blue Light, thus opening online distribution channels and further integrating channel resources of the Group. After the acquisition, the E-commerce Business Department performed exceptionally. On "11 November", an online shopping festival, it was ranked first on Tmall, JD and Suning in the lighting industry, thus securing another important source of sale growth.

International sales

In terms of international market sales, the Group vigorously promotes the development of the international market. During the Reporting Period, the Group continued to secure customer resources for NVC brand products in the UK, Australia and other mature channels, and continuously tapped into market potential in the Middle East and Southeast Asia. The Middle East office focused on product development, market promotion and project support in the Middle East and North Africa, and made efforts for project channels through the establishment of a special team; within the Reporting Period, it was awarded projects each with a value of over RMB10 million, including the "Qatar VENDOME Mall", "Saudi Arabia Sabic Group Villa Cluster" and "Kuwait Petroleum", thus further enhancing the international penetration rate of the NVC brand. In addition, the Group developed three national-level distributors in Israel, Palestine, Bahrain and other regions, meanwhile, it developed new distributors in regions with weak sales performance, including Egypt and Lebanon. In the Southeast Asian market, it focused on the development of Indonesian wholesale and retail channels. It has developed over 700 outlets, together with distributor teams, and realized comprehensive distribution of NVC products.

The Group successfully acquired Elec-Tech in November 2018, thus further expanding international channels. Elec-Tech had businesses covering North America, with comprehensive marketing and market service teams in Chicago and Atlanta, the US, and provided international large-sized retailers and distributors with one-stop home and commercial lighting solutions, covering various processes including research and development, production, transportation, after-sales services and warehousing. Such substantial acquisition was beneficial to the Group to reorganize international resources, develop technical advantages, share distribution channels and capture more international market share. In addition, during the Reporting Period, the newly-established Japanese company successfully obtained the independent authorization for retail businesses under the Toshiba brand in Japan, which represented another successful breakthrough of the Group in the Japanese market. In terms of existing energy-saving lamp, energy-saving lamp tube and lighting electronic product businesses, with its advantages in cost, technology and scale, the Group promoted the entry of LED lighting products into major customer sales channels, and over 70% of products were successfully converted to LED products, during the Reporting Period.

Product research, development and design

During 20 years of development in the lighting sector, the Group has insisted on independent innovation of products research and development. During the Reporting Period, research and development of the Group focused on new product development, innovation of new technologies and techniques, and development of intelligent projects, and aimed to improve the specialty and competitiveness of products. According to the divisional organization reform of the Group, the Research and Development Department of the Group adopted different research and development plans for different application scenarios in segments. It successfully developed 36 series of new commercial lighting general products and 18 series of special products in the commercial lighting sector, and developed a strong ability to deliver commercial lighting project products; in the household sector, the Group took the lead in having full spectrum solutions passed the test in the industry, and successfully marketed them. Based on its research and development philosophy of making quality products, the Group provided hundreds of millions of consumers with healthier lighting solutions. During the Reporting Period, the Group entered into a strategic cooperation with the "IoT" business department of Tmall, with focus on the smart home sector and for the purpose of accelerating smart lighting product arrangement; it successfully developed 5 demonstration projects of smart application, namely smart warehouse, exhibition hall, conference room, hospitals and chain beauty salon. In addition, during the Reporting Period, the Group applied for 304 new patents and was granted 348 approved patents.

Brand promotion and honor

During the Reporting Period, the Group continued to implement the core brand philosophy of "professional technology, lighting art", and was committed to building the No. 1 brand of the smart lighting solution service providers in the era of Internet; it was once again ranked first with the brand value of RMB25.766 billion, in the lighting industry. During the Reporting Period, the brand strategy of the Group focused on brand rejuvenation and intelligentization. On "11 November", an online shopping festival, the new smart product made to order jointly by NVC Lighting and Tmall Genie (天貓精靈) was top-selling in Tmall IoT Smart Luminaires, while the "People's Quality Product Award" was granted for the smart living room made to order by them. In addition, the rejuvenation image of the NVC brand was gradually communicated to the public, through publicity via Tiktok, Weibo and other mobile internet platforms, and We Media matrix, and creative pictures in airport and high-speed rail advertisement, etc. With the strong brand strength, during the Reporting Period, the Group won various honors: Mr. WANG Donglei, then the Chairman of the Group won the honorary title of "40 Influential Persons From 40 Enterprises During 40 Years of Reform and Opening up" in the third Qianhaiwan Lighting Engineering Award; the Group or its subsidiaries won various honors, including "China's Top 500 Companies in Terms of Brand Value", "Industry Leader Brand" in China's lighting industry in 2018, "China's Top 30 Companies in Terms of LED Technology Innovation", "No.1 in China's Annual Brand Award in 2018 (Lighting Industry)", "Most Popular Brand with Consumers for the Year" and "Iconic Brand in China' Industry", sufficiently reflecting the fact that the NVC brand was highly recognized by different corners of society, thus the brand reputation was further improved.

Progress of Litigation

Since December 2014, a subsidiary of the Company (the"Subsidiary") initiated a series of court proceedings in the PRC against Mr. WU Changjiang, the former director and the former chief executive officer of the Company, and other persons in relation to a number of alleged pledges and guarantees agreements (the "Pledge and Guarantee Agreements") entered into by Mr. WU Changjiang purportedly on behalf of the Subsidiary, and certain counter-guarantees (the "Counter Guarantees") provided by Chongqing Wu Ji Real Estate Development Co., Ltd. (重慶無極房地產開發有限公司) ("Wu Ji"). These court proceedings in the PRC included legal actions initiated by the Group to claim on the Counter Guarantees provided by Wu Ji.

The Company has recently discovered that a first trial judgment was issued in 2018 by the Chongqing Fifth Intermediate People's Court which held Wu Ji liable to a third party for the payment of RMB181,209,800 with interest, which together amount to approximately RMB279,856,000 as at 31 December 2018; and that Wu Ji's subsequent appeal against the judgment has been deemed to be withdrawn (as disclosed by an announcement of the Chongqing Higher People's Court issued in December 2018). That same announcement stated that the Chongqing Higher People's Court had upheld the first trial judgment, and that the first trial judgment shall take effect either upon actual delivery of the decision, or upon deemed delivery of the decision (which occurs 60 days after the date of the announcement), whichever happens first. The Company does not know whether actual delivery of the decision occurred, but notes that the date of deemed delivery would have been in February 2019.

The Subsidiary was also a co-defendant in three PRC court actions commenced by two PRC banks and a finance company, respectively, in relation to several alleged pledges and guarantees purportedly entered into by Mr. WU Changjiang. Please refer to the Company's 2017 annual report and 2018 interim report for details.

In relation to one of the aforementioned court actions commenced by a PRC bank against the Subsidiary as a co-defendant, certain funds held by the Subsidiary had been frozen by such PRC bank. In April 2016, Chongqing Fifth Intermediate People's Court issued a judgment, which, among other things, ordered that the Subsidiary was jointly liable with another PRC company for the payment of RMB60,000,000, plus interest and costs, to such PRC bank. The Company filed an appeal against such judgment with the Chongqing Higher People's Court. In early 2017, the Company received the judgment of the Chongqing Higher People's Court which rejected the Subsidiary's appeal and upheld the first instance judgment. Please refer to the Company's announcement dated 27 February 2017 for details. The Subsidiary subsequently filed an application of retrial of the relevant PRC court judgments, but its application was rejected by the Chongqing Higher People's Court. The Subsidiary has subsequently filed an application of protest with the Chongqing People's Procuratorate to overturn the relevant judgments and for a retrial of this matter. In May 2018, Chongqing People's Procuratorate filed a protest with the Supreme People's Procuratorate. The outcome of the protest application, according to the official legal documents received by the Subsidiary, is pending as of the date of approval of these financial statements.

In relation to one of the aforementioned court actions commenced by another PRC bank in the Chongqing First Intermediate People's Court, it was alleged, among others, that the eight individuals/institutions (the "Eight Guarantors") including the Subsidiary should be jointly and severally liable as guarantors for the debt of RMB35,497,000, plus interest, as owed by Chongqing En Wei Xi Industrial Development Co., Ltd. ("En Wei Xi") to the Bank. The Company received a judgment from the Chongqing First Intermediate People's Court in September 2016, which held, among other things, that the Eight Guarantors, including the Subsidiary, were jointly and severally liable with En Wei Xi for the payment of RMB35,497,000, plus interest and costs, to such PRC bank. The Subsidiary filed an appeal against such judgment with the Chongqing Higher People's Court. In June 2017, the Company received the judgment of the Chongqing Higher People's Court which rejected the Subsidiary's appeal and upheld the first instance judgment. Please refer to the Company's announcement dated 30 June 2017 for more information. The Subsidiary subsequently filed an application of retrial of the relevant PRC court judgments. In May 2018, the Company received the ruling of the Supreme People's Court of the People's Republic of China which rejected the Subsidiary's retrial application.

In relation to the another aforementioned court action commenced by the finance company in the Chongqing First Intermediate People's Court, it was claimed that Mr. WU Changjiang, the Subsidiary and two other entities should be jointly and severally liable as guarantors for the debt of RMB34,000,000, plus interest, as owed by Ms. WU Lian to the finance company pursuant to several alleged agreements. The Company received a judgment from the Chongqing First Intermediate People's Court in October 2016, which, among other things, ordered that the guarantors, including the Subsidiary, were jointly and severally liable with Ms. WU Lian for the payment of RMB34,000,000 plus interest and costs, to the finance company.The Subsidiary filed an appeal against the judgment with the Chongqing Higher People's Court. In September 2017, the Company received the judgment of the Chongqing Higher People's Court which rejected the Subsidiary's appeal and upheld the first instance judgment. Please refer to the Company's announcement dated 14 September 2017 for more information.

Management's position and accounting treatment

Since 2014, the Group has strived to eliminate the impact of the alleged pledge and guarantee agreements with various approaches, including seeking advice from the PRC lawyers, considering the available evidence together with lawyers, reviewing relevant court decisions, applying for retrials, applying for protests and other legal remedies, in order to safeguard the interests of the Group and its shareholders. As disclosed in the Company's announcement dated 1 March 2019, the Company, with reference to a variety of factors and considerations, has decided to make additional provisions in relation to the litigations mentioned in the section headed "Progress of Litigation" in this announcement. These additional provisions amount to a full provision in the Group's consolidated financial statements for the year ended 31 December 2018 in respect of the matters relating to the qualified opinion. The Audit Committee of the Company confirmed that it has reviewed and agreed with the management's position and the accounting treatment of the Company set out above.

Although the Company has made full provision for the above matters in the consolidated financial statements of the Group for the year ended 31 December 2018, the auditor of the Company qualified their opinion on the consolidated financial statements of the Group for the year ended 31 December 2018, because of the effect of audit scope limitations in the audit of 2017 consolidated financial statements on the comparability of the related 2017 figures and 2018 figures in the consolidated financial statements. For basis for qualified opinion, see the section headed "Basis for Qualified Opinion" as set out on the page of 26 in this announcement. In consideration of the impact on the comparative figures for the Corresponding Period, the qualified opinion will continue to have an impact on the consolidated financial statements of the Group for the year ending 31 December 2019. As discussed with the auditor of the Company, if the circumstance remains unchanged and relevant provisions made appropriately, the Company expects the qualified opinion in the independent auditor's report will be removed for the year ending 31 December 2020.

Outlook

Affected by trade tensions and financial constraints, there was downward risk to the world's economic growth in 2019. The International Monetary Fund downgraded the global economic outlook for 2019 and 2020 in the latest World Economic Outlook, and predicted that the global economy growth would be 3.5% and 3.6% in 2019 and 2020, respectively representing a decrease of 0.2 percentage point and 0.1 percentage point as compared with the predictions for last October. In spite of a predicted slow-down in the global economic growth, the Group will comprehensively perfect and optimize the expansion of domestic commercial lighting, home lighting and e-commerce channels and steadily promote internal production optimization and integration; develop emerging markets in the world in an orderly manner, and enhance investment in overseas developed markets and production innovation for self-owned brands through channel expansion, cost reduction and production of quality goods in 2019; the Company may also consider to adjust the enterprise development strategy through capital operations such as asset restructuring in the future.

In the domestic market, the Group will continue to expand its channels in commercial lighting, home lighting and e-commerce sectors. In the commercial lighting sector, the Group will focus on the development of the channel project ability. In the home lighting sector, the Group will spare no effort to promote brand segmentation strategies; enhance the promotion of "Leeds Castle", "Zhidongfang" and other style-oriented brands, based on maintaining the sales volume of traditional household lamps, so as to increase the geographical coverage rate of style-oriented exclusive outlets; In the e-commerce sector, based on consolidating pioneering advantages of existing e-commerce platforms, the Group will conduct its businesses on various new e-commerce platforms with its strong brand marketing ability in 2019, so as to realize a sales growth on various platforms.

With the increase in the global market penetration rate of LED lighting products and the rise of overseas emerging markets, overseas markets have become new room for strategic arrangements of LED lighting enterprises. In the future, the Group will carry out refined operations of overseas markets for mature and emerging channels separately. In developed markets, the Group will continue to enhance strategic cooperation with globally well-known lighting enterprises or construction material retail giants to comprehensively promote the entry of LED lighting products into major customer channels and secure a record breaking result; meanwhile, it will thoroughly develop existing product lines, insist on providing high cost performance products, and introduce mature product lines in other markets, through mature product resources in North America and other markets, so as to deepen and expand channels. For new channels, the Group will reorganize businesses in the Middle East and North Africa. In the Middle East, it will focus on improving the project sales ability, and develop localized products which meet local demands, by taking advantage of Qatar World Cup 2022 and UAE World Expo, so as to provide professional lighting solutions for more projects; In Southeast Asia, the focus is on channel development and greater efforts to enter local markets.

In terms of internal management, in the future, the Group will continuously promote the reduction in manufacturing, research and development, and purchase costs. It will reduce costs and improve efficiency through measures including automatic and semi-automatic production, promotion of delicacy management, technological process optimization and centralized procurement. Meanwhile, it will enhance the optimization and integration of resources of its production bases, and promote cost reduction through restructuring and process optimization. In addition, the Group has established a global product development center and a global product purchase center, and built a global cost-effective and competitive product and service system through introducing professional commercial and home lighting design teams from a number of countries, attracting and training top professionals and otherwise, which provide powerful back-end support for front-end sales.

FINANCIAL REVIEW

Sales Revenue

Sales revenue represents the invoiced value of goods sold, after allowances for returns and trade discounts. During the Reporting Period, the sales revenue of the Group increased by 20.7% from the Corresponding Period to RMB4,904,848,000. In particular, the LED lighting products recorded sales revenue of RMB4,137,958,000 with an increase of 30.7% from the Corresponding Period.

With the continuous development of our businesses, the business segments classification by luminaire products, lamp products and lighting electronic products as originally disclosed was not suitable for the existing scope of business, so we no longer classify sales revenue by business segments. For business management need and the nature of business units based on the products and market, the Group reclassified the reportable operating segments as follows:

Revenue by geographical locations, NVC brand sales and non-NVC brand sales

The table below sets forth the sales revenue by geographical locations, NVC brand products and non-NVC brand products and the growth rate of each item. Our non-NVC brand products primarily consist of ODM products.

	Year ended 31 December		
	2018	2017	Growth rate
	RMB'000	*RMB'000*	
Revenue from PRC			
NVC brand	**3,286,304**	2,543,813	29.2%
Non-NVC brand	**342,868**	266,481	28.7%
Subtotal	**3,629,172**	2,810,294	29.1%
Revenue from international market			
NVC brand	**185,150**	280,852	(34.1%)
Non-NVC brand	**1,090,526**	972,017	12.2%
Subtotal	**1,275,676**	1,252,869	1.8%
Total	**4,904,848**	4,063,163	20.7%

Revenue by LED lighting products and non-LED lighting products

The table below sets forth our revenue from LED lighting products and non-LED lighting products and the growth rate of each item.

	Year ended 31 December		
	2018	2017	Growth rate
	RMB'000	*RMB'000*	
LED lighting products	**4,137,958**	3,165,613	30.7%
Non-LED lighting products	**766,890**	897,550	(14.6%)
Total	**4,904,848**	4,063,163	20.7%

During the Reporting Period, the PRC sales increased by 29.1%, of which the sales of NVC brand increased by 29.2%, mainly due to the acquisition of e-commerce business during the Reporting Period, which helped successfully open online channels, resulting in the increase in the sales revenue as compared with the Corresponding Period; the sales of the non-NVC brand increased by 28.7%, mainly due to the rise in the number of sales orders for non-NVC brand LED lighting electronic products, as well as the sales revenue from the acquisition of Elec-Tech during the Reporting Period; the international sales only increased by 1.8%, of which the sales of the NVC brand decreased by 34.1%, mainly due to the change in the international economic environment and the decrease in main customers' demands during the Reporting Period; while the sales of the non-NVC brand grew by 12.2% as compared with the Corresponding Period, mainly due to the acquisition of Elec-Tech during the Reporting Period, which provided access to the North American market and increased the oversea sales volume.

Cost of Sales

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

	Year ended 31 December			
	2018		2017	
	RMB'000	***Percentage in revenue (%)***	*RMB'000*	*Percentage in revenue (%)*
Raw materials	**1,881,461**	**38.4%**	2,003,602	49.3%
Outsourced manufacturing costs	**1,144,804**	**23.3%**	530,346	13.0%
Labor costs	**276,072**	**5.6%**	254,050	6.3%
Indirect costs	**124,223**	**2.5%**	102,307	2.5%
Total	**3,426,560**	**69.9%**	2,890,305	71.1%

During the Reporting Period, the cost of sales as a percentage of revenue decreased from 71.1% to 69.9%, while the gross profit margin increased from 28.9% to 30.1%, mainly due to the change in the product sales structure, the gradual adjustment to the price policy for customers to improve the gross profit margin and the effect of the acquisition of subsidiaries.

Gross Profit and Gross Profit Margin

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

During the Reporting Period, gross profit was RMB1,478,288,000, representing an increase of 26.0% as compared with the Corresponding Period; gross profit margin of sales increased from 28.9% to 30.1%. The gross profit and gross profit margin by segments are shown as follows:

(i) The table below shows the gross profit and gross profit margin by geographical locations and NVC brand products and non-NVC brand products for the periods indicated:

	Year ended 31 December			
	2018		2017	
	RMB'000	***(%)***	*RMB'000*	*(%)*
Gross profit from PRC sales:				
NVC brand	**1,195,684**	**36.4%**	924,100	36.3%
Non-NVC brand	**47,731**	**13.9%**	49,443	18.6%
Subtotal	**1,243,415**	**34.3%**	973,543	34.6%
Gross profit from international sales:				
NVC brand	**45,636**	**24.6%**	59,023	21.0%
Non-NVC brand	**189,237**	**17.4%**	140,292	14.4%
Subtotal	**234,873**	**18.4%**	199,315	15.9%
Total	**1,478,288**	**30.1%**	1,172,858	28.9%

(ii) The table below sets forth the gross profit and gross profit margins of LED lighting products and non-LED lighting products:

	Year ended 31 December			
	2018		2017	
	RMB'000	***(%)***	*RMB'000*	*(%)*
LED lighting products	**1,353,772**	**32.7%**	994,832	31.4%
Non-LED lighting products	**124,516**	**16.2%**	178,026	19.8%
Total gross profit	**1,478,288**	**30.1%**	1,172,858	28.9%

During the Reporting Period, the gross profit margin from the PRC sales decreased from 34.6% to 34.3%, mainly due to the change in the product sales structure and the adjustment to the prices of certain non-NVC lamp products affected by market demands; while the gross profit margin from international sales increased from 15.9% to 18.4%, mainly due to the higher proportion of sales of LED lighting products with a higher gross profit margin, the gross profit contribution from the acquisition of subsidiaries and the gradual improvement in the price policy for major overseas customers to improve the gross profit margin during the Reporting Period.

Other Income and Gains

Our other income and gains mainly consist of rental income, gain on sales of scrap materials, fair value gain of the derivative component of convertible bonds, fair value gain on deemed disposal of an associate, government grants and interest income (the breakdown of other income and gains is provided in note 3 on page 16 of this announcement). We received various types of government grants in the form of tax subsidies and incentives for research and development activities and expansion of production capacity of energy-saving lamp. Government subsidies are provided by relevant authorities at their discretion, and may not be recurring in nature. During the Reporting Period, other income and gains increased significantly to RMB253,538,000 as compared with the Corresponding Period, which was mainly due to the effect from the fair value gain of the derivative component of convertible bonds, fair value gain on deemed disposal of an associate and exchange gains during the Reporting Period.

Selling and Distribution Costs

Our selling and distribution costs mainly consist of freight costs, advertising and promotion expenses, staff costs and other expenses. Other expenses include office expenses, custom clearance expenses, travelling expenses, depreciation and amortisation, insurance fees and other miscellaneous.

During the Reporting Period, our selling and distribution costs were RMB517,646,000, representing an increase of 28.8% as compared with the Corresponding Period. The increase was mainly attributed to the increase in staff costs, freight and promotional fees compared with the Corresponding Period. Our selling and distribution costs as a percentage in revenue increased from 9.9% to 10.6%.

Administrative Expenses

Our administrative expenses mainly consist of staff costs, amortisation and depreciation, research and development expenses, office expenses and other expenses including tax expenses, audit fees, other professional fees and other miscellaneous expenses. These taxes mainly include land use tax and stamp duty in connection with our administrative functions.

During the Reporting Period, our administrative expenses were RMB449,166,000, representing an increase of 25.9% as compared with the Corresponding Period, which was mainly due to the increase of staff costs and professional service fees related to acquisitions as compared with the Corresponding Period. Our administrative expenses as a percentage in revenue increased from 8.8% to 9.2%.

Other Expenses

Other expenses mainly consist of losses on disposal of property, plant and equipment and scrap, impairment and provision in relation to the litigations, loss on modification of terms of convertible bonds, fair value loss of held-for-trading investments, fair value loss of derivative financial instruments, net exchange losses, donation and other miscellaneous expenses. During the Reporting Period, our other expenses increased significantly as compared with the Corresponding Period, which was mainly due to effect of the impairment of other receivables due from a company and the withdrawn amount recoverable and the provision for losses on financial guarantee contracts.

Finance Costs

Finance costs represent interests on bank loans, interest expenses on convertible bonds and other interest expenses.

Share of Results of Associates

This item represents the Group's share of net profits or net losses in the associates during the Reporting Period.

Income Tax

During the Reporting Period, the Group's income tax expense amounted to RMB365,475,000.

Net Loss for the Year (including Profit Attributable to Non-controlling interests)

Due to the factors mentioned above, our net loss for the year (including profit attributable to non-controlling interests) was RMB302,336,000 during the Reporting Period.

Exchange Differences on Translation of Foreign Operations

During the Reporting Period, our exchange differences on translation of foreign operations were RMB10,596,000. These exchange differences primarily arose from the translation of the financial statements of the Company and the overseas subsidiaries which are denominated in foreign currencies.

Loss Attributable to Owners of the Parent for the Year

Due to the factors mentioned above, loss attributable to owners of the parent was RMB327,592,000 during the Reporting Period.

Profit Attributable to Non-controlling interests for the Year

During the Reporting Period, profit attributable to non-controlling interests was RMB25,256,000.

Liquidity

Net current assets and working capital sufficiency

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
CURRENT ASSETS		
Inventories	**683,524**	425,384
Trade and bills receivables	**1,504,176**	1,092,554
Prepayments, deposits and other receivables	**361,313**	397,213
Income tax recoverable	**568**	11,741
Other current assets	**45,014**	41,512
Financial assets held for trading	**44,190**	88,786
Restricted bank balances and short-term deposits	**677,502**	314,422
Cash and cash equivalents	**912,998**	1,265,589
Total current assets	**4,229,285**	3,637,201
CURRENT LIABILITIES		
Trade and bills payables	**1,385,298**	820,833
Other payables and accruals	**1,324,472**	728,749
Interest-bearing loans and borrowings	**1,064,924**	24,940
Government grants	**1,612**	2,012
Income tax payable	**187,168**	34,071
Derivative financial instruments	**10,689**	–
Convertible bonds – derivative component	**–**	11,933
Convertible bonds – liability component	**–**	421,229
Total current liabilities	**3,974,163**	2,043,767
NET CURRENT ASSETS	**255,122**	1,593,434

As at 31 December 2018 and 31 December 2017, net current assets of the Group amounted to RMB255,122,000 and RMB1,593,434,000, respectively, and the current ratio was 1.06 and 1.78, respectively. In light of our current liquidity position, the unutilised banking facilities available to the Group and our projected cash flows generated from operations, the Directors believe that we have sufficient working capital for our present requirements and for the next 12 months.

Capital Management

The table below sets out our gearing ratio as at the end of the Reporting Period.

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Interest-bearing loans and borrowings and convertible bonds – liability component	**1,064,924**	446,169
Total debt	**1,064,924**	446,169
Less: Cash and cash equivalents and short-term deposits (excluding restricted bank balance)	**(1,590,500)**	(1,580,011)
Net debt	**N/A**	N/A
Total equity attributable to owners of the parent	**3,286,696**	3,242,052
Gearing ratio	**N/A**	N/A

The primary goal of our capital management is to maintain the stability and growth of our financial position. We regularly review and manage our capital structure and make corresponding adjustments, after taking into consideration changes in economic conditions, our future capital requirements, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities. We manage our capital by monitoring our gearing ratio (which is calculated as net debt divided by the total equity attributable to owners of the parent). Net debt is the balance of interest-bearing loans and convertible bonds – liability component less cash and cash equivalents and short-term deposits (excluding restricted bank balances).

Capital Expenditure

We funded our capital expenditure with cash generated from operations and bank loans, and cash generated from issue of shares or convertible bonds. Our capital expenditure is primarily related to expenditure on property, plant and equipment, prepaid land lease payments and other intangible assets. During the Reporting Period, the Group's capital expenditure (excluding goodwill) amounted to RMB527,649,000, mainly attributable to the increase in machinery equipment, moulds, non-productive equipment and intangible assets such as trademarks and customer relationships arising from acquisition of Elec-Tech.

Off-balance Sheet Arrangement

Except for the derivative component of Convertible Bonds mentioned in note 13 and the derivative financial liabilities in relation to forward exchange contracts, 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.

Capital Commitments

As at 31 December 2018, we had capital commitments of RMB514,259,000 mainly for the capital injection or acquisition of joint venture, associates and long term investments, and acquisition of property, plant and equipment.

EVENTS AFTER THE REPORTING PERIOD

Except for the matter in the "Adoption of Restricted Share Unit Scheme" section as set out below, the Group has no significant event after 31 December 2018.

CONTINUING CONNECTED TRANSACTIONS

During the Reporting Period, the continuing connected transactions of the Group do not exceed the annual caps previously disclosed in the relevant announcements of the Company.

MERGERS, ACQUISITIONS AND INVESTMENTS

Pursuant to the share purchase agreement dated 16 March 2018 ("Sale and Purchase Agreement 1") and the share purchase agreement dated 23 May 2018 ("Sale and Purchase Agreement 2") entered into between the Company and Roman International (HK) Co., Limited ("Roman International"), the Company conditionally agreed to purchase and Roman International conditionally agreed to sell 40% equity interest and 60% equity interest in Blue Light at a cash consideration of RMB315,000,000 and RMB500,000,000 respectively, subject to adjustments provided in the Sale and Purchase Agreement 1 and Sale and Purchase Agreement 2. Furthermore, pursuant to the share purchase agreement dated 23 May 2018 ("Sale and Purchase Agreement 3") entered into between Zhuhai NVC Technology Limited* (珠海雷士科技有限公司) ("Zhuhai NVC"), a wholly-owned subsidiary of the Company and Mr. ZHANG Peng, the president of the Company and a connected person, Zhuhai NVC conditionally agreed to purchase and Mr. ZHANG Peng conditionally agreed to sell his 5% equity interest in Wuhu NVC Electronic Business Co., Ltd. ("Wuhu Electronic") at a consideration of RMB45,000,000 (collectively the "Blue Light Acquisitions"). Further details in relation to the Blue Light Acquisitions are set out in the Company's announcements dated 19 March 2018 and 23 May 2018 and circular dated 30 June 2018. The Blue Light Acquisitions were approved by the shareholders of the Company at the extraordinary general meeting on 18 July 2018. As of the date of this announcement, the above transaction has been completed. Following such acquisition, the Company will continue to expand the variety of its sales and distribution channels and benefit from the collection, analysis and application of big data in respect of consumer behaviour.

Pursuant to the formal share purchase agreement (the "Share Purchase Agreement") dated 30 August 2018 between the Company and Jadestone China High-technology Industry Investment Fund LP ("Jadestone"), the Company conditionally agreed to purchase, and Jadestone conditionally agreed to dispose of 100% equity interest of Elec-Tech at the cash consideration of RMB890,000,000 (the "Elec-Tech Acquisition"). Further details of the Acquisition of Elec-Tech are set out in the announcements of the Company dated 25 April 2018, 26 April 2018 and 30 August 2018 and circular dated 10 October 2018. The Elec-Tech Acquisition was approved by the shareholders of the Company at the extraordinary general meeting held on 29 October 2018. On 9 November 2018, the Elec-Tech Acquisition was completed. Such acquisition provides the Company with an opportunity to enter the North American market and increase its overseas sales. In addition, the Company may use the successful experience and the feasible business model of the Elec-Tech operation team, for reference, in developing its businesses in other overseas markets.

On 12 January 2018, Huizhou NVC, a wholly-owned subsidiary of the Company, proposed to invest an amount of RMB10,000,000 to establish Shenzhen Leiyun Optoelectronic Technology Co., Ltd. (深圳雷雲光電科技有限公司) ("Leiyun Optoelectronic"), a wholly-owned subsidiary. Leiyun Optoelectronic is principally engaged in, among others, the development of smart lighting systems. As at the date of this announcement, Huizhou NVC has made a capital contribution of RMB3,000,000.

On 1 February 2018, Zhuhai NVC Technology Co., Ltd, a wholly-owned subsidiary of the Company, proposed to invest an amount of RMB10,000,000 to establish Zhuhai NVC Liangjia Technology Co., Ltd. (珠海雷士靚家科技有限公司) ("NVC Liangjia"), a wholly-owned subsidiary. NVC Liangjia is principally engaged in, among others, providing after-sales services. As at the date of this announcement, the registered capital of NVC Liangjia has not been fully paid.

On 11 April 2018, Shanghai Arcata Electronics Co., Ltd., a wholly-owned subsidiary of the Company, invested an amount of RMB5,000,000 to establish Arcata (Yangzhou) Electronics Co., Ltd. (阿卡得(揚州)電子有限公司) ("Yangzhou Arcata"), a wholly-owned subsidiary. Yangzhou Arcata is principally engaged in, among others, the production and sales of ballasts and other lighting electronic products.

On 3 July 2018, Huizhou NVC, a wholly-owned subsidiary of the Company, invested an amount of RMB2,100,000 to, together with two other individuals, establish Zhuhai Dongshang Decorative Lighting Technology Co., Ltd. (珠海東尚燈飾科技有限公司) ("Zhuhai Dongshang"), a subsidiary, with 70% equity interest held by Huizhou NVC. Zhuhai Dongshang is principally engaged in, among others, the development, production and sales of lighting luminaire products.

On December 2018, Elec-Tech, a wholly-owned subsidiary of the Company, invested an amount of JPY300,010,000 to establish NVC Lighting Japan Co., Ltd., a Japanese company. NVC Lighting Japan Co., Ltd. has obtained the brand license of Toshiba Lighting and will sell home lighting products and otherwise in the Japanese market.

Save as disclosed in the above, the Group made no material acquisition, merger or sale of subsidiaries and associates during the Reporting Period.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

We did not use the proceeds from the Global Offering in a manner different from those set out 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 to our financial results.

Foreign Currency Risk

We are exposed to transactional currency risk. Such risk arises from sales or procurement by an operating unit in currencies other than its functional currency. As a result, we are exposed to fluctuations in the exchange rate between the functional currencies and foreign currencies. During the Reporting Period, the Group had entered into several forward exchange contracts in place to hedge the foreign exchange exposure and did not experience any material difficulties or negative impacts on our operations or liquidity as a result of fluctuations on currency exchange rates.

Commodity Price Risk

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

Liquidity Risk

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

Credit Risk

Our major credit risk arises from exposure to a substantial number of trade and bills receivables, deposits and other receivables from debtors. We have policies in place to ensure that the sales of products are made to customers with an appropriate credit limit, and we have strict control over credit limits of trade receivables. Our cash and short-term deposits are mainly deposited with registered banks in Mainland China and Hong Kong. We also have policies that limit our credit risk exposure to any financial institutions. The carrying amounts of trade and bills receivables, deposits and other receivables, cash and cash equivalents and short-term deposits included in the consolidated statement of financial position represent our maximum exposure to credit risk in relation to our financial assets. We have no other financial assets which carry significant exposure to credit risk. In 2018, we entered into a number of one-year insurance contracts with China Export & Credit Insurance Corporation, which covered 90% uncollectible receivables from international sales between the period from 1 December 2018 to 30 November 2019 with a maximum compensation amount of US$40,000,000 (equivalent to approximately RMB274,528,000). We purchased such insurance in order to minimise our exposure to credit risk as we expand our business. We plan to renew such insurance contracts when they become due. In respect of the exposure to domestic credit risk, we took the approach of requiring the customers to provide relevant guarantee, to cover the credit risk arising from domestic sales.

SPECIAL DIVIDEND AND FINAL DIVIDEND

On 16 March 2019, the Board has proposed to declare special dividend of HK5 cents (equivalent to approximately RMB4 cents) per share payable to the shareholders of the Company ("Shareholders"), which is subject to the approval of the Shareholders at the Company's extraordinary general meeting (the "Extraordinary General Meeting") to be held on 11 April 2019. Based on the 4,231,155,649 Shares in issue as at 16 March 2019, it is expected that the special dividend payable will amount to approximately HK$211,557,783 (equivalent to approximately RMB181,021,533 at an exchange rate of 0.856) (tax inclusive). Subject to the approval of the Shareholders at the Extraordinary General Meeting, the special dividend is expected to be paid to the eligible Shareholders by no later than 30 April 2019.

The Board has proposed not to declare final dividend for the year ended 31 December 2018.

ANNUAL GENERAL MEETING

The annual general meeting ("Annual General Meeting") of the Company is scheduled to be held on 6 June 2019. A notice convening the Annual General Meeting will be published and dispatched to the shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 3 June 2019 to Thursday, 6 June 2019 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong 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 Friday, 31 May 2019.

EMPLOYEES

As at 31 December 2018, the Group had approximately 7,642 employees in total (31 December 2017: 6,441). 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, discretionary incentive and share option schemes.

ADOPTION OF RESTRICTED SHARE UNIT SCHEME

On 20 December 2018, the Board of the Company has approved the adoption of a restricted share unit scheme. Pursuant to the restricted share unit scheme, the Company may direct and procure the trustee to purchase Shares (either on-market or off-market) to satisfy the restricted share units upon vesting and to hold the purchased Shares on trust for the relevant participants until such restricted share units are vested with the relevant participants in accordance with the restricted share units scheme rules. Further details are set out in the announcements of the Company dated 20 December 2018. The restricted share units scheme has been approved at the extraordinary general meeting held on 25 January 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, the Company repurchased a total of 2,961,000 shares of the Company at prices ranging from HK$0.5 to HK$0.55 per share on the Stock Exchange, with an aggregate consideration of approximately HK$1,564,680 (equivalent to approximately RMB1,371,000). As at the date of this announcement, the repurchased shares have not been cancelled. The premium paid on the repurchase was charged to treasury shares account. The Company considered that it was the best way of enhancing shareholder value and that it was in the best interest of the shareholders by returning a substantial part of the surplus funds to the shareholders.

CORPORATE GOVERNANCE

The Board is of the opinion that, during the Reporting Period, the Company had complied with the principles and codes provisions set out in the Code, except for Code Provision A.2.1 which requires that the role of chairman and chief executive officer should be separate and should not be performed by the same person. Given that Mr. WANG Donglei assumed the roles of both chairman and chief executive officer during the Reporting Period, the Company deviated from this code provision. Mr. WANG Donglei is the director and chairman of ETIC (Ceased to act as the chairman on 8 October 2018), which is the controlling corporation of the largest shareholder of the Company, Elec-Tech International (H.K.) Company Limited. Mr. WANG Donglei has many years of experience in product research and development, manufacturing and business management. The dual role arrangement provides 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 the Board and its relevant committees, and there are four 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 the balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purposes of complying with the Code and maintaining a high standard of corporate governance practices of the Company. Save as disclosed above, the Company had fully complied with the principles and code provisions as set out in the Code.

Mr. WANG Donglei has resigned as the chief executive officer of the Company on 22 February 2019, and Ms. CHAN Kim Yung, Eva has been appointed as the chief executive officer of the Company with effect from 22 February 2019.

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 all the Directors have confirmed that they had complied with all relevant requirements as set out in the Model Code during the Reporting Period.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") in compliance with the Listing Rules with written terms of reference. The primary duties of the Audit Committee include maintaining relationship with the auditor of the Group, reviewing financial information of the Group, supervising the financial reporting system, risk management and internal control system of the Group, and the duties of corporate governance designated by the Board. During the Reporting Period, Ms. YANG Jianwen has resigned as Non-executive Director with effect from 22 March 2018. Therefore, she ceased to be a member of the Audit Committee. On 16 July 2018, Mr. SU Ling has been appointed as a member of the Audit Committee by the Board. Currently, the Audit Committee consists of three members, namely, Independent Non-executive Director Mr. LEE Kong Wai, Conway, Independent Non-executive Director Mr. WANG Xuexian and Independent Non-executive Director Mr. SU Ling, respectively. Mr. LEE Kong Wai, Conway has been appointed as the chairman of the Audit Committee. The Audit Committee has reviewed and discussed the annual results for the Reporting Period.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "Remuneration Committee") in compliance with the Listing Rules with written terms of reference. The primary duties of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, the remuneration policy and structure for all Directors and senior management, and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration. During the Reporting Period, Mr. LI Wei has resigned as a Non-executive Director with effect from 20 December 2018, therefore, he ceased to be the member of the Remuneration Committee. Ms. CHAN Kim Yung, Eva has been appointed as a member of the Remuneration Committee with effect from 25 January 2019. Currently, the Remuneration Committee consists of three members, namely, Executive Director Ms. Chan Kim Yung, Eva, Independent Non-executive Director Mr. LEE Kong Wai, Conway and Independent Non-executive Director Mr. WEI Hongxiong, respectively. Mr. WEI Hongxiong has been appointed as the chairman of the Remuneration Committee.

NOMINATION COMMITTEE

The Company established a nomination committee (the "Nomination Committee") in compliance with the Code with written terms of reference. The primary duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of Independent Non-executive Directors. Currently, the Nomination Committee consists of three members, namely, Executive Director Mr. WANG Donglei, Independent Non-executive Director Mr. LEE Kong Wai, Conway and Independent Non-executive Director Mr. WEI Hongxiong, respectively. Mr. WANG Donglei has been appointed as the chairman of the Nomination Committee.

STRATEGY AND PLANNING COMMITTEE

The Company established a strategy and planning committee (the "Strategy and Planning Committee") under the Board with written terms of reference. The primary duty of the Strategy and Planning Committee is to propose and formulate the strategic development plan of the Company for the Board's consideration. During the Reporting Period, Mr. LI Wei has resigned as a Non-executive Director with effect from 20 December 2018, therefore, he ceased to be the member of the Strategy and Planning Committee. Ms. CHAN Kim Yung, Eva has been appointed as a member of the Strategy and Planning Committee with effect from 25 January 2019. Currently, the Strategy and Planning Committee consists of four members, namely, Executive Director Mr. WANG Donglei, Executive Director Mr. XIAO Yu, Executive Director Ms. Chan Kim Yung, Eva and Independent Non-executive Director Mr. WANG Xuexian, respectively. Mr. WANG Donglei has been appointed as the chairman of the Strategy and Planning Committee.

INDEPENDENT INVESTIGATIONS COMMITTEE

To advance the internal investigations into matters involving Mr. WU Changjiang, the former Executive Director and Chief Executive Officer of the Company, the Company has established an independent investigations committee (the "Independent Investigations Committee") under the Board. The Independent Investigations Committee has been authorised by the Board to exercise powers and perform duties on behalf of the Board in relation to the conduct of the internal investigations into, among other things, the alleged wrongdoing of Mr. WU Changjiang. The Independent Investigations Committee has also been authorised to consider and make recommendations to the Board with respect to any potential proceedings arising from the internal investigations. In connection with the Company's investigations of the alleged wrongdoing of Mr. WU Changjiang, the Independent Investigations Committee has instructed a third-party service provider to conduct a forensic review of related irregularities and an internal controls assessment of the Company and its key subsidiaries. The forensic review and internal controls assessment has been completed. Please refer to the announcements of the Company dated 17 July 2015 and 17 September 2015 for details. During the Reporting Period, Ms. YANG Jianwen has resigned as

Non-executive Director with effect from 22 March 2018. Therefore, she ceased to be a member of the Independent Investigations Committee. Currently, the Independent Investigations Committee consists of three members, namely, Independent Non-executive Director Mr. LEE Kong Wai, Conway, Independent Non-executive Director Mr. WEI Hongxiong and Independent Non-executive Director Mr. WANG Xuexian, respectively.

APPOINTMENT AND RESIGNATION OF DIRECTORS AND CHANGE IN DIRECTORS' INFORMATION

From 1 January 2018 to the date of this announcement, the appointment and resignation of Directors and changes in the Directors' information of the Company are as follows:

Ms. YANG Jianwen has resigned as Non-executive Director, a member of the Audit Committee and a member of the Independent Investigations Committee with effect from 22 March 2018.

Mr. WANG Xuexian has ceased to act as an independent director of ETIC with effect from June 2018.

Mr. SU Ling has been appointed as a member of the Audit Committee with effect from 16 July 2018.

Mr. WANG Donglei has ceased to act as the chairman of ETIC with effect from 8 October 2018.

Ms. CHAN Kim Yung, Eva has been appointed as an Executive Director and the vice chairman with effect from 25 November 2018; a member of the Remuneration Committee and a member of the Strategy and Planning Committee with effect from 25 January 2019; and the Chief Executive Officer with effect from 22 February 2019.

Mr. YE Yong has been appointed as a Non-executive Director with effect from 25 November 2018.

Mr. LI Wei has resigned as a Non-executive Director, a member of the Remuneration Committee and a member of the Strategy and Planning Committee with effect from 20 December 2018.

Mr. WANG Donglei has resigned as the Chief Executive Officer with effect from 22 February 2019.

Mr. LI Huating has resigned as a Non-executive Director with effect from 28 February 2019.

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

The Group's audited annual results for the Reporting Period will be included in the Company's annual report which will be published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.nvc-lighting.com.cn and will be dispatched to the Company's shareholders in due course.

REVIEW OF ACCOUNTS

The Group's annual results for the Reporting Period has been reviewed by the Audit Committee and approved by the Board.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and the consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited ("BDO"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO in this respect did not constitute an assurance or review engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO on the preliminary announcement.

APPRECIATION

The Board would like to take this opportunity to express its appreciation to the management team and staff of the Group for their contribution during the Reporting Period and also to give its sincere gratitude to all the shareholders of the Company for their continued support.

DEFINITIONS

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

"Board"	the board of Directors of the Company.
"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"	Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.
"Company"	NVC Lighting Holding Limited (雷士照明控股有限公司), a company incorporated in the British Virgin Islands on 2 March 2006 and subsequently redomiciled to the Cayman Islands on 30 March 2010 as an exempted company with limited liability under the laws of the Cayman Islands. The shares of the Company are listed on the main board of the Stock Exchange.
"Convertible Bonds"	the convertible bonds denominated in Hong Kong dollar in an aggregate principal amount of HK$500,000,000 issued on 7 June 2016 by the Company.
"Corresponding Period"	means the year ended 31 December 2017 or the year ended 31 December 2018 (as the context may require).
"Director(s)"	the director(s) of the Company.
"ETIC"	Elec-Tech International Co., Ltd.* (廣東德豪潤達電氣股份有限公司), a PRC incorporated company of which the shares are currently listed on the Shenzhen Stock Exchange. It is a substantial shareholder of the Company.

"Group"	the Company and its subsidiaries.
"GBP"	Great Britain Sterling Pound, the lawful currency of the United Kingdom.
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong.
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China.
"Huizhou NVC"	Huizhou NVC Lighting Technology Co., Ltd.* (惠州雷士光電科技有限公司), a wholly foreign-owned enterprise with limited liability incorporated in the PRC on 29 April 2006 and our direct wholly-owned subsidiary.
"LED"	light-emitting diode.
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
"China" or "PRC"	the People's Republic of China, but for the purpose of this announcement and for geographical reference only and except where the context requires, references in this announcement to "China" and the "PRC" do not apply to Taiwan, the Macau Special Administrative Region and Hong Kong.
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.
"NVC China"	NVC Lighting (China) Co., Ltd.* (雷士照明(中國)有限公司) (formerly known as NVC Lighting (Chongqing) Co., Ltd* (重慶雷士實業有限公司)), a wholly foreign-owned enterprise with limited liability incorporated in the PRC on 7 November 2011 and our indirect wholly-owned subsidiary.
"ODM"	original design manufacturing, a type of manufacturing under which the manufacturer is responsible for the design and production of the products and the products are marketed and sold under the customer's brand name.
"Reporting Period"	the year ended 31 December 2018.
"RMB"	Renminbi, the lawful currency of the PRC.
"Stock Exchange"	The Stock Exchange of Hong Kong Limited.
"U.S.A." or "U.S."	the United States of America, its territories, its possessions and all was subject to its jurisdiction.
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States.

"UK NVC"	NVC Lighting Limited (formerly known as NVC (Manufacturing) Limited), a private company incorporated in England and Wales on 31 May 2007, and our direct wholly-owned subsidiary.
"we", "us"or"our"	the Company or the Group (as the context may require).

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

By Order of the Board
NVC LIGHTING HOLDING LIMITED
Chairman
WANG Donglei

Hong Kong, 26 March 2019

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

Executive Directors:
WANG Donglei
WANG Dongming
XIAO Yu
WANG Keven Dun
CHAN Kim Yung, Eva

Non-executive Director:
YE Yong

Independent Non-executive Directors:
LEE Kong Wai, Conway
WANG Xuexian
WEI Hongxiong
SU Ling