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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER 2022:

- The Group's revenue amounted to RMB1,888,447,000, representing a decrease of 20.5% as compared with the Corresponding Period.
- The Group's gross profit amounted to RMB431,452,000, representing a decrease of 34.9% as compared with the Corresponding Period.
- The Group's loss for the year amounted to RMB37,484,000, with the profit for the year amounted to RMB33,466,000 in the Corresponding Period.
- Loss attributable to owners of the Company amounted to RMB66,119,000, with the profit attributable to owners of the Company amounted to RMB5,814,000 in the Corresponding Period.
- Basic loss per share attributable to owners of the Company amounted to RMB1.56 cents (basic profit per share in the Corresponding Period: RMB0.14 cents).
- The Board has proposed not to declare final dividend (2021: no final dividend declared).

The Board announces the annual results of the Group for the Reporting Period. The annual results have been reviewed by the audit committee of the Company (the "**Audit Committee**").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	**2022** **RMB'000**	2021 *RMB'000*
Revenue	*2*	**1,888,447**	2,374,947
Cost of sales		**(1,456,995)**	(1,712,515)
GROSS PROFIT		**431,452**	662,432
Other income	*4*	**49,194**	46,524
Other gains and losses	*5*	**(40,695)**	986
Selling and distribution expenses		**(270,188)**	(272,684)
Administrative expenses		**(225,988)**	(256,222)
Impairment losses in respect of goodwill		**–**	(24,309)
Impairment losses in respect of interests in associates		**(50,148)**	–
Impairment losses under expected credit loss model, net of reversal		**149**	(4)
Other expenses	*6*	**(43,207)**	(69,811)
Finance costs	*7*	**(16,641)**	(7,528)
Share of results of associates		**142,930**	(16,394)
(LOSS) PROFIT BEFORE TAX		**(23,142)**	62,990
Income tax expense	*8*	**(14,342)**	(29,524)
(LOSS) PROFIT FOR THE YEAR	*9*	**(37,484)**	33,466
(Loss) profit for the year attributable to owners of the Company		**(66,119)**	5,814
Profit for the year attributable to non-controlling interests		**28,635**	27,652
		(37,484)	33,466

		2022	2021
(LOSS) EARNINGS PER SHARE			
Basic *(RMB cents)*	*10*	**(1.56)**	0.14

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	2022	2021
	RMB'000	*RMB'000*
(LOSS) PROFIT FOR THE YEAR	**(37,484)**	33,466
OTHER COMPREHENSIVE INCOME (EXPENSE)		
Items that will not be reclassified to profit or loss:		
– Exchange differences arising on translation from functional currency to presentation currency	**29,213**	(17,710)
– Fair value loss on investments in equity instruments at fair value through other comprehensive income ("**FVTOCI**"), net of tax	**(300)**	–
	28,913	(17,710)
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences arising on translation of foreign operations	**77,274**	(35,657)
– Share of other comprehensive (expense) income of associates, net of related income tax	**(70,039)**	18,898
	7,235	(16,759)
OTHER COMPREHENSIVE INCOME (EXPENSE) FOR THE YEAR	**36,148**	(34,469)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR	**(1,336)**	(1,003)
Total comprehensive (expense) income attributable to:		
– Owners of the Company	**(29,832)**	(29,443)
– Non-controlling interests	**28,496**	28,440
	(1,336)	(1,003)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

	NOTES	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**369,435**	345,591
Right-of-use assets		**177,432**	194,908
Investment properties		**12,584**	7,785
Goodwill		**211,386**	211,386
Other intangible assets		**327,270**	342,886
Interests in associates		**830,213**	597,470
Equity instruments at FVTOCI		**14,488**	14,788
Financial assets at fair value through profit or loss ("FVTPL")		**–**	527
Deferred tax assets		**9,364**	10,043
Deposits		**297,009**	296,987
		2,249,181	2,022,371
CURRENT ASSETS			
Inventories	*12*	**447,860**	624,038
Trade and bills receivables	*13*	**319,348**	500,403
Other receivables, deposits and prepayments		**85,983**	113,581
Tax recoverable		**4,330**	13,879
Financial assets at FVTPL		**30,138**	40,600
Pledged bank deposits		**373,071**	83,272
Cash and cash equivalents		**592,390**	948,268
		1,853,120	2,324,041
CURRENT LIABILITIES			
Trade payables	*14*	**228,385**	609,820
Other payables and accruals		**172,655**	254,301
Contract liabilities		**39,008**	34,205
Borrowings	*15*	**271,858**	40,035
Deferred income		**1,009**	1,009
Lease liabilities		**10,776**	14,890
Financial liabilities at FVTPL		**7,441**	–
Tax liabilities		**11,576**	15,937
		742,708	970,197
NET CURRENT ASSETS		**1,110,412**	1,353,844
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,359,593**	3,376,215

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AT 31 DECEMBER 2022

	NOTES	2022 RMB'000	2021 RMB'000
NON-CURRENT LIABILITIES			
Deferred income		**1,568**	1,658
Lease liabilities		**21,626**	30,352
Deferred tax liabilities		**53,233**	59,703
		76,427	91,713
NET ASSETS		**3,283,166**	3,284,502
CAPITAL AND RESERVES			
Share capital		**3**	3
Reserves		**3,165,349**	3,195,181
Equity attributable to owners of the Company		**3,165,352**	3,195,184
Non-controlling interests		**117,814**	89,318
TOTAL EQUITY		**3,283,166**	3,284,502

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1.1 GENERAL INFORMATION

NVC International Holdings Limited (the "Company") is a public limited company incorporated in the territory of the British Virgin Islands (the "BVI") as a limited liability company on 2 March 2006 and was redomiciled to the Cayman Islands on 30 March 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are the manufacture and sale of lamps, luminaries, lighting electronic products and related products.

The consolidated financial statements are presented in Renminbi ("RMB"), which is different from the Company's functional currency of United States dollars ("US$"). The directors of the Company adopted RMB as presentation currency for the convenience of the financial statements users.

1.2 APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards")

Amendments to IFRS Standards that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRS Standards issued by the International Accounting Standards Board (the "IASB") for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020

The application of the amendments to IFRS Standards in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

1.2 APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards") (Continued)

New and amendments to IFRS Standards in issue but not yet effective

The Group has not early applied the following new and amendments to IFRS Standards that have been issued but are not yet effective:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to IAS 1	Non-current Liabilities with Covenants[3]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023.

2 Effective for annual periods beginning on or after a date to be determined.

3 Effective for annual periods beginning on or 1 January 2024.

Except for the amendments to IFRS Standards mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRS Standards will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

1.2 APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards") (Continued)

New and amendments to IFRS Standards in issue but not yet effective (Continued)

Amendments to IAS 1 Classification of Liabilities as Current or Non-current (the "2020 Amendments") and Amendments to IAS 1 Non-current Liabilities with Covenants (the ("2022 Amendments")

The 2020 Amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 Financial Instruments: Presentation.

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that the classification should not be affected by management intentions or expectations to settle the liability within 12 months.

For rights to defer settlement for at least twelve months from reporting date which are conditional on the compliance with covenants, the requirements introduced by the 2020 Amendments have been modified by the 2022 Amendments. The 2022 Amendments specify that only covenants with which an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date. Covenants which are required to comply with only after the reporting period do not affect whether that right exists at the end of the reporting period.

In addition, the 2022 Amendments specify the disclosure requirements about information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, if the entity classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period. The 2022 Amendments also defer the effective date of applying the 2020 Amendments to annual reporting periods beginning on or after 1 January 2024.

1.2 APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards") (Continued)

New and amendments to IFRS Standards in issue but not yet effective (Continued)

Amendments to IAS 1 Classification of Liabilities as Current or Non-current (the "2020 Amendments") and Amendments to IAS 1 Non-current Liabilities with Covenants (the ("2022 Amendments") (Continued)

The 2022 Amendments, together with the 2020 Amendments, are effective for annual reporting periods beginning on or after 1 January 2024, with early application permitted. If an entity applies the 2020 amendments for an earlier period after the issue of the 2022 Amendments, the entity should also apply the 2022 Amendments for that period.

Based on the Group's outstanding liabilities as at 31 December 2022, the application of the 2020 and 2022 Amendments will not result in reclassification of the Group's liabilities.

Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies

IAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

IFRS Practice Statement 2 Making Materiality Judgements (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

1.2 APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards") (Continued)

New and amendments to IFRS Standards in issue but not yet effective (Continued)

Amendments to IAS 8 Definition of Accounting Estimates

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty – that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in IAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

2. REVENUE

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2022			
Segments	**International NVC brand** *RMB'000*	**Domestic non-NVC brand** *RMB'000*	**International non-NVC brand** *RMB'000*	**Total** *RMB'000*
Sales to external customers	291,215	118,197	1,479,035	1,888,447
Geographical markets				
United States	–	–	1,147,019	1,147,019
Japan	71	–	237,664	237,735
The PRC	–	118,197	–	118,197
Netherland	–	–	59,019	59,019
United Kingdom	153,009	–	6,277	159,286
Other countries	138,135	–	29,056	167,191
Total	291,215	118,197	1,479,035	1,888,447
Timing of revenue recognition				
A point in time	291,215	118,197	1,479,035	1,888,447

2. REVENUE (Continued)

(i) Disaggregation of revenue from contracts with customers (Continued)

	For the year ended 31 December 2021			
Segments	International NVC brand	Domestic non-NVC brand	International non-NVC brand	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Sales to external customers	312,728	251,503	1,810,716	2,374,947
Geographical markets				
United States	996	–	1,272,895	1,273,891
Japan	–	–	303,643	303,643
The PRC	–	251,503	–	251,503
Netherland	–	–	169,706	169,706
United Kingdom	165,169	–	1,778	166,947
Other countries	146,563	–	62,694	209,257
Total	312,728	251,503	1,810,716	2,374,947
Timing of revenue recognition				
A point in time	312,728	251,503	1,810,716	2,374,947

(ii) Performance obligations for contracts with customers

The Group sells lighting products to the retailers over the world.

Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the specific location (delivery). Following the delivery, the customers have full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 30 to 90 days upon delivery.

2. REVENUE (Continued)

(ii) Performance obligations for contracts with customers (Continued)

Under the Group's standard contract terms, customers have a right to exchange for defective products within 30 days. The Group uses its accumulated historical experience to estimate the number of exchange on a portfolio level using the expected value method. Revenue is recognised for sales which are considered highly probable that a significant reversal in the cumulative revenue recognised will not occur. A contract liability is recognised for sales in which revenue has yet been recognised. The Group's right to recover the product when customers exercise their right is recognised as a right to returned goods and a corresponding adjustment to cost of sales.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All goods provided by the Group are for contracts with original expected duration of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

3. OPERATING SEGMENTS

Information reported to the executive directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

Specifically, the Group's reportable segments under IFRS 8 *Operating Segments* are as follows:

- International NVC brand – sales of NVC branded lighting products outside the PRC
- Domestic non-NVC brand – domestic sales of non-NVC branded lighting products in the PRC
- International non-NVC brand – sales of non-NVC branded lighting products outside the PRC

The following is an analysis of the Group's revenue and results by reportable segments:

3. OPERATING SEGMENTS (Continued)

For the year ended 31 December 2022

	International NVC brand *RMB'000*	Domestic non-NVC brand *RMB'000*	International non-NVC brand *RMB'000*	Consolidated *RMB'000*
Segment revenue:				
Sales to external customers	**291,215**	**118,197**	**1,479,035**	**1,888,447**
Segment results	**92,655**	**13,199**	**325,598**	**431,452**
Reconciliation				
Other income				**49,194**
Other gains and losses				**(40,695)**
Unallocated expenses				**(539,383)**
Impairment losses in respect of interests in associates				**(50,148)**
Impairment losses under expected credit loss model, net of reversal				**149**
Finance costs				**(16,641)**
Share of results of associates				**142,930**
Loss before tax				**(23,142)**

3. OPERATING SEGMENTS (Continued)

For the year ended 31 December 2021

	International NVC brand *RMB'000*	Domestic non-NVC brand *RMB'000*	International non-NVC brand *RMB'000*	Consolidated *RMB'000*
Segment revenue:				
Sales to external customers	312,728	251,503	1,810,716	2,374,947
Segment results	105,804	42,710	513,918	662,432
Reconciliation				
Other income				46,524
Other gains and losses				986
Unallocated expenses				(598,717)
Impairment loss in respect of goodwill				(24,309)
Impairment losses under expected credit loss model, net of reversal				(4)
Finance costs				(7,528)
Share of results of associates				(16,394)
Profit before tax				62,990

Segment profit represents the profit earned by each segment without allocation of other income, other gains and losses, impairment losses in respect of interests in associates, impairment loss in respect of goodwill, impairment under expected credit loss model, net of reversal, unallocated expenses, finance costs and share of results of associates. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

3. OPERATING SEGMENTS (Continued)

For the year ended 31 December 2022

	International NVC brand *RMB'000*	Domestic non-NVC brand *RMB'000*	International non-NVC brand *RMB'000*	Total reportable segments *RMB'000*	Others *RMB'000*	Consolidated *RMB'000*
Amounts included in the measure of segment profit or loss or segment assets:						
Capital expenditure*	2,578	4,806	99,053	106,437	230	106,667
Write-down of inventories	2,934	2,009	20,213	25,156	–	25,156
Depreciation and amortisation	6,320	11,172	86,552	104,044	2,599	106,643
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:						
Impairment losses recognised (reversed) on trade receivables and other receivables, net	1,598	(54)	(1,693)	(149)	–	(149)
Impairment losses in respect of interest in associate	50,148	–	–	50,148	–	50,148
Impairment loss in respect of property, plant and equipment	–	–	1,005	1,005	–	1,005

3. OPERATING SEGMENTS (Continued)

For the year ended 31 December 2021

	International NVC brand *RMB'000*	Domestic non-NVC brand *RMB'000*	International non-NVC brand *RMB'000*	Total reportable segments *RMB'000*	Others *RMB'000*	Consolidated *RMB'000*
Amounts included in the measure of segment profit or loss or segment assets:						
Capital expenditure*	5,060	9,321	94,261	108,642	5,129	113,771
Write-down of inventories	943	1,793	5,741	8,477	–	8,477
Depreciation and amortisation	7,030	17,590	88,437	113,057	2,550	115,607
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:						
Impairment losses recognised (reversed) on trade receivables and other receivables, net	3,482	230	4,492	8,204	(8,200)	4
Impairment loss in respect of goodwill	24,309	–	–	24,309	–	24,309

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

3. OPERATING SEGMENTS (Continued)

Geographical information

The Group's operations are located in the PRC and other countries.

Information about the Group's revenue from external customers is presented based on the location of the customers' operations. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers Year ended		Non-current assets	
	31/12/2022	**31/12/2021**	**31/12/2022**	**31/12/2021**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
United States	1,147,019	1,273,891	7,933	9,791
Japan	237,735	303,643	17,452	17,853
The PRC	118,197	251,503	2,061,788	1,834,538
Netherland	59,019	169,706	–	–
United Kingdom	159,286	166,947	49,665	46,700
Other countries	167,191	209,257	88,491	88,658
	1,888,447	2,374,947	2,225,329	1,997,540

Note: Non-current assets excluded equity instruments and deferred tax assets.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2022	2021
	RMB'000	*RMB'000*
Customer A[1]	**635,594**	700,713
Customer B[1]	**489,078**	440,770
Customer C[1]	**237,735**	303,626

[1] Revenue from International Non-NVC brand segment.

4. OTHER INCOME

	2022	2021
	RMB'000	*RMB'000*
Government grants and other subsidies	**12,829**	15,697
Bank interest income	**12,839**	8,505
Other interest income	**642**	1,082
Surcharges from suppliers	**1,347**	59
Rental income – lease payments that are fixed	**1,651**	1,630
Consultancy service income	**7,270**	6,447
Trademark licensing fee	**10,131**	11,389
Samples recharged to customers	**–**	394
Others	**2,485**	1,321
	49,194	46,524

5. OTHER GAINS AND LOSSES

	2022	2021
	RMB'000	*RMB'000*
Net foreign exchange losses	**(21,603)**	(9,065)
(Loss) gain from fair value changes of held-for-trading investments	**(16,448)**	16,213
Impairment loss recognised in respect of property, plant and equipment	**(1,005)**	(6,209)
Gain on disposal of property, plant and equipment	**213**	1,292
Loss on disposal of other intangible assets	**(308)**	(163)
Others	**(1,544)**	(1,082)
	(40,695)	986

6. OTHER EXPENSES

	2022	2021
	RMB'000	*RMB'000*
Research and development costs	**43,207**	69,811

7. FINANCE COSTS

	2022	2021
	RMB'000	*RMB'000*
Interest on vendor financing	**4,207**	3,090
Interest on lease liabilities	**2,858**	3,533
Interest on borrowings	**9,576**	905
	16,641	7,528

8. INCOME TAX EXPENSE

	2022	2021
	RMB'000	*RMB'000*
Current tax:		
Hong Kong	**8,702**	17,265
PRC Enterprise Income Tax	**6,213**	8,742
Other countries	**3,240**	1,439
	18,155	27,446
Under (over)provision in prior years:		
Hong Kong	**412**	773
PRC Enterprise Income Tax	**1,213**	(2,013)
Other countries	**353**	788
	1,978	(452)
Deferred tax	**(5,791)**	2,530
Total	**14,342**	29,524

8. INCOME TAX EXPENSE (Continued)

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduced the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first Hong Kong dollars ("HK$") 2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

ETi Solid State Lighting (Zhuhai) Limited ("Zhuhai SSL") and Zhejiang Jiangshan Sunny Electron Co., Ltd. ("Sunny") were recognised as high-tech enterprise by the PRC tax authority and entitled a preferential tax rate of 15% during both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

9. (LOSS) PROFIT FOR THE YEAR

(Loss) profit for the year has been arrived at after charging:

	2022	2021
	RMB'000	*RMB'000*
Auditor's remuneration	**4,708**	5,050
Cost of inventories recognised as expense	**1,431,839**	1,704,038
Amortisation of other intangible assets (included in "selling and distribution expenses")	**48,136**	48,656
Depreciation		
– Property, plant and equipment	**38,017**	42,767
– Investment properties	**331**	240
– Right-of-use-assets	**20,159**	23,944
Total amortisation and depreciation	**106,643**	115,607
Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	**262,367**	338,353
Pension scheme contributions	**24,448**	26,500
Other welfare expenses	**9,348**	8,036
Total staff costs	**296,163**	372,889
Impairment loss in respect of property, plant and equipment	**1,005**	6,209
Research and development costs (included in "other expenses")	**43,207**	69,811
Write-down of inventories (included in "cost of sales")	**25,156**	8,477

10. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share attributable to the owners of the Company is based on the following data:

(Loss) earnings figures are calculated as follows:

	2022	2021
	RMB'000	*RMB'000*
(Loss) profit for the purpose of basic earnings per share	**(66,119)**	5,814

	2022	2021
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**4,227,281**	4,227,281

No diluted (loss) earnings per share for both 2022 and 2021 were presented as there were no potential ordinary shares in issue for both 2022 and 2021.

11. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the years ended 31 December 2022 and 31 December 2021, nor has any dividend been proposed since the end of the Reporting Period.

12. INVENTORIES

	2022	2021
	RMB'000	*RMB'000*
Raw materials and consumables	**80,432**	147,606
Work in progress	**22,745**	40,777
Finished goods	**344,683**	435,655
	447,860	624,038

13. TRADE AND BILLS RECEIVABLES

	2022	2021
	RMB'000	*RMB'000*
Trade receivables	**326,585**	494,933
Less: Allowance for credit losses	**(11,579)**	(11,983)
	315,006	482,950
Bills receivables	**4,342**	17,453
	319,348	500,403

As at 1 January 2021, trade receivables from contracts with customer amounted to RMB499,924,000.

Included in the Group's trade receivables are amounts due from related parties of RMB1,248,000 (2021: RMB1,365,000) which are repayable on similar credit terms to those offered to the major customers of the Group.

The following is an aged analysis of trade receivables, net of allowance for credit losses, presented based on the transaction date, and an analysis of bills receivables by age, net of allowance for credit losses, presented based on the bills issuance date at the end of the reporting period.

	2022	2021
	RMB'000	*RMB'000*
Trade receivables		
Within 3 months	**265,861**	425,312
4 to 6 months	**46,473**	53,480
7 to 12 months	**1,285**	1,571
1 to 2 years	**520**	1,748
Over 2 years	**867**	839
	315,006	482,950
Bill receivables		
Within 3 months	**2,643**	14,853
4 to 6 months	**1,699**	2,600
	4,342	17,453

13. TRADE AND BILLS RECEIVABLES (Continued)

As at 31 December 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB54,256,000 (2021: RMB49,899,000) which are past due as at the reporting date. Out of the past due balances, RMB10,049,000 (2021: RMB12,204,000) has been past due 90 days or more and is not considered as in default based on repayment records of those customers and continuous business with the Group..

As at 31 December 2022, total bills received amounted to RMB4,342,000 (2021: RMB17,453,000) are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than six months. Other than bills receivables, the Group does not hold any collateral over these balances.

Trade receivables amounted to RMB57,435,000 (2021: RMB163,300,000) have been pledged as security for the Group's borrowings (Note 16).

Transfer of financial assets

The following were the Group's financial assets at 31 December 2022 and 2021 that were transferred to suppliers by endorsing those bills receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the bills receivables and the full carrying amount of the trade payables (see Note 14) for endorsed bills receivables. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

Bills receivables endorsed to suppliers with full recourse:

	2022	2021
	RMB'000	*RMB'000*
Carrying amount of transferred assets	**1,248**	8,808
Carrying amount of associated liabilities	**(1,248)**	(8,808)

14. TRADE PAYABLES

	2022	2021
	RMB'000	*RMB'000*
Trade payables due to third parties	**192,797**	409,871
Trade payables due to related parties	**11,006**	40,259
Trade payables due to third parties under supplier finance arrangement *(Note)*	**24,582**	159,110
Trade payables due to related parties under supplier finance arrangement *(Note)*	**–**	580
	228,385	609,820

Note: These relate to trade payables in which the Group has issued bills to the relevant suppliers and related parties for future settlement trade payables. The Group continues to recognise these trade payables as the relevant banks are obliged to make payments only on due dates of the bills, under the same conditions as agreed with the suppliers and related parties without further extension.

	2022	2021
	RMB'000	*RMB'000*
Trade payables due to related parties		
– Subsidiaries of the entity with significant influence over the Company	**7,971**	14,821
– Associates	**3,035**	25,438
	11,006	40,259
Trade payables due to related parties under supplier finance arrangement		
– Subsidiaries of the entity with significant influence over the Company	**–**	580

14. TRADE PAYABLES (Continued)

The followings is an aged analysis of trade payables not under supplier finance arrangement presented based on the transaction date.

	2022	2021
	RMB'000	*RMB'000*
Within 3 months	**187,206**	428,538
4 to 6 months	**8,656**	11,085
7 to 12 months	**4,969**	1,272
1 to 2 years	**1,683**	7,415
Over 2 years	**1,289**	1,820
	203,803	450,130

The followings is an aged analysis of trade payables under supplier finance arrangement presented based on the bills issuance date.

	2022	2021
	RMB'000	*RMB'000*
Within 3 months	**10,448**	118,693
4 to 6 months	**14,134**	40,997
	24,582	159,690

The average credit period on purchase of goods is 30 to 180 days (2021: 30 to 180 days).

15. BORROWINGS

	2022	2021
	RMB'000	*RMB'000*
Secured bank loans	**271,858**	39,450
Unsecured bank loans	**–**	585
	271,858	40,035

	2022	2021
	RMB'000	*RMB'000*
The carrying amounts of above borrowings that are repayable within one year or contain a repayment on demand clause (shown under current liabilities)	**271,858**	40,035

Borrowings comprise:

	Maturity date	**Contractual interest rate**	**Carrying amount**	
			2022	2021
			RMB'000	*RMB'000*
Secured bank loans *(Note a)*	on demand (2021: on demand)	Base*+1.90% p.a. (2021: Base*+1.90% p.a.)	**32,296**	39,450
Unsecured bank loans	on demand (2021: on demand)	4.00% per month (2021: 4.00% per month)	**–**	585
Secured bank loans *(Note b)*	February 2023	3.60% p.a.	**239,562**	–
			271,858	40,035

Note a: The secured bank loans represented facilities secured by the pledge of certain trade receivables (Note 13). The loan is repayable upon the collection of the factored trade receivables.

Note b: The secured bank loans represented facilities secured by the pledged bank deposits. The loan was fully repaid in February 2023.

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

16. PLEDGE OF ASSETS

The Group's borrowings had been secured by the pledge of the Group's assets and the carrying amounts of the respective assets are as follows:

	2022	2021
	RMB'000	*RMB'000*
Trade receivables	**57,435**	163,300
Pledged bank deposits	**373,071**	83,272
	430,506	246,572

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET AND PERFORMANCE REVIEW

In 2022, in the face of the global economic slowdown, coupled with the Russian-Ukrainian war, the prices of commodities and freight rates remained high, the global economy shrunk rapidly, and the inflation index was high. As a result, the market economy environment was constantly changing, and all the industries were facing significant challenges in their operation. All major banks and financial institutions had lowered their GDP growth forecasts for various countries one after another, resulting in a sharp drop in their confidence in economic growth this year. The global economy growth was expected to slow to 3.2% in 2022 according to the latest World Economic Outlook published by the International Monetary Fund.

Faced with the tight supply chain, the Group adjusted its procurement strategy and signed strategic cooperation agreements with core suppliers to ensure a stable supply. The Group has paid attention to the market trend, launched a series of new lighting products to meet the needs of customers, and strengthened the Group's sales foundation. In addition to the international lighting business, the Group had been preparing for the expansion of its non-lighting business in the global market in 2022. With the brand mission of "Empowering Your LifeScape • 讓生活如你所願" and by focusing on our customers and their environment, we have been actively expanding products in the two elements of "air" and "water" and related fields to improve the life quality of consumers, to realise the vision of sustainable development and to build a smarter, more environmentally friendly and more technological living space. During the Reporting Period, affected by a number of unfavorable factors such as the weak global economy, increased prices in raw materials and the lockdown measures in Shanghai, the Group recorded sales revenue of RMB1,888,447,000, representing a decrease of 20.5% as compared with the Corresponding Period; and gross profit of RMB431,452,000, representing a decrease of 34.9% as compared with the Corresponding Period.

Selling and Distribution

The Group has established sales networks and channels in major countries and regions including the PRC, North America, Europe, Australia, East Asia, the Middle East and Southeast Asia leveraging its extensive marketing experience and superior globe-based operation team.

North American and Japanese Markets

In 2022, in the North American market, the Group continued its long-standing model of parallel operation of three channels: retail channel, distributor channel and engineering channel. Under the influence of the stay-at-home economy model in 2021, consumers are more and more aware of online shopping. Online transactions in the retail industry in the United States are developing rapidly, accounting for a certain proportion of total retail sales, and such momentum is still growing fast. As a manufacturer and brand owner of functional lamps, the Group's product planning and strategic direction are extremely compatible with the current largest retail customer. Affected by the economic situation, the total sales of retail channels in 2022 declined as compared with last year. In terms of the distributor channel in the North American market, the entire sales team has been reorganized since the beginning of the year, meanwhile, a huge number of unqualified agents had been replaced and new agents had been distributed in vacant areas. By the end of 2022, the Group had completed the agents network in 50 states of the United States. In terms of engineering channel, great progress had been made in 2022. Particularly, the lighting projects of the chain gymnasium began to increase gradually due to the previous foundation work. For other engineering customers, in addition to purchasing traditional indoor products, they also started to purchase outdoor series of products in 2022. The Group also set up a demonstration project store in cooperating with a US high-end chain retailer with expanded product categories. In addition, the UVC and plasma germicidal lamps that the Group was committed to developing in 2021-2022 also had considerable progress in 2022. The Group signed an agency agreement with an agent, and products combining plasma and lighting, ultraviolet light and lighting had been put into the market in the second quarter, involving projects such as high-end apartments, nursing homes and clinics.

In 2022, Japanese Yen experienced an unstoppable declining depreciation. As Japan relies heavily on imports, the depreciation of Japanese Yen resulted in rising procurement costs and rising commodity prices. The Japanese market is affected by the global economic environment and the pandemic, and major retailers and home improvement stores were suffering from difficult market conditions as a whole. The high costs brought about by the increase in sea freight rate and the depreciation of Japanese Yen suppressed the profit margin of brand owners. In order to maintain their market share, brand owners hesitated to raise their retail prices. Given such various unfavourable market conditions, the overall sales of the Japanese market in 2022 declined compared with 2021. Due to high inventory costs and rising freight costs at the beginning of the year, the cost of sales increased, resulting in a decrease in profits. In the face of drastic changes in the external environment, in addition to focusing on reducing the cost of existing products, the team members adjusted the product structure since the second half of the year by ceasing to sell low-margin product lines and launching new products. Moreover, they have been preparing for sales channels and the promotion of new products in the non-lighting series.

2022 was a remarkable year for D&H Lifelabs, with significant progress and achievements. The Group hired an exceptional team that played a pivotal role in bringing D&H Lifelabs to the market. The team delivered a fully functional e-commerce website for the US, UK, and Japan markets, executed new packaging and collateral effectively, and established a California 3PL, enhancing supply chain operations. These efforts led to the launch of all consumer SKUs on Amazon US, UK, and Japan, significantly expanding the customer base. D&H Lifelabs also successfully launched Paid Media (Offsite) and Amazon Media (Onsite) to reach the target audience more effectively, receiving dotcom assortment awards from various retailers and signing contracts with website representation firms to extend distribution networks and reach national large retailers.

UK and Nordic Markets

Despite facing inflation of production cost and shipping cost of global market, the management team of the Group made their efforts on maintaining stable financial performance of UK and Nordic markets. The UK and Nordic sales teams focused on developing the brand reputation and driving lighting products demand in the UK and Nordic markets. Also, it drived the product mix to the more added value and higher margin channels. With integration and centralization of Nordic operations, the profitability was improved by cost synergy in Nordic market. Furthermore, the Group focused on promoting DERNIER & HAMLYN ("D&H"), a century-old high-quality luxury lighting manufacturer in the UK, and offering bespoke lighting products to customers. With the high margin bespoke products, it maintained stable gross profit margin for UK and Nordic market.

Other Overseas Markets

In 2022, multiple waves of epidemics and transportation restrictions around the world have delayed the arrival of goods and distribution channels. This affected the Group's overall performance in Southeast Asia regions. However, the management of the Group was constantly adapting strategy towards maintaining market reach and assisting local partners towards project fulfilment. Some Southeast Asia regions, had recorded a decent improvement on revenue when compared with Corresponding Period due to resumption of construction work projects. The Group had put a huge amount of effort to develop and market both new lighting and non-lighting products into the key markets. During the Reporting Period, the Group has launched a series of new products covering commercial lighting, office lighting, industrial lighting, and outdoor lighting to meet the local project requirements and this improved the overall performance in Southeast Asia regions.

In 2022, the Group mainly focused on engineering and construction projects in Middle East and North Africa, including the installation and commissioning of supporting facilities of Lusail Stadium and 974 Stadium to ensure the success of FIFA World Cup 2022 in Qatar. The Group focused on the business extension of large-scale projects and has secured orders in Egypt and Algeria. At the same time, the Group proactively cooperated with local well-known lighting brands to provide high-quality, high value-added OEM products.

Brand Image Building and New Product Research and Development

The Group promotes its brand with three elements, namely “water”, “light” and “air”. “Light” is the continuous driving force and core foundation of the Group’s growth. In 2022, for the integration and upgrade of overseas lighting brands, while considering changes of environment and consumer needs, the Group strategically identified its characteristics and comprehensively upgraded from multiple fields and channels to create a richer and more establishing brand image. This reflected brand value in all the comprehensive experiences given to consumers, making the corporate image more profound. In addition, in response to consumers’ increased awareness of epidemic prevention, the Group made use of D&H, a century-old high-quality luxury lighting brand in the UK, to create a new Indoor Air Quality (“IAQ”) brand centered on the elements of “water” and “air”. In 2022, the Group won the German iF Industrie Forum Design award, the Industrial Internet KiloPeaks Award – Potential Award (產業互聯網千峰獎—潛力獎) from the Ebrun Industrial Internet Summit and other awards at home and abroad, and was also selected as one of the “Top Ten Air Quality Solution Providers of 2022” by the magazine Construction Tech Review, which demonstrated the excellence of product design as well as the research and development capability of the Group. This further enhanced brand awareness and expanded the brand influence.

The Group’s management has put forward the core development strategy of “Technology-driven and Users First” to promote the research and development of lighting and non-lighting products. The Group attaches great importance to the research and development of innovative technologies. In 2022, the Group successfully developed a number of non-lighting technologies, including air disinfectors, water-air disinfection technologies and commercial fresh air disinfectors. The Group’s design department paid attention to market trends and had an insight into consumers’ needs. They carried out product research and development with the professional spirit of “ingenuity and innovation”. The new products were designed to enhance the user experience by placing emphasis on the changes in the user environment and identifying the actual and potential needs of users. The Group has successfully launched a number of new products in 2022 by utilizing relevant technology and product design.

FUTURE PROSPECTS

In 2023, while ensuring the sales of lighting business, the Group will vigorously promote the development of non-lighting business. Through the efforts of the Group's R&D team, IAQ products have been successfully launched. The Group will further capitalise on the brand reputation of D&H, a century-old high-quality luxury lighting manufacturer in the UK, to launch more IAQ products in overseas markets in 2023. The strong sales channels of the Group, together with the promotion of new products, will help to further improve the Group's sales performance in future. In addition, the Group will continue to optimise the management structure and integrate the overseas business. Based on the business in the U.S. and the UK, it will continue to strengthen the business in the Middle East and Southeast Asia markets, while promoting the developed cost-effective products and intelligent products to different overseas markets. The Group will proactively improve its brand image to enhance its brand awareness in international markets and promote its mission of "Empowering Your LifeScape • 讓生活如你所願".

North American and Japanese Markets

In 2023, the Group's top priority is to consume inventory and bring inventory back to normal levels. The US sales team will formulate the promotion plans based on different inventory ageing and market acceptance. In terms of the retail market, the Group will utilise online channels to rapidly promote the sales of cost-effective products that can be sold through e-commerce channels, and will also supplement the vacant product lines with its own brands, so that the sales of online products and offline products can complement each other to jointly boost sales. In addition, in order to further enhance the Group's competitiveness and align the Group's long-term development goals in the future, the US management team will integrate resources and processes, and strategically optimize the structure of self-made and outsourced product lines. The factory in Vietnam will establish self-made workshops for blow moulding, extrusion moulding and rolling in the second and third quarters of 2023, and the standard chassis of the core product lines will form the systematic planning. The strategic shift is to return to the principle of cost leadership for the expansion of market share.

In 2023, the strategy for the Japanese market will continue to take “technological innovation, quality first, and cost orientation” as the main core values. The Group will lay a solid foundation for broader business and the development of self-owned brands in the future. The Group will always pay attention to external opportunities and strive to increase sales, and will also sell more high value-added product lines with high profit margins and effectively manage discounts, logistics and inventory, so as to generate more profits for the Group. The Group will seize more market shares under the premise of maintaining the gross profit margin. In addition to the traditional and strong lighting field, the Group will simultaneously start the e-commerce business of its own brand D&H Lifelabs air purifiers products.

The future market outlook for IAQ is promising, and D&H Lifelabs is well-positioned to take advantage of the growing demand for IAQ products. The global IAQ market is expected to reach $6.5 billion by 2025, driven by increasing health concerns related to indoor air pollution, rising disposable income, and technological advancements in air purification systems. Looking forward to 2023, D&H Lifelabs plans to launch a B2B line of products, focus on national retail partners, create differentiated content for the market, continue running the Affiliate Marketing Program, and engage with customers through social channels to enhance the brand image. The Group appreciates the hard work, dedication, and patience of all employees and remains committed to enhancing operations, expanding the business, and delivering value to customers in the coming year.

UK and Nordic Markets

The management of the Group anticipates the sale performance will be improved in 2023 as the European economies have recovered to pre-Covid-19 levels and the local sales teams have been strengthened by recruiting experienced personnel. The Group will continues improving the gross profit margin of UK and Nordic lighting business by introducing high value products to the wholesale market and focusing on lighting project development. The management of the Group will also improve the operation efficiency by enhancing the inventory management. This will improve the financial performance of the Group. Also, the Group will put more resources in developing new D&H products and promoting D&H products which will secure more sale orders. With the progress of D&H bespoke lighting product projects, the Group will further enhance its revenue and financial performance in UK and Nordic market.

Other Overseas Markets

The Group will continue to maintain a long-term strategic key alliance with Southeast Asia regional partners to work with them exclusively to use its own NVC brands for their lighting projects which in turn will ensure the Group's brand position in the marketplace. The Group will also focus on promoting lighting products to high-end segment for project product portfolio, which will enhance the gross profit margin of the Group. Also, the Group will put more resources in developing sale channels for non-lighting products. The Group will make use of post–pandemic situation to promote the non-lighting products and improve the overall operating performance in Southeast Asia regional. The Group plans to expand its distribution presence in the existing major markets in 2023, while directly expanding to other markets such as Indonesia, Malaysia, and Philippines.

In 2023, the Group will focus on developing the distribution channels in engineering and construction industry, and introducing the NVC's UK products to enrich the product lines in Middle East and North Africa markets. For Saudi Arabia, the largest oil producer and largest consumer market in Middle East, the Group will proactively cooperate with those well-known local corporations in conjunction with the Saudi Arabia's 2030 NEOM project to promote the NVC brand in the local market. In 2023, the Group plans to hold a distributor conference, inviting various distributors from different markets in Middle East and North Africa to explain the Group's strategic deployment and business philosophy, assist distributors to develop channels in the local markets, and provide more products that are more in line with the needs of the local markets.

Brand Building, Product Development and Internal Management

The Group successfully gained widespread recognition through various brand promotion campaigns in 2022. In 2023, the Group will use D&H as the first pioneering brand of the Group to expand the overseas high-end lighting field. Leveraging D&H's century-old brand history, it will build the century-old brand image. Meanwhile, the Group will increase promotion of other non-lighting brands. We shall accurately satisfy consumer demands and enhance customer experience by taking advantage of excellent product design capability and the capability of building intelligent product ecosystem.

In response to the increasing public awareness of environmental protection, the market has begun to focus on the development of green energy and carbon neutrality. The Group actively improves the efficiency of photoelectric utilization and strives to achieve the goal of carbon neutrality. In addition, the Group propels the application of green lighting in order to continuously expand the application of clean energy in lighting systems and to endorse green and low-carbon policies.

In respect of the supply chain, raw material price control will be a key concern for the Group. The Group will strengthen control on material prices, inventory control and team personnel optimisation. It will control material costs by linking bulk material prices, collective procurement and other strategies, and reduce inventory by shortening the procurement cycle, thereby enhancing the Group's business performance. In addition, the Group will continue to promote the digitalisation and informatisation construction throughout the Group. In 2023, the Group is devoted to promoting the ERP system transformation of its subsidiaries, so as to achieve globally cross-regional cooperation and resource sharing among main businesses, thereby enhancing the overall operating efficiency of the Group. Meanwhile, the Group will enhance its ERP function and, by adding different functions, further enhance its governance effectiveness.

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 amounted to RMB1,888,447,000, representing a decrease of 20.5% as compared with the sales revenue in the Corresponding Period.

For business management need and the nature of business units based on the products and market, the Group classified 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		
	2022	2021	Growth rate
Sales revenue from the PRC market			
Non-NVC brands	**118,197**	251,503	-53.0%
Subtotal	**118,197**	251,503	-53.0%
Sales revenue from international markets			
NVC brands	**291,215**	312,728	-6.9%
Non-NVC brands	**1,479,035**	1,810,716	-18.3%
Subtotal	**1,770,250**	2,123,444	-16.6%
Total	**1,888,447**	2,374,947	-20.5%

The Group continues to focus on the lighting products in overseas market. During the Reporting Period, sales revenue from the PRC decreased by 53.0%, due to operation suspension of a subsidiary of the Group because of lockdown measures in Shanghai in 2022. Meanwhile, international sales decreased by 16.6%, mainly due to weak demand resulted from serious inflation issues and the weak economy in international market. This led to a decrease in the overall sales revenue by 20.5% comparing with Corresponding Period.

Cost of Sales

Cost of sales mainly consists of the cost of raw materials, outsourced manufacturing costs, labor costs and indirect costs. Major raw materials of the Group include iron, aluminum and alloys, 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			
	2022		2021	
	RMB'000	***Percentage in revenue (%)***	*RMB'000*	*Percentage in revenue (%)*
Raw materials (including outsourced manufacturing costs)	**1,242,837**	**65.8%**	1,459,481	61.5%
Labor costs	**113,985**	**6.0%**	165,567	7.0%
Indirect costs	**100,173**	**5.3%**	87,467	3.6%
Total	**1,456,995**	**77.2%**	1,712,515	72.1%

During the Reporting Period, the cost of sales as a percentage in revenue increased from 72.1% to 77.2%, while the gross profit margin decreased from 27.9% to 22.8%. mainly due to the high commodities prices and shipping cost which boosted the production cost.

Gross Profit and Gross Profit Margin

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

During the Reporting Period, gross profit was RMB431,452,000, representing a decrease of 34.9% as compared with the gross profit of sales from the continuing operations of the Corresponding Period, and gross profit margin of sales decreased from 27.9% to 22.8%. The gross profit and gross profit margin by segments are shown as follows:

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			
	2022		2021	
	RMB'000	***(%)***	*RMB'000*	*(%)*
Gross profit from PRC sales:				
Non-NVC brands	**13,199**	**11.2%**	42,710	17.0%
Subtotal	**13,199**	**11.2%**	42,710	17.0%
Gross profit from international sales:				
NVC brands	**92,655**	**31.8%**	105,804	33.8%
Non-NVC brands	**325,598**	**22.0%**	513,918	28.4%
Subtotal	**418,253**	**23.6%**	619,722	29.2%
Total	**431,452**	**22.8%**	662,432	27.9%

Due to complex global economic and social environment, the overall gross profit margin of the Group decreased as compared with the Corresponding Period. The Group faced the impact of high commodities and freight cost since second half of 2021, the production cost of the Group during the Reporting Period increased as compared with the Corresponding Period. However, the Group has implemented the following measures to mitigate the impact. Firstly, the Group gradually transferred the best-selling product lines to Vietnam factories where more preferential trade policies are provided, and strengthened procurement and technology to reduce costs, which mitigated the impact of high commodities price; secondly, the Group expanded its exposure in Nordic market, where it generated more gross profit to the Group; and lastly, it accelerated the development and promotion of new products, and provided customisation products and services to increase the added value and gross profit margin of new products, which contributed to the gradual increase in the proportion of new products with high gross profit margin, leading to an effective increase in the overall gross profit margin. With the combined effects, the overall gross profit margin of the Group during the Reporting Period decreased from 27.9% to 22.8% compared with the Corresponding Period.

Other Income

Our other income mainly consists of government grants and other subsidies, bank and other interest income, surcharges from suppliers, rental income, consultancy service income, trademark licensing fee and others (the breakdown of other income is provided in Note 4 to the consolidated financial statement in this announcement). We received various types of government grants in the form of tax subsidies, incentives for research and development activities and expansion of production capacity of energy-saving lamp. During the Reporting Period, other income of the Group increased as compared with the other income from the Corresponding Period, which was mainly due to increase of bank interest income.

Other Gains and Losses

This item represents the Group's net foreign exchange losses, (loss) gain from fair value changes of held-for-trade investments, loss on disposal of property, plant and equipment and others 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 costs including office expenses, customs clearance expenses, travelling expenses, depreciation and amortisation, insurance fees and other miscellaneous costs.

During the Reporting Period, the selling and distribution costs were RMB270,188,000, representing a decrease of 0.9% as compared with the selling and distribution costs from the Corresponding Period. The selling and distribution costs as a percentage in revenue increased from 11.5% to 14.3%, which is mainly resulted from an increase in freight rate which leads to higher transportation costs on selling in overseas market.

Administrative Expenses

Our administrative expenses mainly consist of staff costs, amortisation and depreciation, 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, the administrative expenses were RMB225,988,000, representing a decrease of 11.8% as compared with the administrative expenses from continuing operations of the Corresponding Period, which was mainly due to the improvement of the organisational structure of the Group. Our administrative expenses as a percentage in revenue slightly increased from 10.8% to 12.0%.

Finance Costs

Finance costs represent the expenses of interest on bank loans, interest on lease liabilities and interest on vendor financing.

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 decreased significantly to RMB14,342,000 as compared with the income tax from the Corresponding Period. It is mainly due to the reduction of current income tax provision for the Group during the Corresponding Period.

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

Due to the factors mentioned above, our loss for the year (including profit attributable to non-controlling interests) was RMB37,484,000 during the Reporting Period.

Loss Attributable to Owners of the Company for the Year

Due to the factors mentioned above, loss attributable to owners of the Company was RMB66,119,000 during the Reporting Period.

Profit for the Year Attributable to Non-controlling Interests

During the Reporting Period, profit for the year attributable to non-controlling interests was RMB28,635,000.

Liquidity

Sufficiency of net current assets and working capital

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	
	2022	2021
	RMB'000	*RMB'000*
CURRENT ASSETS		
Inventories	**447,860**	624,038
Trade and bills receivables	**319,348**	500,403
Other receivables, deposits and prepayments	**85,983**	113,581
Tax recoverable	**4,330**	13,879
Financial assets at fair value through profit or loss ("**FVTPL**")	**30,138**	40,600
Pledged bank deposits	**373,071**	83,272
Cash and cash equivalents	**592,390**	948,268
Subtotal current assets	**1,853,120**	2,324,041
CURRENT LIABILITIES		
Trade payables	**228,385**	609,820
Other payables and accruals	**172,655**	254,301
Contract liabilities	**39,008**	34,205
Borrowings	**271,858**	40,035
Deferred income	**1,009**	1,009
Lease liabilities	**10,776**	14,890
Financial liabilities at FVTPL	**7,441**	–
Tax liabilities	**11,576**	15,937
Subtotal current liabilities	**742,708**	970,197
NET CURRENT ASSETS	**1,110,412**	1,353,844

As at 31 December 2022 and 31 December 2021, the total net current assets of the Group amounted to RMB1,110,412,000 and RMB1,353,844,000, respectively, and the current ratio was 2.50 and 2.40, respectively. In light of our current liquidity position and our projected cash inflows generated from operations, the Directors believe that the Group has 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	
	2022	2021
	RMB'000	*RMB'000*
Borrowings	**271,858**	40,035
Total debt	**271,858**	40,035
Less: cash and cash equivalents	**(592,390)**	(948,268)
Net debt	**N/A**	N/A
Total equity attributable to owners of the Company	**3,165,352**	3,195,184
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 Company). Net debt is the balance of interest-bearing loans and borrowings less cash and cash equivalents and short-term deposits.

Capital Expenditure

We funded our capital expenditure with cash generated from operations and bank loans. Our capital expenditure is primarily related to expenditure on property, plant and equipment and other intangible assets. During the Reporting Period, the Group's capital expenditure amounted to RMB106,667,000, mainly attributable to the increase in cost of leasehold improvements, machinery equipment, furniture and fixtures, computer equipment and customer relationships.

Off-balance Sheet Arrangement

We did not have any outstanding derivative financial instruments and 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 2022, the capital commitments in respect of purchase of property, plant and equipment were RMB5,882,000 (31 December 2021: RMB27,327,000).

Contingent Liability

During the year ended 31 December 2022, a subsidiary of the Group was involved in a legal dispute concerning patent infringement, arising in the normal course of business. At the end of the reporting period and up to the date on which these consolidated financial statements are authorised for issue, the directors of the Company are of the opinion, taking into account of the advice from the Group's external legal counsel, that this legal dispute is still in a preliminary stage and the expected outcome is uncertain. Therefore it is not practicable for the directors of the Company to estimate reliably the amount of the obligation that may arise from this dispute, and the timing and any potential impact on the Group.

CONTINUING CONNECTED TRANSACTIONS

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

MERGERS, ACQUISITIONS, INVESTMENTS AND DISPOSALS

In January 2022, the Group paid RMB210,000,000 for subscription of additional shares issued by Brilliant Lights International Holding Pte. Ltd. in order to maintain its 30% equity interest in Brilliant Lights International Holding Pte. Ltd..

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

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 managing 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, Hong Kong and Singapore. We also have policies that limit our credit risk exposure to any financial institutions. The carrying amounts of trade and bills receivables, deposit-pledges 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 2022, we entered into a number of one-year insurance contracts with China Export & Credit Insurance Corporation, which covered 90% uncollectible receivables from international sales during the period from 1 July 2022 to 30 June 2023 with a maximum compensation amount of US$30,000,000 (equivalent to approximately RMB208,938,000). 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.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

No important events affecting the Company occurred since 31 December 2022 and up to the date of this announcement.

FINAL DIVIDEND

The Board has proposed not to declare final dividend for the year ended 31 December 2022.

ANNUAL GENERAL MEETING

The annual general meeting (the "**Annual General Meeting**") of the Company is scheduled to be held on Friday, 16 June 2023. 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 of the Company will be closed from Tuesday, 13 June 2023 to Friday, 16 June 2023 (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 Monday, 12 June 2023.

EMPLOYEES

As at 31 December 2022, the Group had approximately 2,246 employees in total (31 December 2021: 3,165). 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.

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

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

CORPORATE GOVERNANCE

The Directors are of the opinion that, during the Reporting Period, the Company had fully complied with the principles and code provisions set out in the CG Code.

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

AUDIT COMMITTEE

The Company established an 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. As of the date of this announcement, the Audit Committee consists of three Independent Non-executive Directors as members, namely, Mr. LEE Kong Wai, Conway, Mr. WANG Xuexian and Mr. CHEN Hong, respectively. Mr. LEE Kong Wai, Conway is 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. As of the date of this announcement, the Remuneration Committee consists of one Executive Director and two Independent Non-executive Directors as members, namely, Ms. CHAN Kim Yung, Eva, Mr. LEE Kong Wai, Conway and Mr. WANG Xuexian, respectively. Mr. LEE Kong Wai, Conway is the chairman of the Remuneration Committee.

NOMINATION COMMITTEE

The Company established a nomination committee (the "**Nomination Committee**") in compliance with the Listing Rules 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. As of the date of this announcement, the Nomination Committee consists of one Executive Director and two Independent Non-executive Directors as members, namely, Mr. WANG Donglei, Mr. LEE Kong Wai, Conway and Mr. CHEN Hong, respectively. Mr. WANG Donglei is 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. WANG Keven Dun was re-designated from a Non-executive Director to an Executive Director on 1 September 2022 and, inter alia, as a member of Strategy and Planning Committee on the same day. Currently, the Strategy and Planning Committee consists of four Executive Directors and one Independent Non-executive Director as members, namely, Mr. WANG Donglei, Ms. CHAN Kim Yung, Eva, Mr. XIAO Yu, Mr. WANG Keven Dun and Mr. WANG Xuexian, respectively. Mr. WANG Donglei is the chairman of the Strategy and Planning Committee.

CHANGES OF DIRECTORS AND CHANGES IN THEIR INFORMATION

From 1 January 2022 and up to the date of this announcement, the changes of Directors and Board Committees, and changes in the Directors' personal information are as follows:

Mr. WANG Keven Dun

– Mr. WANG Keven Dun obtained a Master's degree in Business Administration from Harvard Business School in 2022.

– Mr. WANG Keven Dun was re-designated from a Non-executive Director to an Executive Director and was appointed as a vice president of the Company and a member of the Strategy and Planning Committee with effect from 1 September 2022.

Mr. LEE Kong Wai, Conway

– Mr. LEE Kong Wai, Conway retired as an Independent Non-executive Director of WH Group Limited (the shares of which are listed on the main board of the Stock Exchange) from 1 June 2022, and he was appointed as an Independent Non-executive Director of Intchains Group Limited (a company listed on Nasdaq Stock Exchange with stock code: ICG) on 15 March 2023.

Save as disclosed above, there is no other information that should be disclosed under rule 13.51B(1) of the Listing Rules.

CHANGE OF COMPANY SECRETARY

Ms. TEH Lai Ching had resigned as the company secretary of the Company with effect from 26 August 2022 and Ms. KWOK Siu Ying Sarah had been appointed as the company secretary of the Company with effect from 26 August 2022.

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-international.com and will be dispatched to the Shareholders in due course.

REVIEW OF ACCOUNTS

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

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the audited consolidated financial statements of the Group for the year as approved by the Board of Directors on 30 March 2023. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu 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.
"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.
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.
"Company"	NVC International Holdings Limited (雷士國際控股有限公司) (formerly known as 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.
"Corresponding Period"	the year ended 31 December 2021.
"Director(s)"	the director(s) of the Company.
"Group"	the Company and its subsidiaries.
"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.

"LED"	light-emitting diode.
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.
"ODM"	original design manufacturing, a type of manufacturing under which the manufacturer is responsible for the design and production of the products and the products are marketed and sold under the customer's brand name.
"Reporting Period"	the year ended 31 December 2022.
"RMB"	Renminbi, the lawful currency of the PRC.
"Share(s)"	ordinary share(s) of US$0.0000001 each in the share capital of the Company.
"Shareholder(s)"	holder(s) of Share(s).
"Stock Exchange"	The Stock Exchange of Hong Kong Limited.
"Subsidiary"	has the meaning ascribed thereto under the Listing Rules.
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction.
"US$"	United States dollars, the lawful currency of the United States.

"we", "us"or"our"	the Company or the Group (as the context may require).

On behalf of the Board
NVC International Holdings Limited
WANG Donglei
Chairman

Hong Kong, 30 March 2023

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

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

Non-executive Director:
YE Yong

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