NVC International Holdings Limited
雷士國際控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 2222)

PROPOSAL FOR NON-EXERCISE OF SUBSCRIPTION RIGHT RELATING TO THE TARGET COMPANY

BACKGROUND

Since completion of the Company's disposal of 70% equity interest in its China NVC-lighting Business to the Target Company in December 2019, the Target Company has been 30% owned by the Company and 70% owned by KKR. In April 2021, the Target Company completed an acquisition of the entire issued share capital of Dragon from KKR at the Acquisition Consideration pursuant to an agreement dated 23 March 2021. Since completion of such acquisition, the Target Company has wholly-owned Dragon and the financial performance and position of Dragon have been consolidated into the financial statements of the Target Company. As at the date of this announcement, the Target Company has not settled the Acquisition Consideration, which remains as a liability due to KKR on the accounts of the Target Company, which would be settled at the earlier of (i) concurrent with the issuance of new shares by the Target Company to the Company pursuant to the Subscription Right, and (ii) 31 December 2021.

For the purpose of ensuring the Company's pre-emptive right, the parties also entered into the Agreement on 23 March 2021 as a side letter agreement to agree on the relevant anti-dilution protection for the Company in respect of its shareholding in the Target Company, pursuant to which the Company is granted with the Subscription Right to maintain its 30% equity interest in the Target Company. Pursuant to the Agreement, the Company shall have the right to exercise the Subscription Right at the Subscription Price (US$ equivalent of RMB210,000,000) at any time on or before 31 December 2021. In the event that the Company does not exercise the Subscription Right on or before 31 December 2021, the Company's shareholding interest in the Target Company will be diluted due to the allotment and issue of 228,714 ordinary shares of the Target Company to KKR.

THE NON-EXERCISE PROPOSAL

Based on the currently available information, the Company is of the intention that it will **NOT** exercise the Subscription Right.

As a result of the Non-Exercise Proposal, the Company is not required to pay the Subscription Price and its shareholding interest in the Target Company will be diluted to approximately 24.4% of the total issued capital of the Target Company as enlarged by the issuance of new shares to KKR. The Target Company will still be accounted for as an associate of the Company and its financial results will continue to be accounted for using the equity method in the financial statements of the Group.

IMPLICATIONS UNDER THE LISTING RULES

The Non-Exercise Proposal will not trigger any notifiable transaction of the Company and will therefore not be subject to any reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules. The exercise of the Subscription Right by the Company will constitute a major transaction of the Company under Chapter 14 of the Listing Rules and will be subject to reporting, announcement and Shareholders' approval under the Listing Rules.

EGM

For the purpose of better corporate governance and to encourage the Shareholders' participation in the Group's affairs, the Company will convene the EGM for the Shareholders to consider the exercise of the Subscription Right and vote on the proposed ordinary resolution for the exercise of the Subscription Right. The Company will make the final decision as to the exercise of the Subscription Right based on the voting results by the Shareholders at the EGM. The Company will proceed with the exercise of the Subscription Right if the relevant resolution is approved at the EGM; however, the Company will not exercise the Subscription Right in case if the relevant resolution for is not approved at the EGM.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder is interested in the exercise of the Subscription Right and is required to abstain from voting at the EGM to be convened for the approval of the exercise of the Subscription Right.

CIRCULAR

A circular containing, among others, particulars of the Subscription Right, financial information about the Target Company, the valuation report of the Target Company prepared by JLL and notice of the EGM will be despatched to the Shareholders on or before 8 December 2021.

BACKGROUND

Since completion of the Company's disposal of 70% equity interest in its China NVC-lighting Business to the Target Company in December 2019, the Target Company has been 30% owned by the Company and 70% owned by KKR. In April 2021, the Target Company completed an acquisition of the entire issued share capital of Dragon from KKR at the Acquisition Consideration pursuant to an agreement dated 23 March 2021. Since completion of such acquisition, the Target Company has wholly-owned Dragon and the financial performance and position of Dragon have been consolidated into the financial statements of the Target Company. As at the date of this announcement, the Target Company has not settled the Acquisition Consideration, which remains as a liability due to KKR on the accounts of the Target Company, which would be settled at the earlier of (i) concurrent with the issuance of new shares by the Target Company to the Company pursuant to the Subscription Right, and (ii) 31 December 2021.

For the purpose of ensuring the Company's pre-emptive right, the parties also entered into the Agreement on 23 March 2021 as a side letter agreement to agree on the relevant anti-dilution protection for the Company in respect of its shareholding in the Target Company, pursuant to which the Company is granted with the Subscription Right to maintain its 30% equity interest in the Target Company. Pursuant to the Agreement, the Company shall have the right to exercise the Subscription Right at the Subscription Price (US$ equivalent of RMB210,000,000) at any time on or before 31 December 2021. In the event that the Company does not exercise the Subscription Right on or before 31 December 2021, the Company's shareholding interest in the Target Company will be diluted due to the allotment and issue of 228,714 ordinary shares of the Target Company to KKR.

THE NON-EXERCISE PROPOSAL

Based on the currently available information, the Company is of the intention that it will **NOT** exercise the Subscription Right.

The Subscription Right

Subject to the Company's exercise of the Subscription Right on or before 31 December 2021, the Subscription Price will be used by the Target Company to set-off part of the Acquisition Consideration. The Target Company shall issue and allot a total of 228,714 ordinary shares of the Target Company, of which (i) 68,614 ordinary shares will be issued to the Company for cash that equals to the Subscription Price, at a per share valuation of approximately RMB3,060.59; and (ii) 160,100 ordinary shares will be issued to KKR at the same per share valuation of approximately RMB3,060.59, and pay an amount that equals the Subscription Price received by the Target Company from the Company in cash to KKR.

For the avoidance of doubt, in the event that the Company does not exercise the Subscription Right on or before 31 December 2021, the Target Company shall issue and allot to KKR 228,714 ordinary shares of the Target Company at the same per share valuation of approximately RMB3,060.59.

Set out below is the impact on the shareholding structure of the Target Company assuming that (i) the Subscription Right is exercised; and (ii) the Subscription Right is not exercised:

	As at the date of this announcement	**If the Subscription Right is exercised**	**If the Subscription Right is NOT exercised**
The Company	300,000 shares (or 30%)	368,614 shares (or 30%)	300,000 shares (or 24.4%)
KKR	700,000 shares (or 70%)	860,100 shares (or 70%)	928,714 shares (or 75.6%)
Total	1,000,000 shares (or 100%)	1,228,714 shares (or 100%)	1,228,714 shares (or 100%)

The Subscription Price

The Subscription Price is the US$ equivalent of RMB210,000,000 at the mid-point RMB/US$ exchange rate published by the People's Bank of China on the business day that is two business days immediately preceding the payment of the Subscription Price.

The Subscription Price was determined after arm's length negotiation between the parties with reference to the Acquisition Consideration, multiplied by 30% which is the shareholding interest of the Company in the Target Company.

Completion

As a result of the Non-Exercise Proposal, the Company is not required to pay the Subscription Price and its shareholding interest in the Target Company will be diluted to approximately 24.4% of the total issued capital of the Target Company as enlarged by the issuance of new shares to KKR. The Target Company will still be accounted for as an associate of the Company and its financial results will continue to be accounted for using the equity method in the financial statements of the Group.

INFORMATION ON THE TARGET COMPANY

The Target Company is incorporated in Singapore on 6 August 2019 and is principally engaged in investment holding and manufacture and sales of lamps, luminaries, lamp transformers, lighting electronic products and other appliances in the PRC. As at the date of this announcement, the Target Company is a 30% owned associate of the Company, with the remaining 70% owned by KKR.

Dragon, a wholly-owned subsidiary of the Target Company, is principally engaged in investment holding and lighting source business in the PRC.

Set out below is the audited consolidated financial information of the Target Group for the period from 6 August 2019 (date of incorporation) to 31 December 2019 and for the year ended 31 December 2020, which is prepared in accordance with International Financial Reporting Standards:

	For the period from 6 August 2019 to 31 December 2019	**For the year ended 31 December 2020**
	RMB' 000	*RMB' 000*
	audited	*audited*
Loss before taxation	71,809	551,854
Loss after taxation	75,784	701,027

As at 31 December 2020, the audited consolidated net asset value of the Target Group was RMB2,547.0 million.

INFORMATION ON THE PARTIES

The Company

The Company is a leading supplier of lighting products in the international market. It designs, develops, produces, markets and sells a variety of lighting products, with a strong focus on energy-saving products under the NVC brand and third party brands.

Lighting Holdings II

Lighting Holdings II is a special purpose vehicle indirectly controlled by KKR Asian Fund III L.P., which is a limited partnership established in Ontario, Canada. KKR Asian Fund III L.P. is advised and/or managed by affiliates of KKR & Co. Inc. (together with its affiliates, "**KKR**"). KKR & Co. Inc. is a corporation incorporated under the laws of the State of Delaware, the United States. KKR is a leading global investment firm that manages multiple alternative asset classes, including private equity, energy, infrastructure, real estate and credit, with strategic partners that manage hedge funds.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiry, each of KKR and the Target Company and their ultimate beneficial owners (other than the Company for the Target Company) are independent of and not connected with the Company and its connected persons.

REASONS AND BENEFITS OF THE NON-EXERCISE PROPOSAL

In arriving at the intention **NOT** to exercise the Subscription Right, the Board has taken into account the following factors:

Factors being considered for exercising of the Subscription Right

When the Company disposed 70% equity interests in its China NVC-Lighting Business to the Target Company in December 2019, it has been the long-term target of the Company and KKR that the Target Company will seek an initial public offering on the stock exchange in the PRC (the "**IPO Plan**") or any other recognized stock exchange. Assuming that the Target Company will be able to complete the IPO Plan in the next few years, and that the short-term challenges and uncertainties currently faced by the Target Company (as explained below) will be resolved, the Company believes that the value of the Target Company will be significantly enhanced. Such belief in value enhancement is based on the normalised performance of the Target Company and historical financial performance and trading multiplies of the Target Company's peers listed on the stock exchanges of the PRC.

However, the IPO Plan is subject to a number of market risk, uncertainties and factors beyond the control of the Company and the Target Company, and therefore, it may or may not materialize in the future. The IPO Plan, if successful, will unlock value for the Shareholders by establishing the fair market value of the Target Company, which in turn may enhance the Company's existing value that will benefit all Shareholders.

The Target Company has been facing a number of challenges and uncertainties (including negative impacts caused by, among others, the COVID-19 outbreak and increase in price of raw materials in the PRC), which are expected to continue in the near future. Assuming that such challenges and uncertainties could be resolved and taking into account the potential synergies that may be brought by Dragon, the operating and financial performance of the Target Company may be improved in the medium term. Accordingly, through maintaining its 30% equity interests, the Company will be able to share the positive contributions from the Target Company under the equity method, and hence an improvement on the Group's overall financial performance.

Factors being considered for non-exercising of the Subscription Right

Despite the above potential upside upon realization of the IPO Plan, the Target Company recorded a loss for the year from continuing operations of approximately RMB701.0 million in 2020, including an impairment loss recognized on goodwill of approximately RMB466.9 million. For the first half of 2021, the Target Company continued to increase its business operation, scale and narrowed its loss compared to the same period in 2020, despite a relatively slow pace of improvement as a result of its continuous business expansion initiatives which led to an increase in selling and distribution expenses, and increased net impairment losses under expected credit loss model. There is no certainty as to whether and when the business expansion initiatives will bring positive contributions to the Target Company.

The preliminary valuation of the Target Company conducted by JLL as at 31 August 2021 based on market approach is lower than the implied value of the Target Company under the Subscription Right. The full text of the valuation conducted by JLL will be set out in the Company's circular to be despatched to the Shareholders.

While there could be potential upside upon realization of the IPO Plan, the historical operating and financial performance of the Target Company and the independent preliminary valuation of the Target Company conducted by JLL may not justify an exercise of the Subscription Right from a financial standpoint.

Having considered the merits under all the factors as described above, and for the sake of prudence in making such investment decision from a financial standpoint, the Board is of the intention that it will **NOT** exercise the Subscription Right. The Directors (including the independent non-executive Directors) consider that the Non-Exercise Proposal is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

The Non-Exercise Proposal will not trigger any notifiable transaction of the Company and will therefore not be subject to any reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules. The exercise of the Subscription Right by the Company will constitute a major transaction of the Company under Chapter 14 of the Listing Rules and will be subject to reporting, announcement and Shareholders' approval under the Listing Rules.

EGM

For the purpose of better corporate governance and to encourage the Shareholders' participation in the Group's affairs, the Company will convene the EGM for the Shareholders to consider the exercise of the Subscription Right and vote on the proposed ordinary resolution for the exercise of the Subscription Right. The Company will make the final decision as to the exercise of the Subscription Right based on the voting results by the Shareholders at the EGM. The Company will proceed with the exercise of the Subscription Right if the relevant resolution is approved at the EGM; however, the Company will not exercise the Subscription Right in case if the relevant resolution for is not approved at the EGM.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder is interested in the exercise of the Subscription Right and is required to abstain from voting at the EGM to be convened for the approval of the exercise of the Subscription Right.

CIRCULAR

A circular containing, among others, particulars of the Subscription Right, financial information about the Target Company, the valuation report of the Target Company prepared by JLL and notice of the EGM will be despatched to the Shareholders on or before 8 December 2021.

WAIVER FROM COMPLIANCE WITH RULE 14.67(6)(a)(i) OF THE LISTING RULES

Pursuant to Rule 14.67(6)(a)(i) of the Listing Rules, the Company is required to include in the major transaction circular containing an accountants' report on the Target Company prepared in accordance with Chapter 4 of the Listing Rules.

The Company has applied to the Stock Exchange for waiver from preparing an accountants' report in accordance with Rule 14.67(6)(a)(i) of the Listing Rules for the 2021 Interim Period based on the following reasons:

(i) the Company is required to exercise the Subscription Right on or before 31 December 2021. In light of the limited time available, the Company is only able to provide unaudited reports on the Target Company for the 2021 Interim Period which will be reviewed by the auditors;

(ii) the Company has no control over the Target Company as the Target Company is an associated company of the Company, and thus the Company is not able to access to full and complete information in a timely manner;

(iii) given this is an ad-hoc audit project, the Target Company and KKR have no obligation to accommodate the request and will not spend additional resources to facilitate the audit work for the 2021 Interim Period;

(iv) it would be "overly burdensome" for the Company to include an accountants' report for the 2021 Interim Period because the auditors of the Company advised that they would require a considerable amount of time to complete the audit on the Target Company. Given this is an ad-hoc audit project, the auditors of the Company would encounter practical difficulty in collating with the customers, bankers and suppliers of the Target Company to provide the required audit information, in the event that the Target Company does not facilitate the relevant audit procedures. The Company would incur much more time and higher cost in conducting a full audit than a review of the financial information on the Target Company;

(v) the Target Company has performed a full audit for the period covering 6 August 2019 (date of incorporation of the Target Company) to 31 December 2020, and therefore the audited financial information of the Target Company covering the same period would be available to be included in the Shareholders' circular. Together with the unaudited financial information of the Target Company for the 2021 Interim Period which will be reviewed by the auditors in accordance with Hong Kong Standard on Review Engagement *2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, the Company believes that such disclosure will afford the Shareholders with all material information necessary to assess the impact of the exercise of the Subscription Right.

To provide alternative disclosure to the Shareholders to allow for an informed assessment of the Non-Exercise Proposal and an informed decision, the Company will:

(i) include the same level of disclosure including but not limited to the notes in the unaudited financial information of the Target Company for the 2021 Interim Period in the circular, to match with those set out in an accountants' report prepared under Chapter 4 of the Listing Rules; and

(ii) include an independent valuation report of the Target Company to be issued by JLL in the circular, in order to provide additional information for the benefit of the Shareholders to consider the Subscription Right.

On the above basis, the Stock Exchange has agreed to waive the requirements under Rule 14.67(6)(a)(i) such that the Company is not required to prepare the accountants' report of the Target Company for the 2021 Interim Period.

GENERAL

Given no Director has a material interest in the Non-Exercise Proposal, none of the Directors is required to abstain from voting on the relevant Board resolution approving the Non-Exercise Proposal.

The Non-Exercise Proposal is subject to approval of the Shareholders at the EGM. Shareholders and investors are therefore advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

"2021 Interim Period"	the period from 1 January 2021 to 30 June 2021;
"Acquisition Consideration"	the consideration of RMB700 million payable by the Target Company to KKR in relation to the acquisition of Dragon;
"Agreement"	the letter agreement on asset injection dated 23 March 2021 from KKR and the Target Company to the Company;
"Board"	board of the Company;
"China NVC-lighting Business"	manufacturing, sales and distribution of commercial lighting products and home lighting products as well as e-commerce business in the Mainland China market under the NVC brand;
"Company"	NVC International Holdings Limited (雷士國際控股有限公司), 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, whose issued Shares are listed on the main board of the Stock Exchange;
"Completion"	completion of the exercise of the Subscription Right;
"connected person"	has the meaning ascribed to it under the Listing Rules;
"Director(s)"	director(s) of the Company;
"Dragon"	Brilliant Lights (Dragon) Pte. Ltd., a company incorporated in Singapore;

"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the exercise of the Subscription Right;
"Group"	the Company and its subsidiaries;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"JLL"	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, a qualified independent valuer in Hong Kong;
"KKR"	Lighting Holdings II Pte. Ltd., a special purpose vehicle indirectly controlled by KKR Asian Fund III L.P. which is a limited partnership incorporated under the laws of Ontario, Canada;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Non-Exercise Proposal"	the proposal of not exercising the Subscription Right;
"PRC"	the People's Republic of China;
"RMB"	Renminbi, the lawful currency of the People's Republic of China;
"Shareholders"	shareholders of the Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Subscription Price"	the subscription price of the US$ equivalent of RMB210,000,000 at the mid-point RMB/US$ exchange rate published by the People's Bank of China on the business day that is two business days immediately preceding the payment of the Subscription Price;

"Subscription Right"	the right to subscribe for the Subscription Shares at the Subscription Price;
"Subscription Shares"	68,614 ordinary shares of the Target Company;
"Target Company"	Brilliant Lights International Holding Pte. Ltd., a company incorporated in Singapore and is accounted for as an associate of the Company as at the date of this announcement;
'Target Group"	the Target Company and its subsidiaries;
"US$"	United States dollars, the lawful currency of the United States of America; and
"%"	per cent.

By Order of the Board
NVC International Holdings Limited
WANG Donglei
Chairman

Hong Kong, 18 November 2021

As at the date of this announcement, the board of directors consists of the following directors:

Executive Directors:
WANG Donglei
CHAN Kim Yung, Eva
XIAO Yu
CAO Qin

Non-executive Directors:
WANG Keven Dun
YE Yong

Independent Non-executive Directors:
LEE Kong Wai, Conway
WANG Xuexian