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## **Wai Chi Holdings Company Limited**

### **偉志控股有限公司**

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

**(Stock Code: 1305)**

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016**

<b>FINANCIAL HIGHLIGHTS</b>	<b>For the six months ended 30 June</b>	
	<b>2016 Unaudited HK\$'000</b>	<b>2015 Unaudited HK\$'000</b>
Revenue	<b>432,618</b>	588,287
Gross profit	<b>76,758</b>	152,082
Gross profit margin	<b>17.7%</b>	25.9%
(Loss) profit for the period	<b>(801)</b>	36,130
Basic and diluted (loss) earnings per share	<b>HK\$(0.39) cents</b>	HK\$18 cents
Interim dividend per share	<b>–</b>	HK\$2 cents

### **INTERIM RESULTS**

The Board of Directors (the “Board”) of Wai Chi Holdings Company Limited (the “Company”) is pleased to announce the unaudited interim condensed consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2016 (the “Period”), together with the comparative figures for the same period of 2015 and the unaudited interim condensed consolidated statement of financial position of the Group as at 30 June 2016 together with audited comparative figures as at 31 December 2015.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS***For the six months ended 30 June 2016*

		<b>Six months ended 30 June</b>	
	<i>Notes</i>	<b>2016</b>	<b>2015</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Revenue</b>	4	<b>432,618</b>	588,287
Cost of sales		<u><b>(355,860)</b></u>	<u>(436,205)</u>
<b>Gross profit</b>		<b>76,758</b>	152,082
Other income and other gains	4	<b>13,521</b>	5,195
Selling and distribution expenses		<b>(12,160)</b>	(12,300)
Administrative expenses		<b>(50,360)</b>	(51,395)
Research and development expenses		<b>(19,490)</b>	(31,684)
Finance costs	6	<u><b>(12,252)</b></u>	<u>(17,222)</u>
<b>(Loss) profit before tax</b>		<b>(3,983)</b>	44,676
Income tax credit (expense)	7	<u><b>3,182</b></u>	<u>(8,546)</u>
<b>(Loss) profit for the period</b>	8	<u><b>(801)</b></u>	<u>36,130</u>
<b>(Loss) earnings per share</b>			
Basic and diluted ( <i>HK\$ cents</i> )	10	<u><b>(0.39)</b></u>	<u>18</u>
<b>Dividends</b>			
Interim dividend declared after the end of the reporting period	9	<u><b>–</b></u>	<u>4,000</u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**

*For the six months ended 30 June 2016*

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>(Loss) profit for the period</b>	<b>(801)</b>	<b>36,130</b>
<b>Other comprehensive (expense) income for the period</b>		
Other comprehensive (expense) income to be reclassified to profit or loss in subsequent periods (net of tax)		
Exchange differences arising on translation of foreign operations	<u><b>(11,277)</b></u>	<u><b>34</b></u>
<b>Total comprehensive (expense) income for the period, net of tax</b>	<u><b>(12,078)</b></u>	<u><b>36,164</b></u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2016*

	<i>Notes</i>	<b>30 June 2016</b>	31 December 2015
		<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Non-current assets</b>			
Property, plant and equipment		262,975	285,415
Prepaid lease payments		37,980	39,364
Deferred taxation		6,096	6,216
		<b>307,051</b>	330,995
<b>Current assets</b>			
Inventories		223,126	222,385
Prepaid lease payments		967	967
Trade receivables	11	320,574	347,231
Bills receivables	11	124,996	206,399
Prepayment, deposits and other receivables		54,281	44,822
Amount due from a related company		3,983	477
Pledged bank deposits		167,700	225,710
Deposits with bank		–	29,505
Bank balances and cash		180,902	240,013
		<b>1,076,529</b>	1,317,509
<b>Current liabilities</b>			
Trade payables	12	166,183	183,936
Bills payables	12	361,515	444,708
Other payables and accruals	12	35,225	43,213
Bank borrowings – due within one year		169,496	345,719
Amount due to related companies		5,147	–
Obligations under finance leases			
– due within one year		4,076	4,190
Income tax payables		5,979	10,414
		<b>747,621</b>	1,032,180
<b>Net current assets</b>		<b>328,908</b>	285,329
<b>Total assets less current liabilities</b>		<b>635,959</b>	616,324

	<b>30 June 2016 HK\$'000 (Unaudited)</b>	31 December 2015 HK\$'000 (Audited)
<b>Non-current liabilities</b>		
Bank borrowings – due more than one year	2,841	3,027
Obligations under financial leases – due more than one year	2,041	4,005
Corporate bond	1,759	–
Government grants	32,134	32,854
	<u>38,775</u>	<u>39,886</u>
<b>Net assets</b>	<u>597,184</u>	<u>576,438</u>
<b>Capital and reserves</b>		
Share capital	2,168	2,000
Share premium	331,977	299,321
Other reserves	58,159	69,436
Retained profits	204,880	205,681
	<u>597,184</u>	<u>576,438</u>
<b>Total equity</b>	<u>597,184</u>	<u>576,438</u>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

## 1. GENERAL

Wai Chi Holdings Company Limited (the “Company”) is incorporated in the Cayman Islands as an exempted company with limited liability under Companies Law of the Cayman Islands on 16 August 2013 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 18 November 2014. Its ultimate controlling party is Mr. Yiu Chi To. The address of the registered office of the Company is Offshore Incorporations (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands and the principal place of business of the Company is 6th Floor, Liven House, 63 King Yip Street, Kwun Tong, Kowloon, Hong Kong.

The Company is principally engaged in investment holding. The principal activities of its subsidiaries are engaged in manufacturing and trading of Light-Emitting Diode (“LED”) backlight and LED lighting products.

The functional currency of the Company and the subsidiaries incorporated in Hong Kong are Hong Kong dollars (“HK\$”) while that of the subsidiaries established in the People’s Republic of China (the “PRC”) are Renminbi (“RMB”). For the purpose of presenting the condensed consolidated interim financial information, the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) adopted HK\$ as its presentation currency which is the same as the functional currency of the Company.

## 2. BASIS OF PREPARATION

The condensed consolidated interim financial information of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2016 has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

## 3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2015 except as described below.

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretation (“new HKFRSs”) issued by the HKICPA which are effective for the Group’s financial year beginning 1 January 2016.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKFRS 15	Clarification to HKFRS 15
Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

Except as described below, the application of the new and revised HKFRSs in the current year has had no material effect on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these condensed consolidated financial statements.

#### 4. REVENUE, OTHER INCOME AND OTHER GAINS

Revenue represents the amounts received and receivable for goods sold in the normal course of business, net of discounts and sales related taxes. Analysis of the Group's revenue, other income and other gains is as follows:

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
<b>Revenue</b>		
Sales of goods	<u>432,618</u>	<u>588,287</u>
<b>Other income and other gains</b>		
Bank interest income	4,661	3,431
Government grants ( <i>note</i> )	1,425	77
Sales of scrapped materials	5	17
Reversal of allowance for trade and other receivables	6,001	253
Sundry income	<u>1,429</u>	<u>1,417</u>
	<u>13,521</u>	<u>5,195</u>

*Note:* Included in the amount of government grants recognised during each of the periods ended 30 June 2016 and 2015 of approximately HK\$1,353,000 (unaudited) and HK\$nil (unaudited) respectively were received in respect of certain research projects and export encouragement scheme, the relevant granting criteria for which have been fulfilled and were immediately recognised as other income for the periods. For the six months ended 30 June 2016 and 2015, the government grants of approximately HK\$72,000 (unaudited) and HK\$77,000 (unaudited) were recognised as deferred income utilised during the periods respectively.

#### 5. SEGMENT INFORMATION

Information reported to the Chief Executive Officer of the Group, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. In addition, for both LED backlight and LED lighting operations, the information reported to the chief operating decision maker is further broken down into different type of products and application of products. The directors of the Company have chosen to organise the Group around differences in product. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

1. LED backlight – Manufacturing and trading of LED backlight products in different sizes and applications
2. LED lighting – Manufacturing and trading of LED lighting products for public and commercial use

## Segment revenues and results

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

*For the six months ended 30 June 2016 (unaudited)*

	<b>LED backlight</b> <i>HK\$'000</i>	<b>LED lighting</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
REVENUE			
External sales	<u>403,625</u>	<u>28,993</u>	<u>432,618</u>
Segment profit (loss)	<u>40,602</u>	<u>(3,947)</u>	<u>36,655</u>
Unallocated income			<u>6,151</u>
Unallocated expenses			<u>(34,537)</u>
Finance costs			<u>(12,252)</u>
Loss before tax			<u>(3,983)</u>

*For the six months ended 30 June 2015 (unaudited)*

	LED backlight <i>HK\$'000</i>	LED lighting <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE			
External sales	<u>555,751</u>	<u>32,536</u>	<u>588,287</u>
Segment profit	<u>97,113</u>	<u>7,188</u>	104,301
Unallocated income			4,865
Unallocated expenses			<u>(47,268)</u>
Finance costs			<u>(17,222)</u>
Profit before tax			<u>44,676</u>



## Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

### Segment assets

	<b>30 June 2016 HK\$'000 (Unaudited)</b>	31 December 2015 HK\$'000 (Audited)
LED backlight	<b>849,831</b>	890,146
LED lighting	<b>120,787</b>	211,613
Total segment assets	<b>970,618</b>	1,101,759
Unallocated assets	<b>412,962</b>	546,745
Consolidated total assets	<b>1,383,580</b>	1,648,504

### Segment liabilities

	<b>30 June 2016 HK\$'000 (Unaudited)</b>	31 December 2015 HK\$'000 (Audited)
LED backlight	<b>528,996</b>	618,115
LED lighting	<b>65,634</b>	86,161
Total segment liabilities	<b>594,630</b>	704,276
Unallocated liabilities	<b>191,766</b>	367,790
Consolidated total liabilities	<b>786,396</b>	1,072,066

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than deferred tax assets, pledged bank deposits, bank balances and cash and certain unallocated head office assets. Assets used jointly by operating segments are allocated on the basis of the revenues earned by individual reportable segments; and
- all liabilities are allocated to operating segments other than income tax payables, bank borrowings, obligations under finance leases and certain unallocated head office liabilities. Liabilities for which operating segments are jointly liable are allocated in proportion to segment revenue.

## Revenue from major products

The following are analyses of the Group's revenue from its major products by:

### *Analysis by type of products*

	<b>Six months ended 30 June</b>	
	<b>2016</b> <i>HK\$'000</i> <b>(Unaudited)</b>	<b>2015</b> <i>HK\$'000</i> <b>(Unaudited)</b>
LED backlight		
– Small dimension	<b>282,205</b>	466,544
– Medium dimension	<b>55,419</b>	44,296
– Large dimension	<b>66,001</b>	44,911
	<hr/>	<hr/>
Sub-total	<b>403,625</b>	555,751
	<hr/>	<hr/>
LED lighting		
– Indoor lighting	<b>12,050</b>	16,798
– Outdoor lighting	<b>16,943</b>	15,738
	<hr/>	<hr/>
Sub-total	<b>28,993</b>	32,536
	<hr/>	<hr/>
Total	<b>432,618</b>	588,287
	<hr/>	<hr/>

### *Analysis by application of products*

	<b>Six months ended 30 June</b>	
	<b>2016</b> <i>HK\$'000</i> <b>(Unaudited)</b>	<b>2015</b> <i>HK\$'000</i> <b>(Unaudited)</b>
LED backlight		
– Smartphone	<b>164,855</b>	333,916
– Automobile displays	<b>97,558</b>	102,967
– Equipment displays	<b>71,673</b>	73,408
– Televisions	<b>69,539</b>	45,460
	<hr/>	<hr/>
Sub-total	<b>403,625</b>	555,751
	<hr/>	<hr/>
LED lighting		
– Public lighting	<b>18,846</b>	16,899
– Commercial lighting	<b>10,147</b>	15,637
	<hr/>	<hr/>
Sub-total	<b>28,993</b>	32,536
	<hr/>	<hr/>
Total	<b>432,618</b>	588,287
	<hr/>	<hr/>

## 6. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expenses on:		
– bank borrowings wholly repayable within five years	11,996	17,054
– corporate bond	47	–
– finance leases	209	168
	<u>12,252</u>	<u>17,222</u>

## 7. INCOME TAX (CREDIT) EXPENSE

The Group calculates the income tax (credit) expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax (credit) expense in the condensed consolidated statement of profit or loss are:

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PRC Enterprise Income tax		
– Current period	856	8,546
– Over-provision in prior year	(4,038)	–
Deferred taxation	<u>–</u>	<u>–</u>
Total income tax (credit) expense for the period	<u>(3,182)</u>	<u>8,546</u>

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2016 and 2015.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25% for the six months ended 30 June 2016 and 2015.

Pursuant to the relevant laws and regulation in the PRC, the Group’s subsidiaries, Wai Chi Opto Technology (Shenzhen) Limited\* (偉志光電(深圳)有限公司) and Huizhou Wai Chi Electronics Company Limited\* (惠州偉志電子有限公司), was accredited as a high-tech enterprise. They are entitled to the preferential tax rate of 15% for both of the six months ended 30 June 2016 and 2015.

## 8. (LOSS) PROFIT FOR THE PERIOD

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
(Loss) profit for the period has been arrived at after charging:		
Salaries and allowances (excluding directors' emoluments)	<b>94,669</b>	126,735
Retirement benefit scheme contributions (excluding directors)	<b>6,418</b>	5,619
Total staff costs	<b>101,087</b>	132,354
Amortisation of prepaid lease payments	<b>458</b>	487
Amounts of inventories recognised as expenses	<b>355,860</b>	435,939
Depreciation of property, plant and equipment	<b>22,076</b>	19,146
Impairment loss on inventories (included in cost of sales)	<b>4,913</b>	266
Net loss on disposal of property, plant and equipment	<b>27</b>	245
Impairment loss on trade and other receivables	<b>10,659</b>	6,360
Operating lease payment on premises	<b>3,621</b>	3,815

## 9. DIVIDENDS

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Interim dividend declared and paid after the interim period of HK\$nil cent per share (2015: HK\$2 cents per share)	<b>–</b>	4,000

## 10. (LOSS) EARNINGS PER SHARE

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
<b>(Loss) earnings</b>		
(Loss) earnings for the purpose of basic earnings per share	<u>(801)</u>	<u>36,130</u>
<b>Number of shares held</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share ( <i>Note</i> )	<u>205,176,923</u>	<u>200,000,000</u>
Basic (loss) earnings per share (HK\$ cents per share)	<u>(0.39)</u>	<u>18</u>

*Notes:*

Diluted (loss) earnings per share was the same as the basic (loss) earnings per share as there were no dilutive potential ordinary shares outstanding during the six months ended 30 June 2016 and 2015.

## 11. TRADE AND BILLS RECEIVABLES

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
	Trade receivables	351,398
Less: Impairment	<u>(30,824)</u>	<u>(24,600)</u>
	320,574	347,231
Bills receivables	<u>124,996</u>	<u>206,399</u>
	<u>445,570</u>	<u>553,630</u>

The Group generally allows a credit period of 30 to 180 days to its trade customers. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables net of accumulated impairment losses presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	<b>30 June 2016 HK\$'000 (Unaudited)</b>	31 December 2015 HK\$'000 (Audited)
0 to 90 days	263,753	253,711
91 to 180 days	4,596	47,772
181 to 365 days	52,225	43,361
Over 365 days	–	2,387
	<u>320,574</u>	<u>347,231</u>

All the bills receivables are aged within 365 days.

## 12. TRADE, BILLS AND OTHER PAYABLES

	<b>30 June 2016 HK\$'000 (Unaudited)</b>	31 December 2015 HK\$'000 (Audited)
Trade payables ( <i>Note a</i> )	166,183	183,936
Bills payables ( <i>Note b</i> )	<u>361,515</u>	<u>444,708</u>
	<u>527,698</u>	<u>628,644</u>
Receipt in advance	2,325	3,142
Construction cost payables	742	1,467
Other payables	12,269	10,378
Accrued expenses	10,648	19,930
Value added tax payables	<u>9,241</u>	<u>8,296</u>
	<u>35,225</u>	<u>43,213</u>
	<u>562,923</u>	<u>671,857</u>

Notes:

- (a) The ageing analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	<b>30 June 2016 HK\$'000 (Unaudited)</b>	31 December 2015 HK\$'000 (Audited)
0 to 90 days	<b>107,984</b>	126,444
91 to 180 days	<b>40,683</b>	44,017
181 to 365 days	<b>6,687</b>	9,862
Over 365 days	<b>10,829</b>	3,613
	<b>166,183</b>	183,936

The average credit period on purchase of goods is from 30 days to 90 days. The Group has financial risk management policies or plans for its payables with respect to the credit timeframe.

- (b) The bills payables aged within 365 days.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Review

China's economic development continued to slow down with GDP growth of 6.7% in first half of 2016. Given the downward economic pressure, the PRC government has been launching more deepened reform and restructuring measures. Under the 'New Normal' theme, Chinese economy is expected to continue shifting away from its traditional manufacturing roots into servicing sectors. Statistics showed that the growth for manufacturing sector slowed to 6.0% in 2015 from 7.3% in 2014, while servicing sector expanded to 8.3% in 2015 from 7.8% in 2014. With the weak data being revealed, it is expected that the PRC government may initiate large scale capacity reduction in various sectors, which could add extra downward pressure on domestic manufacturers in the short to medium run.

LED backlight industry was of no exception under the economic pattern transformation. The overall LED backlight market in China was maturing further and reached close-to-full saturation during the first half of 2016, which may potentially lead to the sluggish growth for the full year. Smartphone LED backlight lost its growth momentum under the intensified market competition across the country, whereas automobile and TV LED backlight managed to maintain a healthy development pace. Market recovery is expected to remain lackluster with higher degree of consolidation, business environment is expected to be more complicated and difficult.

## **Business Review**

During the first half of 2016, the Group underwent business transformation including the restructuring of product mix by lowering the proportion of low margin products and focusing on the production of high margin products to further optimize its profits and business performance.

During the period under review, the total revenue was approximately HK\$432,618,000, decreased by 26.5% as compared to the same period in 2015. Revenue from the sales of LED backlight products and LED lighting products was approximately HK\$403,625,000 and HK\$28,993,000, decreased by 27.4% and 10.9% respectively as compared to the same period in 2015. The significant drop in the sales of LED backlight products was in line with the Group's effort in the change of product mix and focus on high margin products. The decrease of sales in LED lighting products was due to the slowdown of tenders in commercial and government lighting projects in China as well as overseas markets.

During the period under review, the Group continued adopting stringent cost control measures. The Group has fully adopted the ERP system for timely monitoring of its operation process, to promote information exchange between functions and to store and manage operational data, which successfully lowered its operational cost during its manufacturing process. Meanwhile, the system upgrade promoted higher degree of process automation which in turn effectively enhanced its production lines. With resources being better reallocated and utilised, overall financial and work efficiency was greatly improved.

### *LED Backlight Business*

The Group's LED backlight products are classified into 4 types, including: 1) smartphones; 2) automobile on-board displays; 3) television displays; and 4) other industrial equipment displays. During the period under review, revenue derived from LED backlight products related to smartphones, automobile on-board displays, television displays and equipment displays were approximately HK\$164,855,000, HK\$97,558,000, HK\$69,539,000, and HK\$71,673,000, respectively.

Consumer electronics industry started to slow down after its rapid development for the past 10 years, so did the growth of smartphone backlight market due to oversupply and price wars within the industry. Competition was most severe for low-end handsets bringing devastating impacts onto the overall industry. According to the International Data Corporation's Worldwide Quarterly Mobile Phone Tracker, smartphone shipments are expected to grow 3.1% to 1.48 billion units in 2016, which is a substantial slowdown from the 10.5% growth in 2015 and 27.8% in 2014. According to Strategy Analytics, smartphone shipments in China declined 5% from 109.8 million units in first quarter of 2015 to 104.9 million units in first quarter of 2016. As the Chinese smartphone market continues to mature, price will be hammered to a very competitive level. Together with the switching trend of new technologies, such as the adoption to OLED displays for some international smartphone players, the demand for LED backlight shrank drastically leading to the massive revised downturn of the growth pace of smartphone backlight market.



For the period under review, aligned with the Group's growth strategy to switch its focus on high-margin products, automobile on-board displays and television displays LED backlight became the Group's key revenue drivers. Due to the drop in LED price over the past year and the technological advancement, the demand for automobile on-board displays for middle to high-end vehicles in China and international markets spurred. The Group believes that this transformational trend in automobile onboard displays will continue in the coming years bringing new business opportunities

Furthermore, according to IHS Technology, more than half of the TV sets shipped worldwide in the first quarter of 2016 were smart TVs. Smart TV shipments will reach 109 million units in 2016, and will rise to 134 million units in 2020, among which, China continues to dominate the worldwide smart TV manufacturing market. The Group is optimistic about the growth of TV backlight products in the near future.

Customer loyalty is one of the Group's most valuable intangibles and Wai Chi is proud to have been supported by groups of long-term clients. To attain higher level of business security under the deteriorating domestic consumption market, the Group will continue fine-tuning its product mix by only focusing on high-margin backlight products to keep up the profit margins. The Group is also working on exploring new markets and securing new customers for opening new income source. The team is working to achieve business sustainability by means of product restructuring and customer diversification.

#### *LED Lighting Service Business*

The Group's LED lighting business is classified into 2 types, including public lighting and commercial lighting. This business provides various services including lighting products, lighting solutions design, installation and maintenance etc. During the period under review, revenue from public lighting and commercial lighting was approximately HK\$18,846,000 and HK\$10,147,000 respectively.

After the PRC government announced a series of LED street lighting stimulation policies in the past years, the penetration rate of LED street lights was seen soaring. And yet during the period under review, upon the weak consumption sentiment due to economic breakdown, many LED upgrade projects were delayed and postponed which completely changed the demographics of the domestic LED lighting market. Before the collapse, the Group has successfully completed over 200 LED lighting projects with major supermarkets in China. It is striving to win more domestic LED lighting upgrade projects in various supermarket chain stores when the market momentum resumes.

Whereas for U.S. and Europe, the market was a bit more promising during the period under review. The Group managed to report satisfactory sales numbers from these two regions and both U.S. and Europe will remain the temporary sales focus for the coming year.

## **Quality Control**

The Group has established stringent quality control procedures to ensure the quality of the LED products. The Group's quality control procedures start during product design stage and continue throughout the entire product manufacturing and storage process. Quality control staffs participate in the product design process. There is a set of established procedures in selecting and approving new suppliers and raw materials, and thorough testing of product samples are carried out before mass production of the LED products.

The Group has purchased a series of advanced production and testing equipment for improving quality control. The Group has been awarded various certifications, including ISO 9001: 2008 and ISO 14001: 2004 for quality and environmental management systems, which serve as important assurance of the product quality and reliability.

## **Research and development**

The Group believes that product innovation and the research and development (“R&D”) capabilities to develop new products are critical in maintaining its competitiveness in the LED backlight and LED lighting industries which are characterized by rapid technological advancements. The Group places great emphasis on developing and improving the LED backlight and LED lighting products in order to remain competitive in the LED industry over the years.

The Group's R&D centre is located in our production plant in Huizhou. The Group engages in various R&D activities, including (i) concurrent development of new product designs with customers; (ii) improvement of product quality, efficiency and functions of existing products; (iii) in-project calibration and optimization of the production processes and capability of the equipment; (iv) introduction and promotion of the use of new production technologies and new production materials; and (v) assessment of the future prospect and development trend of the LED industry. The Group has achieved a number of technological advancement and breakthroughs by obtaining 29 patents registered in the PRC and 1 patent registered in Hong Kong. Going forward, the Group will continue to enhance its R&D capabilities in order to catch up with the strong demands in both LED backlight and LED lighting products markets.

## **Prospects**

Facing an ever-changing environment of economic transformation into the “new normal” economy, China is expected to accelerate pro-growth service sector reforms and to widen the social safety net to promote consumption and investment in services areas. More supportive policies in terms of encouraging domestic manufacturing and energy saving are also expected which should help mitigating the economic slowdown and bringing new hopes to the industry.

With all the opportunities that may arise within or outside of China, the Group is convinced that it will continue to excel within the LED backlight industry. Given the challenging business environment, the Group is integrating more sustainability principles in its operations including business streamlining, product mix restructuring, operation process upgrading and process automation to attain higher efficiency and better cost benefits.

The Group will continue participating in various global lighting trade shows in different international markets during second half of 2016 to showcase the Group's unique lighting products to the world. The Group will continue devoting reasonable amount of resources in R&D to keep up with the changing market.

With over 30 years of experience, industry expertise and wide market recognition, Wai Chi Holdings Company Limited is in a better position to deal with all the challenges ahead. The Group is always working to develop itself into an integrated industry leader in terms of design, manufacturing and selling of LED backlight and LED lighting products.

## **Financial Review**

### *Revenue*

The Group's revenue was derived from selling LED backlight and LED lighting products. During the period under review, the sales of the Group's LED backlight products was approximately HK\$403,625,000, decreased by 27.4% from approximately HK\$555,751,000 in 2015; the decrease was mainly attributable to the slowdown in growth in mid-to-high end smartphones markets. The sales of the Group's LED lighting products was approximately HK\$28,993,000, with a decrease of 10.9% from approximately HK\$32,536,000 in 2015. The decline was attributable to the decreased spending from commercial customers on related LED lighting projects.

The Group has devoted much effort in restructuring its product mix by increasing the sales contribution from high margin goods, such as automobiles and television LED backlight products. Furthermore, the Group will devote reasonable amount of resources in R&D to catch up with the fast changing LED backlight and LED lighting products markets.

### *Gross Profit and Gross Profit Margin*

During the period under review, the Group's gross profit was approximately HK\$76,758,000, decreased by 49.5% from approximately HK\$152,082,000 in 2015. Gross profit margin was 17.7%, decreased by 8.2 percentage points from 25.9% in 2015, which was mainly attributable to the price war of smartphone LED backlight products. The Group is in the process of actively eliminating outdated production procedures and to pursue higher degree of automation so as to maintain stable margin levels in the future.

### *Selling and Distribution Expenses*

Labour costs, sales commissions and transportation costs were the Group's major selling and distribution expenses. During the period under review, the Group's selling and distribution expenses was approximately HK\$12,160,000, decreased by 1.1% compared to the same period of 2015, which was attributable to the scale down of low profit margin operation.

### *Administrative Expenses*

Administrative expenses refer to the general expenses incurred in offices and factories. The Group focuses on effective management, by means of resources consolidation in the Shenzhen and Huizhou factories. During the period under review, the Group's administrative expenses was approximately HK\$50,360,000, decreased by 2.0% as compared to the same period of 2015.

### *Other Income and Other Gains*

During the period under review, other income and gains was approximately HK\$13,521,000, increased by 160.3% as compared to the same period of 2015. The significant increase was mainly due to the reversal of allowance for trade and other receivables of approximately HK\$6,001,000 during the period.

### *Income Tax Expense*

Income tax expense comprised current tax and movements in deferred tax assets and liabilities. Two of the Group's subsidiaries, Wai Chi Opto Technology (Shenzhen) Limited and Huizhou Wai Chi Electronics Company Limited, are qualified as a "High-Tech Enterprise" in the PRC and granted certain tax benefit, including a preferential enterprise income tax rate of 15% instead of the statutory rate of 25%. During the period under review, the Group's income tax income was approximately HK\$3,182,000, which was mainly attributable to the tax over-provision for Huizhou factory in 2015.

### *Inventories*

As of 30 June 2016, the Group's inventory was approximately HK\$223,126,000, increased by 0.3% as compared to 31 December 2015. The increase in inventory was attributable to the increase of inventory for automotive and television LED products to meet with the increasing demand.

### *Trade Receivables*

As of 30 June 2016, the Group's net trade receivables was approximately HK\$320,574,000, decreased by 7.7% as compared to 31 December 2015. The Group's major customers are sizeable corporations with long-term relationships, including a number of listed companies, hence the risk of trade receivables turning into bad debts is relatively low.

### *Trade Payables*

As of 30 June 2016, the Group's trade payables was approximately HK\$166,183,000, decreased by 9.7% as compared to 31 December 2015, the decrease was attributable to decrease in purchase of materials.

## **USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING**

The Company's ordinary shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 18 November 2014. The total net proceeds from the initial public offering amounted to approximately HK\$161.5 million. The Group has, up to the financial period ended 30 June 2016, utilized approximately HK\$9,656,000 to purchase machinery and equipment for producing LED backlight and LED lighting products, approximately HK\$22,500,000 to repay bank loan utilized for purchasing machinery and equipment, approximately HK\$1,968,000 to upgrade and expand our enterprise resources planning system, approximately HK\$40,500,000 for our research and development activities including recruiting technical and expert staff and enhancing our research and development capacity. At the ending of the period, net proceeds not yet utilized were deposited with licensed banks in Hong Kong and China.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period ended 30 June 2016. The controlling shareholder of the Company, Rexell Technology Company Limited, has disposed of 16,925,000 listed shares during the period ended 30 June 2016.

## **CORPORATE GOVERNANCE PRACTICES**

The Company and its management are committed to maintaining good corporate governance with an emphasis on the principles of transparency, accountability and independence to all shareholders. The Company believes that good corporate governance is an essential for the continual growth and enhancement of shareholder's value. Throughout the period under review, the Company has applied the principles of and complied with the code provisions stipulated in the Corporate Governance Code and Corporate Governance Report (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company periodically reviews its corporate governance practices with reference to the latest development of corporate governance.

All other information on the Code has been disclosed in the corporate governance report contained in the 2015 annual report of the Company issued in March 2016.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct governing Director's securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they had complied with the required standards set out in the Model Code throughout the period under review.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed the unaudited interim financial report for the six months ended 30 June 2016. On 24 August 2016, the Committee met with the management to review the unaudited interim financial statements with the attendance of the external auditor and to consider the significant accounting policies.

## **PUBLICATION OF INTERIM REPORT**

The 2016 interim report of the Company containing all applicable information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the Company's website at [www.waichiholdings.com](http://www.waichiholdings.com) and HKEx news website at [www.hkexnews.hk](http://www.hkexnews.hk) in due course.

## **APPRECIATION**

Finally, the Board would like to thank all shareholders of the Company who have placed strong confidence in our Group's management. We would also like to thank all our business partners and bank enterprises who supported and stood beside us at all times.

By order of the Board  
**Wai Chi Holdings Company Limited**  
**Yiu Chi To**  
*Chairman*

Hong Kong, 25 August 2016

*As at the date of this announcement, the executive directors of the Company are Mr. Yiu Chi To (Chairman), Mr. Chen Chung Po (Chief Executive Officer), Ms. Yiu Kwan Yu, Mr. Chen Wei Wu, Ms. Yong Jian Hui and Mr. Peng Jian. The independent non-executive directors are Mr. Au Yeung Tin Wah, Mr. Chen Kwok Wang and Mr. Ho Chi Wai.*