雷士照明

NVC LIGHTING HOLDING LIMITED
雷士照明控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2222)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER 2017:

- The Group's revenue amounted to RMB4,063,163,000, representing an increase of 6.7% as compared with the Corresponding Period.
- The Group's gross profit amounted to RMB1,172,858,000, representing an increase of 14.9% as compared with the Corresponding Period.
- The Group's profit before income tax amounted to RMB435,856,000, representing an increase of 71.6% as compared with the Corresponding Period.
- Profit attributable to owners of the parent amounted to RMB314,268,000, representing an increase of 108.2% as compared with the Corresponding Period.
- Basic earnings per share of the Company amounted to RMB9.18 cents.
- The Board of the Company has proposed to declare final dividend of HK1 cent per share (equivalent to approximately RMB0.8 cent) (2016: HK1 cent per share).

The board of directors (the "Board") of NVC Lighting Holding Limited (the "Company") is pleased to announce the annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017 (the "Reporting Period").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Year ended 31 December	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
REVENUE	*2*	**4,063,163**	3,806,329
Cost of sales		**(2,890,305)**	(2,785,371)
GROSS PROFIT		**1,172,858**	1,020,958
Other income and gains	*3*	**127,604**	95,829
Selling and distribution costs		**(401,923)**	(359,812)
Administrative expenses		**(356,895)**	(412,806)
Other expenses	*4*	**(81,160)**	(78,565)
Finance costs	*5*	**(42,096)**	(25,769)
Share of results of associates		**17,468**	6,800
Gain on disposal of a subsidiary		**–**	7,419
PROFIT BEFORE INCOME TAX		**435,856**	254,054
Income tax	*6*	**(104,256)**	(75,471)
PROFIT FOR THE YEAR		**331,600**	178,583
Attributable to:			
Owners of the parent		**314,268**	150,928
Non-controlling interests		**17,332**	27,655
		331,600	178,583
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			(Re-presented)
Basic	*7*	**RMB9.18 cents**	RMB4.74 cents
Diluted	*7*	**RMB7.78 cents**	RMB4.74 cents

Details of dividends are disclosed in Note 8 on page 11 of this announcement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**331,600**	178,583
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(2,136)**	(35,863)
Fair value gain/(loss) on available-for-sale financial assets	**(3,000)**	1,000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**326,464**	143,720
Attributable to:		
Owners of the parent	**308,606**	117,092
Non-controlling interests	**17,858**	26,628
	326,464	143,720

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**619,497**	650,583
Prepaid land lease payments		**46,119**	47,439
Goodwill		**21,161**	21,161
Other intangible assets		**294,575**	312,240
Investments in associates		**54,518**	41,030
Investments in a joint venture		**100,000**	100,000
Long term investments		**218,026**	23,000
Deferred tax assets		**52,258**	48,704
Prepayments		**429,961**	102,252
Total non-current assets		**1,836,115**	1,346,409
CURRENT ASSETS			
Inventories	*9*	**425,384**	401,668
Trade and bills receivables	*10*	**1,092,554**	1,218,003
Prepayments, deposits and other receivables		**397,213**	343,115
Income tax recoverable		**11,741**	4,596
Other current assets		**41,512**	25,303
Held-for-trading investments		**88,786**	–
Restricted bank balances and short-term deposits		**314,422**	445,424
Cash and cash equivalents		**1,265,589**	1,160,155
Total current assets		**3,637,201**	3,598,264
CURRENT LIABILITIES			
Trade and bills payables	*11*	**820,833**	750,036
Other payables and accruals		**728,749**	749,975
Interest-bearing loans and borrowings	*12*	**24,940**	48,411
Government grants		**2,012**	2,026
Income tax payable		**34,071**	24,951
Convertible bonds – derivative component	*13*	**11,933**	60,230
Convertible bonds – liability component	*13*	**421,229**	–
Total current liabilities		**2,043,767**	1,635,629
NET CURRENT ASSETS		**1,593,434**	1,962,635
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,429,549**	3,309,044

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

		31 December	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
NON-CURRENT LIABILITIES			
Government grants		**12,112**	12,859
Deferred tax liabilities		**87,208**	82,238
Convertible bonds – liability component	*13*	**–**	440,272
Total non-current liabilities		**99,320**	535,369
Net assets		**3,330,229**	2,773,675
EQUITY			
Equity attributable to owners of the parent			
Share capital		**3**	2
Reserves		**3,212,109**	2,674,734
Proposed final dividend	*8*	**29,940**	28,745
		3,242,052	2,703,481
Non-controlling interests		**88,177**	70,194
Total equity		**3,330,229**	2,773,675

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments that have been measured at fair value. These consolidated financial statements are presented in RMB and all values are rounded to the nearest thousand ('000) except when otherwise indicated.

1.2 BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Group and its subsidiaries for the year ended 31 December 2017. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

1.3 ADOPTION OF IFRSs

Adoption of new/revised IFRSs – effective 1 January 2017

In the current year, the Group has applied, for the first time, the following new/revised IFRSs, which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2017.

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 12, Disclosure of Interests in Other Entities

Except as explained below, the adoption of these amendments has no material impact on the Group's consolidated financial statements.

1.3 ADOPTION OF IFRSs *(continued)*

Adoption of new/revised IFRSs – effective 1 January 2017 *(continued)*

Amendments to IAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has led to the additional disclosure presented in the notes to the consolidated statement of cash flow.

Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

The adoption of the amendments has no impact on the related financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 12, Disclosure of Interests in Other Entities

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IFRS 12, Disclosure of Interests in Other Entities, to clarify that the disclosure requirements of IFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities classified as held for sale or discontinued operations in accordance with IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The adoption of the amendments to IFRS 12 has no impact on the related financial statements as the latter treatment is consistent with the manner in which the Group has previously dealt with disclosures relating to its interests in other entities classified as held for sale or discontinued operations in accordance with IFRS 5.

2. REVENUE AND SEGMENT INFORMATION

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

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

(a) Luminaire products segment

Luminaire products represent a complete lighting unit that consists of a lighting fixture, a lamp (namely the light source such as a light bulb or tube) and a lighting electronic device. The luminaire products are sold as complete lighting units or units without lamps and lighting electronics, based on the needs of end customers;

(b) Lamp products segment

Lamp products represent a range of light bulbs and tubes for compact fluorescent lamps, HID lamps, fluorescent lamps, halogen lamps and LED lamps; and

(c) Lighting electronic products segment

Lighting electronic products represent electronic transformers, electronic and inductive ballasts for fluorescent, LED and HID lamps, and HID ballast boxes.

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

2. REVENUE AND SEGMENT INFORMATION *(continued)*

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

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

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

	Revenue year ended 31 December		**Results year ended 31 December**	
	2017	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Luminaire products	**2,882,289**	2,644,430	**993,378**	817,517
Lamp products	**917,645**	942,142	**114,767**	152,445
Lighting electronic products	**263,229**	219,757	**67,434**	52,101
Total	**4,063,163**	3,806,329	**1,175,579**	1,022,063
Reconciliation				
Elimination of intersegment results			**(2,721)**	(1,105)
Interest income			**25,868**	14,505
Recovery of bad debts			**11,457**	–
Wavier of other payables			**16,718**	–
Fair value change of held-for-trading investments			**(12,004)**	–
Unallocated income and gains			**27,333**	81,324
Corporate and other unallocated expenses#			**(792,717)**	(774,121)
Gain on disposal of a subsidiary			**–**	7,419
Finance costs			**(42,096)**	(25,769)
Fair value change of the derivative component of convertible bonds			**46,228**	(46,889)
Share of results of associates			**17,468**	6,800
Loss on disposal of property, plant and equipment			**(16,642)**	(30,173)
Impairment on other intangible assets			**(18,615)**	–
Profit before income tax			**435,856**	254,054

During the Reporting Period, depreciation and amortisation recorded in the consolidated statement of profit or loss amounted to RMB87,841,000 (2016: RMB100,395,000).

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

3. OTHER INCOME AND GAINS

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Other income		
Government grants	**16,532**	18,124
Trademark licence fees	**452**	2,467
Bank interest income	**25,437**	14,087
Other interest income	**431**	418
Rental income	**3,660**	2,728
Recovery of bad debts	**11,457**	–
Waiver of other payables	**16,718**	–
Fair value change of the derivative component of convertible bonds *(Note 13)*	**46,228**	–
Handling income	**–**	9,874
Others, net	**2,109**	10,080
	123,024	57,778
Gains		
Gain on sale of scrap materials	**4,580**	–
Exchange gains, net	**–**	38,051
	4,580	38,051
	127,604	95,829

4. OTHER EXPENSES

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Fair value change of the derivative component of convertible bonds *(Note 13)*	**–**	46,889
Loss on disposal of items of property, plant and equipment	**16,642**	30,173
Fair value change of held-for-trading investments	**12,004**	–
Exchange losses, net	**44,156**	–
Others	**8,358**	1,503
	81,160	78,565

5. FINANCE COSTS

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Interest on bank loans	**1,452**	3,448
Interest on convertible bonds	**40,262**	22,321
Interest on other loans	**382**	–
	42,096	25,769

6. INCOME TAX

The Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which most of the companies within the Group are domiciled and operated. No provision for Hong Kong profits tax or United Kingdom ("UK") corporation income tax has been made as the Group had no assessable profits arising in Hong Kong or the UK during the Reporting Period (2016: RMBNil). Taxes on the corporate income elsewhere have been calculated at the rates of tax prevailing in the countries or jurisdictions in which the Group operates.

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current – the PRC		
– Charge for the year	**109,641**	74,631
– Overprovision in prior years	**(6,801)**	(916)
Deferred	**1,416**	1,756
Income tax for the year	**104,256**	75,471

The Company's subsidiaries located in the PRC are subject to enterprise income tax at the statutory tax rate of 25%. According to the preferential tax policies in the PRC, two of our subsidiaries, Chongqing NVC and NVC China (2016: two) were recognised as western development enterprises by the local tax authorities and were entitled to the preferential tax rate of 15%, while one of our subsidiaries (2016: three) was recognised as a high-tech enterprise by the PRC tax authorities and was entitled to the preferential tax rate of 15%.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit:		
Profit attributable to ordinary equity holders of the parent	**314,268**	150,928
Effect of dilutive potential ordinary shares:		
– Interest on convertible bonds (net of tax)	**40,262**	N/A
– Fair value gain of the derivative component of convertible bonds	**(46,228)**	N/A
Earnings for the purposes of diluted earnings per share	**308,302**	150,928

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

	Year ended 31 December	
	2017	2016
	'000	*'000*
	Number of shares	Number of shares (Re-presented)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**3,422,660**	3,181,806
Effect of dilutive potential ordinary shares:		
– convertible bonds	**540,541**	N/A
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**3,963,201**	3,181,806

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise price of those share options is higher than the average market price of shares for the years ended 31 December 2016 and 2017.

No adjustment had been made to the basic earnings per share amount presented for the year ended 31 December 2016 in respect of a dilution as the impact of the convertible bonds outstanding had an anti-dilutive effect on the basic earnings per share amount presented.

Basic and diluted earnings per share for the year ended 31 December 2016 are re-presented to reflect the bonus element of issue of new ordinary shares during the current year.

8. DIVIDEND

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Proposed final dividend of HK1 cent per ordinary share (2016: HK1 cent per ordinary share)	**29,940**	28,745

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

9. INVENTORIES

	31 December	
	2017	2016
	RMB'000	*RMB'000*
Raw materials	**97,576**	87,480
Work in progress	**19,631**	16,736
Finished goods	**308,177**	297,452
Total	**425,384**	401,668

The reversal of write-down of inventories amounted to RMB14,499,000 (2016: RMB39,770,000), which was recorded in "Cost of sales" in the consolidated statement of profit or loss.

10. TRADE AND BILLS RECEIVABLES

	31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**960,976**	1,132,043
Impairment	**(168,459)**	(157,876)
Trade receivables, net	**792,517**	974,167
Bills receivable	**300,037**	243,836
	1,092,554	1,218,003

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

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

	31 December	
	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**545,268**	713,343
4 to 6 months	**145,821**	184,072
7 to 12 months	**20,298**	12,303
1 to 2 years	**36,776**	42,370
Over 2 years	**44,354**	22,079
	792,517	974,167

As at 31 December 2017, certain trade receivables of UK NVC with carrying amounts of RMB24,004,000 (2016: RMB47,347,000) were pledged to secure the bank borrowings of UK NVC as further set out in Note 12.

The maturity of the bills receivable of the Group as at 31 December 2016 and 2017 is within 6 months.

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

11. TRADE AND BILLS PAYABLES

	31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade and bills payables to third parties	**778,663**	688,851
Trade and bills payables to related parties	**42,170**	61,185
Total	**820,833**	750,036

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

Bills payable are normally settled within 6 months.

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

	31 December	
	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**792,738**	716,962
4 to 6 months	**12,248**	16,056
7 to 12 months	**4,995**	1,125
1 to 2 years	**1,849**	8,641
Over 2 years	**9,003**	7,252
	820,833	750,036

As at 31 December 2016 and 2017, the fair value of trade and bills payables approximated to their carrying amounts which is largely due to the short-term maturity.

12. INTEREST-BEARING LOANS AND BORROWINGS

	31 December					
	2017			2016		
	Contractual Interest rate(%)	**Maturity**	***RMB'000***	*Contractual Interest rate(%)*	Maturity	*RMB'000*
Current						
Bank loans – secured	**Base*+1.90%**	**On demand[1]**	**24,004**	Base*+1.90%	On demand[1]	47,347
Bank loans – unsecured	**4% per month**	**On demand**	**936**	4% per month	On demand	1,064
Total			**24,940**			48,411

1 The secured bank loan represented a GBP-dominated secured facility amounting to GBP8,000,000 (2016: GBP8,000,000). The bank loan was secured by the pledge over certain trade receivables and certain buildings. In accordance with the contract, the loan was repayable upon the collection of the factored trade receivables and carried a floating interest rate based on the Base plus 1.90%.

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

As at 31 December 2016 and 2017, the fair value of interest-bearing loans and borrowings approximated to their carrying amounts largely due to the short-term maturities.

13. CONVERTIBLE BONDS

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

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

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

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

13. CONVERTIBLE BONDS *(continued)*

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

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

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

	Liability component of Convertible Bonds *RMB'000*	**Derivative component of Convertible Bonds** *RMB'000*	**Total** *RMB'000*
Issue of the Convertible Bonds	**416,493**	**10,841**	**427,334**
Effective interest expense recognised to profit or loss	**22,321**	**–**	**22,321**
Interest paid	**(17,936)**	**–**	**(17,936)**
Fair value change	**–**	**46,889**	**46,889**
Exchange realignment	**19,394**	**2,500**	**21,894**
At 31 December 2016 and 1 January 2017	**440,272**	**60,230**	**500,502**
Effective interest expense recognised to profit or loss	**40,262**	**–**	**40,262**
Interest paid	**(33,664)**	**–**	**(33,664)**
Fair value change	**–**	**(46,228)**	**(46,228)**
Exchange realignment	**(25,641)**	**(2,069)**	**(27,710)**
At 31 December 2017	**421,229**	**11,933**	**433,162**

The major inputs for the valuation of the fair value of the derivative component of Convertible Bonds as at 31 December 2016 and 2017 are shown as follows:

	31 December	
	2017	2016
Share price	**HK$0.770**	HK$0.990
Conversion price	**HK$0.925**	HK$0.925
Risk-free rate	**1.018%**	1.002%
Volatility	**37.01%**	28.00%

14. CONTINGENT LIABILITIES

(a) As at 31 December 2017, contingent liabilities not provided for in the consolidated financial statements were as follows:

	31 December	
	2017	2016
	RMB'000	*RMB'000*
Guarantees given to banks and a finance company in connection with facilities granted to: Two PRC companies and Ms. WU Lian, an individual	**131,497**	131,497

(b) The Group acted as defendant in lawsuits brought by two PRC banks and a PRC finance company alleging that the Group should assume guarantee liabilities and interests according to guarantee agreements. The Directors consider that the likelihood of the Group sustaining losses from the guarantees is remote, and accordingly no provision for claims arising from the litigations is considered necessary as at 31 December 2016 and 2017, save for the related legal and other costs. Based on the respective court judgments, interests are imposed on the principal amounts as disclosed in (a) above, which are calculated on (i) principal amount of approximately RMB62,000,000 at 9.9% per annum plus compound interest at 9.9% per annum on unpaid interest since 21 October 2014; (ii) principal amount of RMB34,000,000 at four times of six-month borrowing rate of People's Bank of China since 8 October 2015; and (iii) principal amount of RMB35,497,000 at 0.05% per day since 4 January 2015.

15. PLEDGE OF ASSETS

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

(1) As at 31 December 2017, certain land use rights with aggregate carrying amounts of RMB46,995,000 (31 December 2016: RMB48,314,000) and certain buildings included in property, plant and equipment with aggregate carrying amounts of RMB238,747,000 (31 December 2016: RMB242,510,000) and RMB43,797,000 (31 December 2016: RMB43,108,000) were pledged for the Group's applications of assets preservation in certain PRC legal proceedings and bank borrowings respectively.

(2) As at 31 December 2017, certain trade receivables with carrying amounts of RMB24,004,000 (31 December 2016: RMB47,347,000) were pledged to secure the bank borrowings.

(3) In accordance with several letters of guarantee, deposits with carrying amounts of RMB101,525,000 (31 December 2016: RMB34,533,000) were pledged for issuing letters of guarantee.

(4) The amount represented deposits with carrying amounts of RMB27,561,000 (31 December 2016: RMB26,501,000) pledged for the Group's applications of assets preservation in certain PRC legal proceedings.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The Company's external auditor has issued a qualified opinion on the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2017. An extract from the independent auditor's report is as follows:

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the "Basis for Qualified Opinion" section of our report, the consolidated financial statements present fairly, in all material respects, of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

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

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

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

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

For the Guarantee Agreement 1, according to the first court judgement in 2016 and the final court judgement in 2017, the Subsidiary is adjudicated to be jointly liable for the payment to the PRC bank of the outstanding loan, plus interest and costs. The Subsidiary has filed application of retrial of the PRC court judgements and the commencement of related legal proceeding has been accepted by the PRC court in January 2018. The related outcome of the retrial according to the official legal documents received by the Subsidiary is pending as of the date of approval of these consolidated financial statements.

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

Accordingly, the Group is of the view that the legal proceedings in relation to Guarantee Agreements 1 and 2 are still in progress notwithstanding the respective final court judgements.

The directors, with reference to legal opinions obtained and other factors, consider that the likelihood of the Group sustaining losses from the Guarantee Agreements 1 and 2 is remote as it is considered that the loans had sufficient underlying securities including the Borrower's guarantees and the Subsidiary is only one of the guarantors for the loans. As a result, the directors considered that no provision thereon is considered necessary as at 31 December 2016 and 2017.

However, the legal proceedings in relation to the Pledge and Guarantee Agreements and the Guarantee Agreement 1 are still in progress and we are not able to obtain sufficient appropriate audit evidence to assess the likelihood of successfully applying for the protest of the PRC court judgements by the Subsidiary in relation to Guarantee Agreement 2 and the likely outcome of such protest of the PRC court judgements, and we are not able to obtain sufficient appropriate audit evidence to ascertain the above management assessment. Accordingly we are not able to assess the likely outcome of the legal proceedings in respect of the amount that the Group would recover from the Borrower's assets as determined by the court and the amount ultimately to be recovered from the Borrower in connection with the Pledge and Guarantee Agreements, and to determine if any provision arising from the Guarantee Agreements 1 and 2 is necessary. As a result, we are not able to ascertain the recoverability of the Recoverable Amount due from the Borrower and any provision for the Guarantee Agreements 1 and 2 as at 31 December 2017 should be recognised. Any adjustments to the Recoverable Amount due from the Borrower and any provision to be recognised as at 31 December 2017 in respect of Guarantee Agreements 1 and 2 would have a consequential impact on the Group's net assets as at 31 December 2017 and the Group's financial performance for the years then ended. Our audit opinion on the consolidated financial statements for the year ended 31 December 2016 was qualified in this respect.

(b) Provision for loss on financial guarantee contract

As set out in Notes 33 and 34 to the consolidated financial statements, in addition to the agreements as mentioned in the above paragraphs, the Subsidiary entered into a guarantee agreement (the "Guarantee Agreement 3") with a PRC bank in 2014, providing guarantee to the bank for a loan facility granted to its borrower. The bank loan was in default in 2014 and the bank took legal actions against the borrower and the guarantors (including the Subsidiary) to recover the bank loan balance and interest. A court order was issued to freeze assets of the guarantors (including the Subsidiary) in the amount of RMB62,000,000. As a result of the court order, bank balance of the Subsidiary in the amount of RMB55,396,000 had been frozen by the bank as at 31 December 2016 which was included in "Restricted bank balances and short term deposits" in the consolidated statement of financial position as at 31 December 2016 as set out in Note 25 to the consolidated financial statements. According to the first court judgement in 2016 and the final court judgement in 2017, the Subsidiary is adjudicated to be jointly liable for the payment to the PRC bank of RMB60,000,000, plus interest and costs. In February 2017, the frozen bank balance of the Subsidiary has been withdrawn by the court for the purpose of settlement of the claim by the PRC bank. During the year, the Subsidiary filed an application of retrial of the PRC court judgements in relation to Guarantee Agreement 3 which was rejected by the PRC court. During the year, the Subsidiary has filed an application of protest of the PRC court judgements and the commencement of related legal proceeding has been accepted by the PRC court in March 2018. The related outcome of the protest according to the official legal documents received by the Subsidiary is pending as of the date of approval of these consolidated financial statements.

Accordingly, the Group is of the view that the legal proceeding is still in progress notwithstanding the final court judgement and the rejection of the application of retrial. As at 31 December 2017, the withdrawn amount of RMB55,396,000 was included in "Prepayments, deposits and other receivables" in the consolidated statement of financial position as set out in Note 22 to the consolidated financial statements.

The directors, with reference to legal opinion obtained and other factors, consider that the likelihood of the Group sustaining losses from the guarantee is remote as it is considered that the bank loan had sufficient underlying securities and the Subsidiary is only one of the guarantors for the bank loan. The directors believe that the withdrawn bank balance will be fully recovered upon the conclusion of the protest of the PRC court judgements and no provision on the frozen and subsequently withdrawn amount is considered necessary as at 31 December 2016 and 2017 respectively. In addition, the directors are of the opinion that no provision on any shortfall between the amount to be ultimately settled by the Group under the Guarantee Agreement 3 and the Subsidiary's frozen and subsequently withdrawn bank balance is considered necessary as at 31 December 2016 and 2017 respectively.

However, as the legal proceeding is still in progress, we are not able to obtain sufficient appropriate audit evidence to assess the likely outcome of the legal proceeding in respect of whether the Subsidiary is jointly liable for the payment to the PRC bank of RMB60,000,000 and accordingly whether and to what extent the Group would recover the withdrawn amount from the court, and we are not able to obtain sufficient appropriate audit evidence to ascertain the above management assessment. Accordingly, we are not able to ascertain whether any provision on the frozen and subsequently withdrawn amount as at 31 December 2017, and any shortfall between the amount to be ultimately settled by the Group under the Guarantee Agreement 3 and the Subsidiary's frozen and subsequently withdrawn amount is required to be made as at 31 December 2017.

Any provisions that should have been made as at 31 December 2017 would have a consequential impact on the Group's net assets as at 31 December 2017 and the Group's financial performance for the year then ended. Our audit opinion on the consolidated financial statements for the year ended 31 December 2016 was qualified in this respect.

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

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET AND BUSINESS REVIEW

In 2017, the global economy grew faster. The growth rate of developed economies, such as the Eurozone, the United States and Japan, was better than the expectation, while the relatively quick growth of emerging markets and developing economies became the major impetus stimulating global economic recovery. Therefore, the global economy achieved the best performance this year as compared to recent years. In spite of the highlights in global economy, the long-term low interest rate environment of developed countries, the continuous accumulation of global debt level and the three consecutive interest rate hikes by the Board of Governors of The Federal Reserve System, etc. all became the uncertainty factors inhibiting the continuous growth of global economy.

Under the background of the overall upturn of the global economy, the 2017 Gross Domestic Product in the PRC enjoyed a growth rate of 6.9% as compared with the Corresponding Period, which realized the first upswing since the downward economic growth rate in 2011, reflecting that Chinese economy has become the bellwether of global economic growth. Meanwhile, as the Chinese government further implemented the "One Belt One Road" strategy, the export volume of lighting products in China kept rising. According to the Monthly Report on Export of LED Lighting Products in China, during January to November 2017, the amount of LED lighting products exported by Chinese enterprises totaled to US$19.76 billion, representing an increase of 5.4% on a year-on-year basis; meanwhile, due to the lower power consumption level, developing countries alongside the "One Belt One Road" had huge demand for LED energy-saving lighting products. "One Belt One Road" has become the new blue ocean of export for the Chinese LED lighting enterprises having the cost-effective products and great overseas marketing capability (Data Source: Semiconductor Lighting Network).

As one of the eleven emerging industries in the PRC, the pattern of LED industry tended to be clear and the industry concentration degree became increasingly high through the rapid development in the recent years. However, the continuous increase in the cost of metallic raw materials, elements and labor led to the shrinkage of profit space. Therefore, the LED manufacturers can eventually improve quality, enhance efficiency and raise core competence, and achieve sustainable development only by the internally in-depth technological upgrade or adjustment of product mix, or by the externally horizontal mergers and acquisitions to realize scale economy and enhance entry barriers, or by vertical mergers and acquisitions to realize optimization and integration of upstream and downstream resources.

Attributable to the advantages as the No. 1 brand in the domestic lighting industry, the extensive and profound layout of sales channels, as well as the comprehensive cost reduction and efficiency improvement in internal management, the Group made satisfactory growth in results during the Reporting Period. In terms of channel expansion, the Group continued to implement resolutely the full channel development model with a focus on "commercial and home lighting" and gradually strengthened the control and expansion of the channel, such as continuously intensifying the 400 engineering system in the commercial lighting sector, effectively expanding project reserves and upgrading project conversion rate, and successfully winning or participating in winning bids for lots of large-scale national outdoor engineering projects. As for the home lighting sector, the Group continued strengthening terminal retail capability and independent design and R&D capability, thereby seizing market shares from various market segments by applying product differentiation strategies. During the Reporting Period, the kitchen and bathroom electric appliance channel performed well, which provided customers with the overall house integrated solutions by optimizing the product mix. In addition, the Group succeeded in entering the engineering fields, conducted strategic partnership with numerous famous real estate developers, and finally doubled the results. Meanwhile, the Group started to focus on the extensive township channel and market, and initiated the plans of establishing exclusive outlets in towns, so as to expand the sales channels and fill up the gap of exclusive outlets in towns. In terms of internal quality increase and efficiency improvement, the Group's overall profitability was remarkably enhanced through implementation of the four cost saving measures for reducing R&D cost, manufacturing cost, purchasing cost and labor cost. In addition, through integrating internal resources and optimizing the organizational framework, the Group established the corresponding logistics platform, customer service platform and R&D platform system, which provided powerful back-end guarantee for the overall and orderly operation of the Group.

Sales and distribution

As for the NVC Brand in the PRC market, the Group had exclusive cooperation with 36 regional distributors during the Reporting Period. These exclusive regional distributors had a total of 3,634 exclusive outlets (100.0% coverage rate in the provincial capital, 93.36% coverage rate in the prefecture-level cities, 64.96% coverage rate in the county-level cities and 1.45% coverage rate in the town centers), and 3,733 counters (these counters were mainly located in township channels). During the Reporting Period, the Group adopted different marketing strategies by dividing the exclusive outlets into commercial lighting exclusive outlets, home lighting exclusive outlets, and commercial lighting & home lighting integrated outlets. As for the commercial lighting sector, the Group continued focusing on the implementation of the "400 Plan", so as to establish 400 key engineering project distributor teams nationwide to support the engineering projects. During the Reporting Period, the Group made fruitful achievements in engineering projects, and successfully won or participated in winning bids for lots of major projects including "Beijing Sub City Center", "Hong Kong-Zhuhai-Macao Bridge Zhuhai Port", "Qingdao Municipal Lighting Project", "Spring Festival Gala Zhuhai Sub-Venue" and "Chengdu Metro Line 7", and entered into a long-term strategic partnership agreement with Evergrande Real Estate Group Co., Ltd. to carry out comprehensive strategic cooperation. Moreover, the Group further reinforced the construction of invisible channels during the Reporting Period, cooperated with 892 organizations and gathered more than 2,500 designers to share their lighting design cases and concepts by sponsoring "Zhurong Award" National Lighting Designers Competition, which effectively activated the designer resources in different regions. As for the home lighting sector, the Group has continued to implement the product differentiation strategy and establish the stylistic exclusive outlets to deeply dig out the potential various market segments. As a result, our home lighting products have preliminarily achieved the full-channel and all-user covered network advantages. Meanwhile, the Group proactively promoted the innovation in marketing models, established the "7S" customer experience marketing system (including shop experience system, case experience system, product experience system, service experience system, visual experience system, participation experience system and evaluation experience system) covering thousands of outlets, and carried out twenty-one "7S" trainings covering 1,016 exclusive outlets, thereby remarkably enhancing the sales capabilities of shopping guides in these outlets.

In respect of the international NVC Brand market, continuous efforts have been made to implement the globalization process of NVC brand during the Reporting Period. For instance, the Group conducted further channel expansion, independently created demands and successfully carried out various engineering projects in matured channels like UK. While the Middle East office started to operate during the Reporting Period, which enhanced understanding and control of the local market and dug out product demands and market potential, thereby providing market and technical support for distributors in the Middle East region. During the Reporting Period, the Group successfully won the bid for key engineering projects such as "Beverly Hills in Qatar", "Al Ghurai Apartment Complex in Dubai", "University of Kuwait", etc. Meanwhile, the Group organized various brand marketing activities, such as major client recommendation event in Middle East, product show in Qatar and Kuwait, opening ceremony of new exclusive outlets in Kuwait, which have won favorable reputation. As for Southeast Asia and other developing channels, the Group paid attention to strengthening development of new customers and advancing the progress of engineering projects. During the Reporting Period, the Group has successfully developed distributorship resources in Indonesia, Brunei and Italy, and successfully participated in the first "One Belt One Road Coal-fired Power Plant" and "NVC Full Solutions for Diamond Twin Tower Project" in Vietnam and Cambodia respectively. Meanwhile, the Group started to make preparations for establishing the One Belt One Road Project Team so as to occupy more project resources alongside the One Belt One Road. However, sales contributions in some regions were limited as the Group just started operation there. During the Reporting Period, some engineering projects were not delivered on schedule, leading to the decrease in the international sales turnover of the NVC Brand as compared to the Corresponding Period.

As for the non-NVC Brand in the PRC and international market, the Group mainly supplied the well-known lighting enterprises with energy-saving lamps, energy-saving light tubes and other accessories in the form of ODM. During the Reporting Period, the Group specialized in serving major clients in North America and Europe, and continuously strengthened input of market resources to develop new clients. By virtue of the favorable opportunities arising from LED lighting products that gradually dominated the market, the Group gradually promoted the LED lighting products to enter the sales channels of major clients by utilizing the cost, technology and scale strengths, thus increasing the percentage of LED lighting products in sales. During the Reporting Period, the sales revenue of non-NVC brand products increased by 12.4% as compared with the Corresponding Period.

Product research, development and design

The Group endeavored to improve the comprehensive competitiveness of products mainly by R&D of new products and cost optimization and reduction. During the Reporting Period, the Group established a quick response mechanism, which was oriented on the market demands, and successfully developed 160 indoor products and specialized products for outdoor engineering, including key product series such as “Cezanne Hotel Spot Luminaries (塞尚酒店筒燈)”, “Vi-domi Spot Luminaries (維米工程筒燈)”, “Lingke Series (領客系列)”, “Lingshi Series (領勢系列)”, and “Gaosi Series (高斯系列)”. The Group improved the outdoor engineering products and successfully applied to outdoor engineering projects such as “Qingdao Municipal Lighting Project”, “Zhuhai Night Scene Lighting Project” and “Bangbu Olympic Sports Center”, and accumulated strong delivery capability of engineering products. Under the initial framework of the smart lighting control system, the Group completed the development of the new track system 1.0 during the Reporting Period. As for cost optimization, the Group continued to promote the platform orientation, standardization, modularization and series reform of the products, optimized the power configuration platform, and improved the flickering phenomenon. As a result, some products become flickering free. Meanwhile, the Group promoted the upgrade of light source platform, and obviously enhanced lighting effect of the products. In addition, the continual optimization of the LED912 spot luminaries automation project made the production capacity increase by 15% as compared with the Corresponding Period, and lead to sharp shrinkage of labor cost. In addition, the Group filed 303 new patent applications during the Reporting Period and together the Group had 233 successful patent application cases.

Brand promotion and honor

During the Reporting Period, the Group continued implementing the core brand concept of “Expert in Luminous Environment”, and devoted to creating the No. 1 brand of the lighting solution service providers in the era of Internet. During the Reporting Period, the Group with the brand value of RMB20.685 billion was elected by the World Brand Lab as one of the “14th China’s 500 Most Valuable Brands” again and remained the No.1 brand in the lighting industry for 6 consecutive years, reflecting the Group’s powerful brand strength and influence. During the selection of the Twelfth China Lighting Award held in September 2017, the Group’s “G20 Hangzhou Qianjiang Century City Lighting Project” won the “First Prize of China Lighting Award” with its amazing design and prominent overall lighting solution capability. Meanwhile, the Group was also honored as “Leading Brand of the Industry” of the 2017 China lighting industry, “Top 30 Enterprises for LED Technological Innovation in China” and “2016 Top 100 Enterprises of LED Lighting Industry in China”, which fully reflected the highly social recognition of NVC brand, and further enhanced our brand reputation. In addition, the Group further promoted the globalization process of the brand by means of advertising, media reporting and sponsoring the FINA Diving World Series, and the influence of NVC brand among the public was gradually deepening by carrying out activities such as “Zhurong Award” China Lighting Application Design Competition, interview of the Group’s President by the CCTV Dialogue TV programme.

Progress of Litigation

Since December 2014, a subsidiary of the Company (the "Subsidiary") initiated a series of court proceedings in the PRC against Mr. WU Changjiang, a former director and the former chief executive officer of the Company, and other persons in relation to a number of alleged pledges and guarantees entered into by Mr. WU Changjiang purportedly on behalf of the Subsidiary, and certain counter-guarantees provided by a PRC company. During the Reporting Period, the Subsidiary was also a co-defendant in three PRC court actions commenced by two PRC banks and a finance company, respectively, in relation to several purported pledges and guarantees entered into by Mr. WU Changjiang. Please refer to the Company's 2016 annual report and 2017 interim report for details.

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

In relation to one of the aforementioned court actions commenced by another PRC bank at Chongqing First Intermediate People's Court which alleges, among others, that the eight individuals/institutions (the "Eight Guarantors") including the Subsidiary should be jointly and severally liable as Guarantors for the debt of RMB35,497,000, plus interest, as owed by Chongqing En Wei Xi Industrial Development Co., Ltd. ("En Wei Xi"), to the Bank. The Company received a judgment from the Chongqing First Intermediate People's Court in September 2016, which held, among other things, that the Eight Guarantors, including the Subsidiary, were jointly and severally liable with En Wei Xi for the payment of RMB35,497,000, plus interest and costs, to such PRC bank. The Subsidiary had filed an appeal against such judgment with the Chongqing Higher People's Court. In June 2017, the Company received the judgment of the Chongqing Higher People's Court which rejected the Company's appeal and upheld the former first instance judgment. Please refer to the Company's announcement dated 30 June 2017 for more information. The Subsidiary subsequently filed an application of retrial of the relevant PRC court judgments. The outcome of the retrial application, according to the official legal documents received by the Subsidiary, is pending as of the date of approval of these financial statements.

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

Future Prospects

In 2018, the Group will continue to develop business all over the world, conduct comprehensive and deepening reforms in domestic and overseas sales channel expanding as well as internal management improvement, gradually transform itself from a manufacturing enterprise to a channel enterprise, devote itself to commercial lighting, home lighting, kitchen & bathroom and township channels, strive to become the first brand of smart lighting solution provider, and achieve the ultimate mission of using innovative technology and artistic design to bring people an infinitely beautiful living experience space.

Domestic Sales

In the field of domestic commercial lighting, the Group will continue to be professional and dedicated, devote itself to creating a differentiated and leading integrated solutions provider that specializes in professional lighting, key clients and major projects. In terms of professional lighting, the Group will continue to strengthen and perfect the 400-project system, set up a channel engineering department to be responsible for the construction and management of exclusive regional distributors' project operation system so as to achieve the full coverage of project managers of core prefecture-level cities; establish one-on-one invisible channel design system, enhance the business reputation through the invisible channel, change from the initiative sales to users' selection; focus on spotlights, lamp panels, spot luminaries and other product lines, ensure that key products rank first in market share. In terms of key clients, the Group will focus on the Top 20 clients in real estate and stores, and initially set up a dual-channel model of direct sales with key clients project system. In terms of major projects, the Group will enhance the self-manufacture capacity of specific products for large projects by building outdoor plants, and ensure the success rate of rail transit and large space projects by maintaining the relationship with large professional design institutes.

In the field of domestic home lighting, the Group will continue to expand and deepen its channels. In 2018, it plans to establish 350 exclusive outlets and refurbish 230 outlets. In the meantime, the Group will initiate "500 Plan", establish 500 exclusive outlets with respective area of more than 500 square meters and respective retail sales of more than RMB5 million, introduce four-standardization (terminal image standardization, display standardization, store operations standardization, commodity operations standardization) management system into exclusive regional distributors to help them enhance user-centered retail management skills. In terms of channel promotion, in 2018 the Group plans to conduct more than 10,000 regular promotion activities such as "Factory Buying", "Lamp Replacement for Good" and "Plumbers", and use online media promotion to introduce online retail clients to exclusive outlets, directly promoting the terminal sales increase.

The kitchen & bathroom and township channels newly developed over the past two years will also become a key part of the strategic development of the Group in 2018. With the rapid development of the real estate industry and the upgrading of residents' consumption level in recent years, the integrated ceiling has been transformed from the ceiling of a single kitchen and bathroom to the "whole house custom-made" ceiling of the living room, dining room, hallway, balcony and bedroom. In 2018, the Group will take the opportunities in the industry and market to promote the investment of integrated houses, enter into the market through whole house ceiling and fully enter into the high end market of the ceiling industry. At the same time, the Group will strengthen its strategic cooperation with large-scale real estate developers and whole-house assembly platforms to provide customized kitchen and bathroom products, and prosper kitchen and bathroom channel. In terms of township channels, in 2018 the Group plans to set exclusive outlets in the Top 100 and Top 1000 towns, populated towns and southeastern coastal towns, provide training and policy support through standardized store management to assist exclusive outlets in the integration of plumber resources, set up E-commerce platforms to build the Group's township channel into a service provider that provides clients with basic design and one-stop hydropower decoration.

Overseas sales

In terms of expanding the overseas channels, the Group will continue focusing on channel expansion and breakthrough in engineering projects, and attach importance to expanding the Southeast Asia, other developing countries and Gulf countries in Middle East. As for channel expansion, by virtue of the talent resources in Southeast Asia and the back support of the Middle East office, the Group will assist the distributors in Indonesia to complete the development of 200 secondary distributors, and assist the Gulf countries in Middle East to complete the layout of 100 sales outlets. Meanwhile, the Group innovates upon the marketing models, and enters the markets of Italy and surrounding countries by franchising model, in an attempt to develop 10 franchised outlets in major cities of Italy. As for engineering projects, the Group will establish the key project follow-up team, so as to offer support in technology, personnel and specialized product development for seizing major overseas engineering projects such as "Yogyakarta Court in Indonesia", "World Cup Main Stadium in Qatar", "2020 World Expo in UAE", "Royal Docks in London", etc. Meanwhile, by virtue of the favorable policy of "One Belt One Road", the Group will strengthen cooperation with Tsinghua Design Institute, the "One Belt One Road" Industry Alliance of the Chinese Academy of Sciences, etc., and integrate the products, R&D and back support resources within the Group to participate in the "One Belt One Road" projects such as "Construction of Luang Prabang New City in Laos", "Road Lamp Replacement in Sri Lanka", Coal-fired Power Plant in Dubai", etc., in an effort to make some breakthroughs.

Other service platforms

In terms of public relations for the brand, the Group is committed to creating a brand leader in the lighting industry and the national high-end benchmarking brand in China. The Group profoundly promoted the brand by the activities such as "Blue Book" Promotion Series Activities of the 2018 China Building Decoration Association, "Zhurong Award" China Lighting Application Design Competition, NVC 20th anniversary celebration activities, etc. Meanwhile, the Group will endeavor to obtain professional recognition of the industry with the image as "Leader of Healthy Lighting Technology" free of flickering, blue light or dazzle light and by providing system solutions. In addition, the Group's brand has won the artistic recognition by cooperating with famous designers and design institutes, and by holding product design awards.

In 2018, the Group will focus on optimizing and integrating the resources on the three platforms of R&D, logistics and customer services, on the basis of promoting the four cost saving measures for reducing R&D cost, manufacturing cost, purchasing cost and labor cost. In terms of R&D platform, the Group will integrate internal resources to establish the Central Research Institute. Apart from completing the development of specialized commercial lighting products and home styled products in cooperation with the Group, the Central Research Institute will deeply research into the future lifestyle and healthy lighting, carry out upgrade and transformation of intelligent products and establish intelligent application scenario models, thereby opening the Group's new era in developing intelligent lighting. In terms of logistics platform, the Group will finish planning and layout of 8 logistics warehouses on the principle of resource optimization and concentrated operation in 2018, and establish then secondary distribution resource system by combining express delivery and logistics resources, thus realizing the "Next Day Delivery" of over 80% orders. In addition, the Group will launch the logistics system in 2018, which will connect through the information flows inside and outside various regions and refine data exchange platforms to achieve intensification, standardization and informationization of transport services. In terms of customer service platform, the Group will gradually promote use of 400 hotline on the basis of the existing standardized call center in 2018, thus enhancing the systematic degree of business handling process; meanwhile, the Group will present the after-sales service platform system, so as to complete the development of user management, order management, service provider management, engineer management and assistant management modules, optimize the quick response mechanism, and upgrade the customer satisfaction.

The extensive and well-arranged channel resources have always been the precious treasure of the Group. In the future, the Group will use such channel advantages to gradually transform into a channel enterprise. The Group will plan to realize the mutual integration of online and offline channels by getting through the online channels; transform the offline channels and strengthen control of the exclusive regional distributors, so as to master the initiative power for engineering projects; initiate a new era of strategic transformation by creating sub-brands or introducing other matured brands, so as to create a new era of strategic restructuring of the Group.

FINANCIAL REVIEW

Revenue

Revenue represents the invoiced value of goods sold, after allowances for returns and trade discounts. During the Reporting Period, the revenue of the Group increased by 6.7% from the Corresponding Period to RMB4,063,163,000. In particular, the LED lighting products recorded revenue of RMB3,165,613,000 with an increase of 17.4% from the Corresponding Period.

Revenue by product segments

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

	Year ended 31 December		
	2017	2016	Growth rate
	RMB'000	*RMB'000*	
Luminaire products	**2,882,289**	2,644,430	9.0%
Lamp products	**917,645**	942,142	(2.6%)
Lighting electronic products	**263,229**	219,757	19.8%
Total	**4,063,163**	3,806,329	6.7%

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

The table below sets forth the 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		
	2017	2016	Growth rate
	RMB'000	*RMB'000*	
Sales revenue from PRC			
NVC brand	**2,543,813**	2,316,747	9.8%
Non-NVC brand	**266,481**	313,080	(14.9%)
Subtotal	**2,810,294**	2,629,827	6.9%
Sales revenue from international market			
NVC brand	**280,852**	387,859	(27.6%)
Non-NVC brand	**972,017**	788,643	23.3%
Subtotal	**1,252,869**	1,176,502	6.5%
Total	**4,063,163**	3,806,329	6.7%

Revenue by LED lighting products and non-LED lighting products

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

	Year ended 31 December		
	2017	2016	Growth rate
	RMB'000	*RMB'000*	
LED lighting products	**3,165,613**	2,696,868	17.4%
Non-LED lighting products	**897,550**	1,109,461	(19.1%)
Total	**4,063,163**	3,806,329	6.7%

During the Reporting Period, the sales of luminaire products increased by 9.0%, which was mainly benefited from the successful transformation of the dual-channel development model of "commercial and home lighting", as well as the stable growth in the sales of commercial and home luminaire products of the Group. The sales of lamp products decreased by 2.6%, which was mainly attributed to the gradual shrinkage of market size and the decline in both sales volumes and prices of the traditional lamp products. The sales of lighting electronic products grew by 19.8%, mainly benefited from the Group's increase in development of and investment of market resources in non-NVC brand LED lighting electronic products and the stable increase of sales orders from major international customers for non-NVC brand LED lighting electronic products during the Reporting Period.

During the Reporting Period, the sales of LED lighting products increased by 17.4%, and the sales of non-LED lighting products decreased by 19.1%, mainly because the Group grasped the favorable opportunity in the rising consumer demands and market penetration of the LED lighting industry, and successfully seized the market share of LED lighting products by continuously strengthening the R&D of new LED lighting products, expansion of marketing channels and input of market resources; as affected by the fierce competition of LED lighting products, the sales of traditional lighting products shrank, the both of which took on a trading-off trend.

Cost of Sales

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

	Year ended 31 December			
	2017		2016	
	RMB'000	***Percentage in revenue (%)***	*RMB'000*	*Percentage in revenue (%)*
Raw materials	**2,003,602**	**49.3%**	1,907,153	50.1%
Outsourced manufacturing costs	**530,346**	**13.0%**	508,702	13.4%
Labor costs	**254,050**	**6.3%**	275,305	7.2%
Indirect costs	**102,307**	**2.5%**	94,211	2.5%
Total	**2,890,305**	**71.1%**	2,785,371	73.2%

During the Reporting Period, the cost of sales as a percentage to revenue decreased from 73.2% to 71.1%, the gross profit margin increased from 26.8% to 28.9%, mainly benefited from, on the one hand, the adjustment of operating price of some products, and on the other hand, the positive effect resulting from the four cost saving measures for reducing R&D cost, purchasing cost, manufacturing cost and labor cost continuously implemented by the Group, including strengthening technological upgrade, structural optimization and improvement of process flow of the products, adopting public procurement and tendering, dealing with inactive stocks timely, implementing "Amoeba" operating model and enhancing lean production management, etc., which have significantly controlled the costs and improved the overall gross profit margin level.

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 RMB1,172,858,000, representing an increase of 14.9% as compared with the Corresponding Period; gross profit margin increased from 26.8% to 28.9%. The gross profit and gross profit margin by segments are as follows:

(i) The table below shows the gross profit and gross profit margin by product segments (luminaire, lamp and lighting electronic products):

	Year ended 31 December			
	2017		2016	
	RMB'000	***(%)***	*RMB'000*	*(%)*
Luminaire products	**993,378**	**34.5%**	817,517	30.9%
Lamp products	**114,519**	**12.5%**	152,193	16.2%
Lighting electronic products	**64,961**	**24.7%**	51,248	23.3%
Total	**1,172,858**	**28.9%**	1,020,958	26.8%

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

	Year ended 31 December			
	2017		2016	
	RMB'000	***(%)***	*RMB'000*	*(%)*
Gross profit from PRC sales:				
NVC brand	**924,100**	**36.3%**	745,727	32.2%
Non-NVC brand	**49,443**	**18.6%**	58,579	18.7%
Subtotal	**973,543**	**34.6%**	804,306	30.6%
Gross profit from international sales:				
NVC brand	**59,023**	**21.0%**	78,376	20.2%
Non-NVC brand	**140,292**	**14.4%**	138,276	17.5%
Subtotal	**199,315**	**15.9%**	216,652	18.4%
Total	**1,172,858**	**28.9%**	1,020,958	26.8%

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

	Year ended 31 December			
	2017		2016	
	RMB'000	***(%)***	*RMB'000*	*(%)*
LED lighting products	**994,832**	**31.4%**	788,901	29.3%
Non-LED lighting products	**178,026**	**19.8%**	232,057	20.9%
Total gross profit	**1,172,858**	**28.9%**	1,020,958	26.8%

During the Reporting Period, the gross profit margin of luminaire products increased from 30.9% to 34.5%, mainly benefited from the positive effect resulting from the four cost saving measures for reducing R&D cost, purchasing cost, manufacturing cost and labor cost continuously implemented by the Group, as well as the increase in operating price of some luminaire products. The gross profit margin of lamp products decreased from 16.2% to 12.5%, mainly because on the one hand more favourable price discounts were offered to major clients in order to stabilise the order resources of the international market; and on the other hand, the traditional lamp products suffered from decline in both sales volumes and prices as affected by the competition with LED lamp products, thereby leading to the decrease in overall gross profit margin of lamp products. The gross profit margin of lighting electronic products increased from 23.3% to 24.7%, mainly attributed to the favorable effect resulting from the launch of new LED lighting electronic products with high gross profit margin into the market, the comprehensive cost saving measures adopted by the Group, and the impact from the exchange fluctuation.

During the Reporting Period, the gross profit margin from PRC sales increased from 30.6% to 34.6%, mainly benefited from the favorable results resulting from the comprehensive cost saving measures adopted by the Group, the increase in operating price of some products and the impact of changes in product mix. The gross profit margin from international sales decreased from 18.4% to 15.9%, mainly attributed to the more favourable price discounts offered in order to stabilise the order share of major clients at the international market, as well as the decline in the gross profit margin of a subsidiary of the Group that operated on the international market as affected by local exchange fluctuation.

Other income and gains

Our other income and gains mainly consist of rental income, gain on sales of scrap materials, fair value gain of the derivative component of convertible bonds, gain arising from waiver of other payables, government grants and interest income (the breakdown of other income and gains is provided in note 3 on page 9 of this announcement). We received various types of government grants in the form of tax subsidies and incentives for research and development activities and expansion of production capacity of energy-saving lamp. Government subsidies are provided by relevant authorities at their discretion, and may not be recurring in nature. During the Reporting Period, other income and gains increased significantly to RMB127,604,000 as compared with the Corresponding Period, which was mainly due to the effect from the fair value gain of the derivative component of convertible bonds and the gain arising from waiver of other payable during the Reporting Period.

Selling and Distribution Costs

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

During the Reporting Period, our selling and distribution costs were RMB401,923,000, representing an increase of 11.7% as compared with the Corresponding Period. The increase was mainly attributed to the increase in staff costs and freight costs compared with the Corresponding Period. Our selling and distribution costs as a percentage in revenue increased from 9.5% to 9.9%.

Administrative Expenses

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

During the Reporting Period, our administrative expenses were RMB356,895,000, representing a decrease of 13.5% as compared with the Corresponding Period, which was mainly due to the decrease of staff costs, other professional fees and impairment loss as compared with the Corresponding Period. Our administrative expenses as a percentage in revenue decreased from 10.8% to 8.8%.

Other Expenses

Other expenses mainly consist of losses on disposal of property, plant and equipment and scrap, fair value change of held-for-trading investments, net exchange losses, donation and other miscellaneous expenses.

Finance Costs

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

Share of Results of Associates

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

Income Tax

During the Reporting Period, the Group's income tax expense amounted to RMB104,256,000.

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

Due to the factors mentioned above, our net profit for the year (including profit attributable to non-controlling interests) was RMB331,600,000 during the Reporting Period.

Exchange Differences on Translation of Foreign Operations

During the Reporting Period, our exchange differences on translation of foreign operations were RMB2,136,000. These exchange differences primarily arose from the translation of the financial statements of the Company and the overseas subsidiaries which are denominated in foreign currencies.

Profit Attributable to Owners of the Parent for the Year

Due to the factors mentioned above, profit attributable to owners of the parent was RMB314,268,000 during the Reporting Period.

Profit Attributable to Non-controlling interests for the Year

During the Reporting Period, profit attributable to non-controlling interests was RMB17,332,000.

Liquidity

Net current assets and working capital sufficiency

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

	31 December	
	2017	2016
	RMB'000	*RMB'000*
CURRENT ASSETS		
Inventories	**425,384**	401,668
Trade and bills receivables	**1,092,554**	1,218,003
Prepayments, deposits and other receivables	**397,213**	343,115
Income tax recoverable	**11,741**	4,596
Other current assets	**41,512**	25,303
Financial assets held for trading	**88,786**	–
Restricted bank balances and short-term deposits	**314,422**	445,424
Cash and cash equivalents	**1,265,589**	1,160,155
Total current assets	**3,637,201**	3,598,264
CURRENT LIABILITIES		
Trade and bills payables	**820,833**	750,036
Other payables and accruals	**728,749**	749,975
Interest-bearing loans and borrowings	**24,940**	48,411
Government grants	**2,012**	2,026
Income tax payable	**34,071**	24,951
Convertible bonds – derivative component	**11,933**	60,230
Convertible bonds – liability component	**421,229**	–
Total current liabilities	**2,043,767**	1,635,629
NET CURRENT ASSETS	**1,593,434**	1,962,635

As at 31 December 2017 and 31 December 2016, net current assets of the Group amounted to RMB1,593,434,000 and RMB1,962,635,000, respectively, and the current ratio was 1.78 and 2.20, respectively. In light of our current liquidity position, the unutilised banking facilities available to the Group and our projected cash flows generated from operations, the Directors believe that we have sufficient working capital for our present requirements and for the next 12 months.

Capital Management

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

	31 December	
	2017	2016
	RMB'000	*RMB'000*
Interest-bearing loans and borrowings and convertible bonds – liability component	**446,169**	488,683
Total debt	**446,169**	488,683
Less: cash and cash equivalents and short-term deposits (excluding restricted bank balance)	**(1,580,011)**	(1,550,183)
Net debt	**N/A**	N/A
Total equity attributable to owners of the parent	**3,242,052**	2,703,481
Gearing ratio	**N/A**	N/A

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

Capital Expenditure

We funded our capital expenditure with cash generated from operations and bank loans, and cash generated from issue of shares or convertible bonds. Our capital expenditure is primarily related to expenditure on property, plant and equipment, prepaid land lease payments and other intangible assets. During the Reporting Period, the Group's capital expenditure amounted to RMB75,713,000, mainly attributable to the increase in machinery equipment, moulds, non-productive equipment and intangible assets.

Off-balance Sheet Arrangement

Except for the derivative component of Convertible Bonds mentioned in note 13, we did not have any outstanding derivative financial instruments or off-balance sheet guarantees for outstanding loans. We did not engage in trading activities involving non-exchange traded contracts.

Capital Commitments

As at 31 December 2017, we had capital commitments of RMB493,725,000 mainly for the capital injection and acquisition of joint venture and associates and an investment, and acquisition of property, plant and equipment.

EVENTS AFTER THE REPORTING PERIOD

On 14 March 2018, the Company entered into a non-binding co-operation framework agreement (the "Co-operation Framework Agreement") with ETIC and Mr. Wang Donglei (each a "Party", together the "Parties"), pursuant to which, subject to entering into definitive agreements, the Company intends to sell, and ETIC and Mr. Wang Donglei intend to acquire, directly and indirectly, the Company's domestic lighting products manufacturing business (the "Target Assets") which includes but not limited to the entire share capital of Huizhou NVC (the "Potential Disposal"). The definitive scope of the Target Assets will be subject to further discussions between the Parties.

In the past two years, the profitability of lighting product manufacturers shrunk due to sustained increase in costs of certain metal raw material, components and labour. In 2018, in order to strengthen its core competitiveness and achieve sustainable development, the Group formulated a strategy of gradually transforming from a manufacturing enterprise to a channel enterprise. The Potential Disposal contemplated under the Co-operation Framework Agreement can reduce the proportion of manufacturing business in the Group, and is therefore in line with the development strategy and long-term interests of the Group. For more details, please refer to the announcement of the Company dated 14 March 2018.

On 16 March 2018, the Company entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Roman International (HK) Co., Limited (香港羅曼國際有限公司) ("the Seller"), pursuant to which, the Company agrees to acquire, and the Seller agrees to sell, a 40% equity interest in Blue Light (HK) Trading Co., Limited (香港蔚藍芯光貿易有限公司) ("the Target Company") at a consideration of RMB315,000,000. The Target Company controls a business engaged in the sale and distribution of lighting products through e-commerce platforms and distribution channels. As at the date of execution of the Sale and Purchase Agreement, the Target Company indirectly holds 85% equity interest in Wuhu NVC Lighting E-Commerce Limited ("Wuhu NVC") and the Company indirectly holds 10% equity interest in Wuhu NVC. Upon Completion, the Company will hold 40% equity interest in the Target Company, and indirectly hold, in aggregate, 44% equity interest in Wuhu NVC.

Such acquisition will strengthen the Company's ability to develop and/or cooperate with online-to-offline sales and distribution channels. Following such acquisition, the Company will continue to expand the variety of its sales and distribution channels and benefit from the collection, analysis and application of big data in respect of consumer behaviour. For more details, please refer to the announcement of the Company dated 19 March 2018.

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.

MERGER, ACQUISITION AND INVESTMENT

On 21 April 2017, the Company formed the Guoyuan China Growth Investment Fund LP (the "Limited Partnership") with Guoyuan Asset Management (Asia) Limited (as the general partner) by the contribution of USD30,000,000. The Limited Partnership intends to invest in (including but not limited to) shares of private companies related to emerging industries such as the lighting, energy saving, environmentally friendly industries or private equity funds. Through the Limited Partnership, the Company will be able to benefit from a wealth of attractive investment opportunities in the lighting, energy saving, environmentally friendly industries and achieving economies of scale and synergies. This can also enhance the Company's ability to grow organically through the effective use of resources which will save capital expenditure and optimise cash management, thus improving the overall competitiveness of the Company. Please refer to the Company's announcement dated 21 April 2017 for more information.

On 7 June 2017, Huizhou NVC, a wholly-owned subsidiary of the Company, has entered into a purchase agreement with Zhuhai Ruiheng Investment Co., Ltd.* (珠海瑞恒投資有限公司) (the "Vendor"), pursuant to which Huizhou NVC has agreed to acquire, and the Vendor has agreed to sell, certain properties at a cash consideration of RMB345,000,000. The Group intends to use the office buildings, business exhibition rooms and car parking spaces comprised in such properties for office purposes. The Group intends to use such properties as the office for key businesses of the Group such as household lighting business upon the completion of the acquisition. The Board considers that the acquisition of such properties will meet the Group's rapid business development demand, achieve rental savings and enable effective appreciation of the assets of the Group. Please refer to the Company's announcement dated 7 June 2017 for more information.

On 12 June 2017, the Board announced that it has resolved to acquire shares of ETIC (the shares of which are listed on the Shenzhen Stock Exchange, stock code: 002005) to the amount of no more than RMB110,000,000 on market before 31 December 2017 with the acquisition price of no more than RMB5.45 per share of ETIC. Assuming a purchase price of RMB5.45 per share of ETIC, it was estimated that the total number of shares of ETIC to be acquired by the Company would be approximately 20,183,486 shares, representing 1.45% of the total issued shares of ETIC on 12 June 2017.

Immediately prior to the above acquisition of shares of ETIC, Mr. WANG Donglei indirectly held 20.94% of the total issued shares of ETIC and was a substantial shareholder of ETIC. Mr. WANG Donglei is also the Chairman, Chief Executive Officer and Executive Director of the Company. Although the Company shall acquire shares of ETIC on market from the public, such acquisition was regarded as a connected transaction of the Company under Rule 14A.28 of the Listing Rules.

ETIC is an important business partner of the Company in its industrial chain. The strategic investment in ETIC will enhance the Company's strategic cooperation relationship with ETIC. ETIC is focusing on the production and sale of small household appliances and LED products in the PRC. With a positive outlook on the LED products market and the future performance of ETIC, the Company believes that such share acquisition presents a valuable investment opportunity for the Group to capture the potential growth of ETIC, which will bring benefits to the Group. The Company also considers that the current stock price of ETIC is also at a reasonable standard and of investment value. For more details, please refer to the announcement of the Company dated 12 June 2017.

On 30 October 2017, Huizhou NVC, the Company's wholly-owned subsidiary, proposed to invest RMB10,000,000 to establish a wholly-owned subsidiary Zhuhai NVC Logistics Co., Ltd.* (珠海市雷士物流有限公司) ("NVC Logistics"). NVC Logistics is principally engaged in providing transportation and warehousing services etc. As at the date of the announcement, the registered capital of NVC Logistics has not been fully paid.

On 14 December 2017, Huizhou NVC, the Company's wholly-owned subsidiary, contributed RMB9,000,000 to establish a subsidiary, Zhuhai NVC Youpin Industrial Co., Ltd* (珠海雷士優品實業有限公司) ("NVC Youpin"), 90% equity interest of which is held by Huizhou NVC. NVC Youpin is principally engaged in the production and sale of lamp products, luminaire products and lighting electronic products etc.

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

USE OF PROCEEDS FROM THE GLOBAL OFFERING

We did not use the proceeds from the Global Offering in a manner different from those set out in the prospectus of the Company dated 7 May 2010.

MARKET RISKS

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

Foreign Currency Risk

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

Commodity Price Risk

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

Liquidity Risk

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

Credit Risk

Our major credit risk arises from exposure to a substantial number of trade and bills receivables, deposits and other receivables from debtors. We have policies in place to ensure that the sales of products are made to customers with an appropriate credit limit, and we have strict control over credit limits of trade receivables. Our cash and short-term deposits are mainly deposited with registered banks in Mainland China and Hong Kong. We also have policies that limit our credit risk exposure to any financial institutions. The carrying amounts of trade and bills receivables, deposits and other receivables, cash and cash equivalents and short-term deposits included in the consolidated statement of financial position represent our maximum exposure to credit risk in relation to our financial assets. We have no other financial assets which carry significant exposure to credit risk. In 2017, we entered into a number of one-year insurance contracts with China Export & Credit Insurance Corporation, which covered 90% uncollectible receivables from international sales between the period from 1 December 2017 to 30 November 2018 with a maximum compensation amount of US$35,000,000 (equivalent to approximately RMB228,697,000). 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. For domestic sales, the insurance contracts with China Export & Credit Insurance Corporation were due on 30 November 2017, and would not be renewed. In respect of the exposure to domestic credit risk, it's expected that we will take the approach of requiring the customers to provide relevant physical collateral since 2018 to cover the credit risk arising from domestic sales.

FINAL DIVIDEND

The Board proposed to declare final dividend of HK1 cent (equivalent to approximately RMB0.8 cent) per share payable to the shareholders of the Company ("Shareholders"), which is subject to the approval of the Shareholders at the forthcoming annual general meeting (the "Annual General Meeting"). Based on the 3,581,805,000 shares in issue as at 31 December 2017, it is expected that the final dividend payable will amount to approximately HK$35,818,000 (equivalent to approximately RMB29,940,000) (tax inclusive). Subject to the approval of the Shareholders at the Annual General Meeting, the final dividend is expected to be paid to the eligible Shareholders by no later than 31 July 2018.

ANNUAL GENERAL MEETING AND PERIOD OF CLOSURE OF REGISTER OF MEMBERS

The Company will arrange the time of convening the Annual General Meeting as soon as practicable, and the notice of the Annual General Meeting will be published and dispatched to Shareholders in a timely manner in accordance with the requirements of the Listing Rules and articles of association of the Company. Once the date of the Annual General Meeting is finalized, the Company will publish the period of closure of register of members of the Company in a separate announcement and in the notice of the Annual General Meeting.

EMPLOYEES

As at 31 December 2017, the Group had approximately 6,441 employees in total (31 December 2016: 6,238). The Group regularly reviews remuneration and benefits of its employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including social insurance contributions, employee provident fund schemes, and discretionary incentive and share option schemes.

ISSUE OF NEW SHARES UNDER GENERAL MANDATE

On 2 June 2017, the Company and Rising Wealth Limited, Lead Investment Limited, Mr. Ye Yong, Mr. Feng Chuntian and Ms. Zou Xiaoyang (being the subscribers) entered into a subscription agreement, pursuant to which the subscribers conditionally agreed to subscribe and the Company conditionally agreed to allot and issue in aggregate a total of 368,357,000 subscription shares. The subscription price of HK$0.80 per subscription share represents a discount of approximately 8.05% to the closing price of HK$0.87 per share as quoted on the Stock Exchange on 2 June 2017, being the date of the subscription agreement; and a discount of approximately 8.05% to the average of the closing prices of approximately HK$0.87 per share as quoted on the Stock Exchange for the last five trading days immediately before 2 June 2017, being the date of the subscription agreement. The subscription shares represent approximately 11.46% of the issued share capital of the Company as at the date of the subscription agreement and approximately 10.28% of the total issued share capital of the Company as enlarged by the allotment and issue of the subscription shares. According to the par value of US$0.0000001 each share, the nominal value of the subscription shares is US$36.84 (equivalent to approximately HK$286.62).

The Directors have considered various ways of raising additional funds for future use and they consider that the issue of the subscription shares is an appropriate means of raising additional capital for the Company since the shareholder base of the Company will be enlarged, the capital base of the Company can be broadened at a relatively low cost compared to bank borrowings or the issue of debt securities, and the financial position of the Group will be improved for establishing and strengthening the existing and future business of the Group. The Board considers that the terms of the subscription agreements mentioned above are on normal commercial terms and are fair and reasonable and in the interests of the Company and the shareholders as a whole. As at the date of this announcement, the net proceeds had been used for general corporate and business development and working capital requirements.

The gross proceeds of this subscription amounts to approximately HK$294,686,000. After deducting the relevant expenses, the net proceeds from the issue of the subscription shares amount to approximately HK$294,000,000. The net price for each subscription share is approximately HK$0.798. For more details, please refer to the announcement of the Company dated 4 June 2017. This subscription was completed on 13 June 2017.

On 27 June 2017, the Company and Rising Wealth Limited (being the subscriber) entered into a subscription agreement, pursuant to which the subscriber conditionally agreed to subscribe and the Company conditionally agreed to allot and issue in aggregate a total of 257,330,000 subscription shares. The subscription price of HK$0.80 per subscription share represents a discount of approximately 2.44% to the closing price of HK$0.82 per share as quoted on the Stock Exchange on 27 June 2017, being the date of the subscription agreement; and a discount of approximately 7.19% to the average of the closing prices of approximately HK$0.862 per share as quoted on the Stock Exchange for the last five trading days immediately before 27 June 2017, being the date of the subscription agreement. The subscription shares represent approximately 7.18% of the issued share capital of the Company as at the date of the subscription agreement and approximately 6.70% of the total issued share capital of the Company as enlarged by the allotment and issue of the subscribed shares. According to the par value of US$0.0000001 each share, the nominal value of the subscription shares is US$25.73 (equivalent to approximately HK$200.67). For more details, please refer to the announcement of the Company dated 27 June 2017. This subscription was terminated on 27 December 2017. For more details, please refer to the announcement of the company dated 27 December 2017.

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

Neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

CORPORATE GOVERNANCE

The Board is of the opinion that, during the Reporting Period, the Company had complied with the principles and codes provisions set out in the Code, except for Code Provision A.2.1 which requires that the role of chairman and chief executive officer should be separate and should not be performed by the same person. Given that Mr. WANG Donglei assumed the roles of both chairman and chief executive officer, the Company deviated from this code provision. Mr. WANG Donglei is the director and chairman of ETIC, which is the controlling corporation of the largest shareholder of the Company, Elec-Tech International (H.K.) Company Limited. Mr. WANG Donglei has many years of experience in product research and development, manufacturing and business management. The dual role arrangement provides strong and consistent market leadership and is critical for efficient business planning and decision making of the Company. As all major decisions are made in consultation with the Board and its other relevant committees, and there are four Independent Non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purposes of complying with the Code and maintaining a high standard of corporate governance practices of the Company. Save as disclosed above, the Company had fully complied with the principles and code provisions as set out in the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding Directors' securities transactions. Specific enquiry has been made to all Directors, and all the Directors have confirmed that they had complied with all relevant requirements as set out in the Model Code during the Reporting Period.

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "Remuneration Committee") in compliance with the Listing Rules with written terms of reference. The primary duties of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, the remuneration policy and structure for all Directors and senior management, and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration. Currently, the Remuneration Committee consists of three members, namely, Non-executive Director Mr. LI Wei, Independent Non-executive Director Mr. LEE Kong Wai, Conway and Independent Non-executive Director Mr. WEI Hongxiong, respectively. Mr. WEI Hongxiong has been appointed as the chairman of the Remuneration Committee.

NOMINATION COMMITTEE

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

STRATEGY AND PLANNING COMMITTEE

The Company established a strategy and planning committee (the "Strategy and Planning Committee") under the Board with written terms of reference. The primary duty of the Strategy and Planning Committee is to propose and formulate the strategic development plan of the Company for the Board's consideration. Currently, the Strategy and Planning Committee consists of four members, namely, Executive Director Mr. WANG Donglei, Executive Director Mr. XIAO Yu, Non-executive Director Mr. LI Wei and Independent Non-executive Director Mr. WANG Xuexian, respectively. Mr. WANG Donglei has been appointed as the chairman of the Strategy and Planning Committee.

INDEPENDENT INVESTIGATIONS COMMITTEE

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

APPOINTMENT AND RESIGNATION OF DIRECTORS AND CHANGE IN DIRECTORS' INFORMATION

From 1 January 2017 to the date of this announcement, the appointment and resignation of Directors and changes in the Directors' information of the Company are as follows:

Mr. WEI Hongxiong, the Independent Non-executive Director of the Company, has obtained the qualification to be the independent director of listed company from China Securities Regulatory Commission in February 2017.

Mr. LEE Kong Wai, Conway, the Independent Non-executive Director of the Company, has been appointed as an independent non-executive director of Guotai Junan Securities Co., Ltd. (the shares of which are listed on the main board of the Stock Exchange and the Shanghai Stock Exchange, stock code: 2611 and 601211) with effect from 11 April 2017.

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

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

REVIEW OF ACCOUNTS

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

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and the consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited ("BDO"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO on the preliminary announcement.

APPRECIATION

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

DEFINITIONS

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

"Board"	the board of Directors of the Company.
"Chongqing NVC"	Chongqing NVC Lighting Co., Ltd.* (重慶雷士照明有限公司), a wholly foreign-owned enterprise with limited liability incorporated in the PRC on 1 December 2006 and our direct wholly-owned subsidiary.
"Code"	Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.
"Company"	NVC Lighting Holding Limited (雷士照明控股有限公司), a company incorporated in the British Virgin Islands on 2 March 2006 and subsequently redomiciled to the Cayman Islands on 30 March 2010 as an exempted company with limited liability under the laws of the Cayman Islands. The shares of the Company are listed on the main board of the Stock Exchange.
"Convertible Bonds"	the convertible bonds denominated in Hong Kong dollar in an aggregate principal amount of HK$500,000,000 issued on 7 June 2016 by the Company.
"Corresponding Period"	means the year ended 31 December 2016 or the year ended 31 December 2017 (as the context may require).
"Director(s)"	the director(s) of the Company.

"ETIC"	Elec-Tech International Co., Ltd.* (廣東德豪潤達電氣股份有限公司), a PRC incorporated company of which the shares are currently listed on the Shenzhen Stock Exchange. It is a substantial shareholder of the Company.
"Group"	the Company and its subsidiaries.
"GBP"	Great Britain Sterling Pound, the lawful currency of the United Kingdom.
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong.
"Hong Kong"	the Hong Kong Special Administrative Region of People Republic of China.
"Huizhou NVC"	Huizhou NVC Lighting Technology Co., Ltd.* (惠州雷士光電科技有限公司), a wholly foreign-owned enterprise with limited liability incorporated in the PRC on 29 April 2006 and our direct wholly-owned subsidiary.
"HID"	high intensity discharge.
"LED"	light-emitting diode.
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
"Mainland China" or "PRC"	the People's Republic of China, but for the purpose of this announcement and for geographical reference only and except where the context requires, references in this announcement to "China" and the "PRC" do not apply to Taiwan, the Macau Special Administrative Region and Hong Kong.
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.
"NVC China"	NVC Lighting (China) Co., Ltd* (雷士照明（中國）有限公司) (formerly known as NVC Lighting (Chongqing) Co., Ltd* (重慶雷士實業有限公司)), a wholly foreign-owned enterprise with limited liability incorporated in the PRC on 7 November 2011 and our indirect wholly-owned subsidiary.
"ODM"	original design manufacturing, a type of manufacturing under which the manufacturer is responsible for the design and production of the products and the products are marketed and sold under the customer's brand name.
"Reporting Period"	the year ended 31 December 2017.
"RMB"	Renminbi, the lawful currency of the PRC.

"Stock Exchange"	The Stock Exchange of Hong Kong Limited.
"U.S.A." or "U.S."	the United States of America, its territories, its possessions and all was subject to its jurisdiction.
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States.
"UK NVC"	NVC Lighting Limited (formerly known as NVC (Manufacturing) Limited), a private company incorporated in England and Wales on 31 May 2007, and our direct wholly-owned subsidiary.
"we", "us"or"our"	the Company or the Group (as the context may require).

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

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

Hong Kong, 22 March 2018

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

Executive Directors:
WANG Donglei
WANG Dongming
XIAO Yu
WANG Keven Dun

Non-executive Directors:
LI Huating
LI Wei
YANG Jianwen

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