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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	1,321,601	1,100,491
Gross profit	161,265	245,512
Gross profit margin	12.2%	22.3%
Profit/(loss) for the year	6,399	(38,767)
Basic and diluted earnings/(loss) per share	HK\$3 cents	(HK\$19 cents)

FINAL RESULTS

The Board of Directors (the “**Board**”) of Wai Chi Holdings Company Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the “**Group**”) for the year ended 31 December 2016, together with comparative figures for the year ended 31 December 2015, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS*For the year ended 31 December 2016*

	<i>Notes</i>	2016 HK\$'000	2015 HK\$'000
Revenue	4	1,321,601	1,100,491
Cost of sales		<u>(1,160,336)</u>	<u>(854,979)</u>
Gross profit		161,265	245,512
Other income and other gains	4	23,901	10,788
Selling and distribution expenses		(23,625)	(25,926)
Administrative expenses		(75,227)	(107,129)
Other operating expense		(18,454)	(77,313)
Research and development expenses		(38,212)	(53,059)
Finance costs	6	<u>(22,866)</u>	<u>(30,534)</u>
Profit (loss) before tax		6,782	(37,661)
Income tax expense	7	<u>(383)</u>	<u>(1,106)</u>
Profit (loss) for the year	8	<u>6,399</u>	<u>(38,767)</u>
		HK\$	HK\$
Earnings (loss) per share			
Basic and diluted	12	<u>0.03</u>	<u>(0.19)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (loss) for the year	6,399	(38,767)
Other comprehensive expense that may be subsequently reclassified to profit or loss		
Exchange differences arising on translation of foreign operations	<u>(33,685)</u>	<u>(33,026)</u>
Total comprehensive expense for the year	<u>(27,286)</u>	<u>(71,793)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		231,948	285,415
Prepaid lease payments		36,057	39,364
Deferred taxation		5,120	6,216
		<u>273,125</u>	<u>330,995</u>
Current assets			
Inventories	9	191,838	222,385
Prepaid lease payments		856	967
Trade receivables	10	437,263	347,231
Bills receivables	10	60,461	206,399
Prepayments, deposits and other receivables		95,134	44,822
Amount due from a related company		–	477
Pledged bank deposits		238,467	225,710
Deposits with bank		–	29,505
Bank balances and cash		152,341	240,013
		<u>1,176,360</u>	<u>1,317,509</u>
Current liabilities			
Trade payables	11	154,167	183,936
Bills payables	11	351,656	444,708
Other payables and accruals	11	42,101	43,213
Bank borrowings – due within one year		272,920	345,719
Obligations under finance leases			
– due within one year		3,051	4,190
Income tax payables		8,115	10,414
		<u>832,010</u>	<u>1,032,180</u>
Net current assets		<u>344,350</u>	<u>285,329</u>
Total assets less current liabilities		<u>617,475</u>	<u>616,324</u>
Non-current liabilities			
Bank borrowings			
– due more than one year		2,660	3,027
Obligations under finance leases			
– due more than one year		1,607	4,005
Corporate bond		1,736	–
Government grants		29,496	32,854
		<u>35,499</u>	<u>39,886</u>
Net assets		<u>581,976</u>	<u>576,438</u>
Capital and reserves			
Share capital		2,168	2,000
Reserves		579,808	574,438
Total equity		<u>581,976</u>	<u>576,438</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL

Wai Chi Holdings Company Limited (the “**Company**”) is a company 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 financial statements, 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. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRS(s)**”) AND NEW HONG KONG COMPANIES ORDINANCE

In the current year, the Group has applied the following new and revised HKFRSs, which include HKFRSs, Hong Kong Accounting Standards (“**HKAS(s)**”), amendments and Interpretations (“**Int(s)**”), issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

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

The directors of the Company consider that the application of the new and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. BASIS OF PREPARATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries).

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap.622).

These financial statements have been prepared under the historical cost convention.

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:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue		
Sales of goods	<u>1,321,601</u>	<u>1,100,491</u>
Other income and other gains		
Bank interest income	7,298	4,930
Government grants (<i>Note</i>)	12,816	2,952
Net foreign exchange gain	1,662	–
Reversal of allowance on inventories	–	407
Reversal of impairment loss recognised in respect of trade and other receivables	599	249
Sales of scrapped materials	16	27
Sundry income	<u>1,510</u>	<u>2,223</u>
	<u>23,901</u>	<u>10,788</u>

Note:

Included in the amount of government grants recognised during the year ended 31 December 2016 of approximately HK\$11,484,000 (2015: approximately HK\$2,775,000) were received from the PRC government in respect of certain research projects and export encourage scheme, the relevant granting criteria for which have been fulfilled and were immediately recognised as other income for the year. For the year ended 31 December 2016, amount of approximately HK\$1,332,000 (2015: approximately HK\$177,000) were government grants recognised as deferred income utilised during the years.

5. SEGMENT INFORMATION

Information reported to the Chief Executive Officer of the Company, 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 Light-Emitting Diode (“LED”) backlight and LED lighting operations and sourcing business of high-tech electronic components and products, 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 products. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

For the year ended 31 December 2016, the Group engaged in sourcing business of high-tech electronic components and products with the background of being a seasoned industry player.

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

1. LED backlight – Manufacture and trading of LED backlight products in different sizes and applications
2. LED lighting – Manufacture and trading of LED lighting products for public and commercial use
3. Sourcing business – Provision of high-tech electronic components and products sourcing business

Segment revenues and results

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

For the year ended 31 December 2016

	LED backlight <i>HK\$’000</i>	LED lighting <i>HK\$’000</i>	Sourcing business <i>HK\$’000</i>	Total <i>HK\$’000</i>
REVENUE				
External sales	762,716	57,319	501,566	1,321,601
Segment profit	65,627	8,081	4,495	78,203
Unallocated income				11,085
Unallocated expenses				(59,640)
Finance costs				(22,866)
Profit before tax				6,782

For the year ended 31 December 2015

	LED backlight HK\$'000	LED lighting HK\$'000	Total HK\$'000
REVENUE			
External sales	1,033,652	66,839	1,100,491
Segment profit (loss)	97,268	(1,825)	95,443
Unallocated income			7,153
Unallocated expenses			(109,723)
Finance costs			(30,534)
Loss before tax			(37,661)

Revenue from major products

Analysis by type of products

	2016 HK\$'000	2015 HK\$'000
LED backlight		
– Small dimension	468,148	831,930
– Medium dimension	151,092	97,343
– Large dimension	143,476	104,379
Sub-total	762,716	1,033,652
LED lighting		
– Indoor lighting	25,728	26,928
– Outdoor lighting	31,591	39,911
Sub-total	57,319	66,839
Sourcing business	501,566	–
Total	1,321,601	1,100,491

Analysis by application of products

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
LED backlight		
– Smartphone	230,508	598,903
– Automobile displays	164,922	145,480
– Equipment displays	223,183	183,917
– Televisions	144,103	105,352
	<hr/>	<hr/>
Sub-total	762,716	1,033,652
	<hr/>	<hr/>
LED lighting		
– Public lighting	33,271	39,921
– Commercial lighting	24,048	26,918
	<hr/>	<hr/>
Sub-total	57,319	66,839
	<hr/>	<hr/>
Sourcing business	501,566	–
	<hr/>	<hr/>
Total	1,321,601	1,100,491
	<hr/>	<hr/>

Segment assets and liabilities

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

Segment assets

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
LED backlight	714,976	890,146
LED lighting	95,903	211,613
Sourcing business	190,654	–
	<hr/>	<hr/>
Total segment assets	1,001,533	1,101,759
Unallocated assets	447,952	546,745
	<hr/>	<hr/>
Consolidated total assets	1,449,485	1,648,504
	<hr/>	<hr/>

Segment liabilities

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
LED backlight	478,117	618,115
LED lighting	98,435	86,161
Sourcing business	–	–
	<hr/>	<hr/>
Total segment liabilities	576,552	704,276
Unallocated liabilities	290,957	367,790
	<hr/>	<hr/>
Consolidated total liabilities	867,509	1,072,066
	<hr/>	<hr/>

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

- all assets are allocated to operating segments other than deferred tax assets, amount due from a related company, pledged bank deposits, deposits with bank, 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 corporate bond. Liabilities for which operating segments are jointly liable are allocated in proportion to segment revenue.

6. FINANCE COSTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest expenses on:		
– bank borrowings	22,348	30,175
– corporate bond	163	–
– finance leases	355	359
	<u>22,866</u>	<u>30,534</u>

7. INCOME TAX EXPENSE

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current income tax		
PRC Enterprise Income Tax		
– Current year	3,612	9,265
– Over-provision in respect of prior years	(3,966)	(3,007)
	<u>(354)</u>	<u>6,258</u>
Deferred taxation	<u>737</u>	<u>(5,152)</u>
Total income tax expense for the year	<u>383</u>	<u>1,106</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 years ended 31 December 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 year ended 31 December 2016 (2015: 25%).

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), were accredited as high-tech enterprises. They are entitled to the preferential tax rate of 15% for both years.

* For translation purpose only

8. PROFIT (LOSS) FOR THE YEAR

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit (loss) for the year has been arrived at after charging (crediting):		
Directors' emoluments	5,380	5,763
Salaries and allowances (excluding directors' emoluments)	171,470	238,568
Retirement benefit scheme contributions (excluding directors)	10,999	16,478
	<hr/>	<hr/>
Total staff costs	187,849	260,809
	<hr/>	<hr/>
Auditor's remuneration	935	880
Amortisation of prepaid lease payments	899	958
Amortisation of bond issue expense	36	–
Net foreign exchange (gain) loss	(1,662)	8,898
Amounts of inventories recognised as expenses (included in cost of sales)	1,160,336	854,979
Write-down of inventories (included in other operating expenses)	16,739	41,830
Reversal of allowance on inventories (included in other income and other gains)	–	(407)
Depreciation of property, plant and equipment	39,422	47,746
Impairment loss on trade and other receivables (included in other operating expenses)	1,715	21,319
Impairment loss on construction in progress (included in other operating expenses)	–	14,164
Loss on disposal of property, plant and equipment, net	216	243
Write-off of property, plant and equipment	24	118
Minimum lease payments paid under operating lease on premises	6,445	7,811
	<hr/>	<hr/>

9. INVENTORIES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Raw materials	25,031	48,046
Work-in-progress	49,742	64,074
Finished goods	117,065	110,265
	<hr/>	<hr/>
	191,838	222,385
	<hr/>	<hr/>

10. TRADE AND BILLS RECEIVABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade receivables	460,863	371,831
Less: Impairment	(23,600)	(24,600)
	<hr/>	<hr/>
Bills receivables	437,263	347,231
	60,461	206,399
	<hr/>	<hr/>
	497,724	553,630
	<hr/>	<hr/>

During the year ended 31 December 2016, the Group generally allows a credit period of 15 to 180 days (2015: 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.

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 to 90 days	347,103	253,711
91 to 180 days	74,836	47,772
181 to 365 days	15,324	43,361
Over 365 days	–	2,387
	<hr/>	<hr/>
	437,263	347,231
	<hr/>	<hr/>

All the bills receivables are aged within 365 days.

11. TRADE, BILLS AND OTHER PAYABLES AND ACCRUALS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade payables (<i>Note a</i>)	154,167	183,936
Bills payables (<i>Note a</i>)	351,656	444,708
	<u>505,823</u>	<u>628,644</u>
Receipt in advance (<i>Note b</i>)	3,082	3,142
Construction cost payables	1,374	1,467
Other payables	14,676	10,378
Accrued expenses	14,285	19,930
Value added tax payables	8,684	8,296
	<u>42,101</u>	<u>43,213</u>
	<u>547,924</u>	<u>671,857</u>

Notes:

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

The Group	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 to 90 days	119,988	126,444
91 to 180 days	26,796	44,017
181 to 365 days	2,756	9,862
Over 365 days	4,627	3,613
	<u>154,167</u>	<u>183,936</u>

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.

The bills payables aged within 365 days.

- b) Receipt in advance represented advance payments from customers pursuant to the respective sales and purchase contracts.

12. EARNINGS (LOSS) PER SHARE

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Earnings (loss) for the purpose of basic earnings per share	<u>6,399</u>	<u>(38,767)</u>
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share	<u>211,032,787</u>	<u>200,000,000</u>
Basic earnings (loss) per share (HK\$ per share)	<u>0.03</u>	<u>(0.19)</u>

The dilutive earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares outstanding during the years ended 31 December 2016 and 2015.

13. DIVIDENDS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Dividend recognised as distribution during the year: 2016: nil (2015: 2015 Interim – HK\$2 cents) per share	<u>–</u>	<u>4,000</u>

No dividend has been proposed since the end of the reporting period (2015: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

In the year of 2016, the global economic and political environment posed uncertainties to all major economies, putting downward pressure on their rates of congregated economic growth. Despite the deceleration in growth, the annual GDP of China was recorded at RMB74,412.7 billion, representing a gentle growth rate of 6.7%. Under Chinese government's announced insight regarding the country's drive of medium to long term economic growth, the "new normal" annual target growth rate of 6.5-7% suggested sheer optimism in strengthened domestic demand for the manufacturing sector nationwide. Faced with the challenge of overcapacity, although Chinese government has launched reform focusing on domestic demand, overall observation and studies have yet seen tangible improvement in the number of orders received by plants and factories. Currently, the production industry outlook features mixed opinions, amongst which some point to imminent improvement in production level, favoring durable goods slightly over non-durables. On the other hand, it is still expected institutional capacity reduction in various sectors may take place, presenting more pressure on domestic manufacturers in the short to medium run.

In terms of the LED backlight industry, its relevant domestic market was maturing further and reached close-to-full saturation during 2016; adding on the effects of the macroeconomic slowdown, this indicated sluggish growth of the industry for the year and the potential of the same trend for the coming year. Smartphone LED backlight lost its growth momentum under the intensified market competition across the country, whereas automobile and TV LED backlight maintained a steady pace of development. In line with the general view of China's industrial economy, the market conditions and production demand are anticipated to remain unstable, hence leading to a more complicated business environment.

Business Review

Taking prudence into consideration, the Group introduced changes to restructure its business in 2016 in order that profit optimization is achieved, given the emerging market conditions. In principle, product mix was revised by lowering the proportion of low margin products and shifting focus onto the production of high margin products. This is mainly reflected by the reduced business coverage of smartphone LED backlight products, which eventually came to cessation of sales in the second half of the year.

The total revenue for the year under review was approximately HK\$1,321,601,000, increased by 20.1% as compared to approximately HK\$1,100,491,000 in 2015. Revenue from the sales of LED backlight products was approximately HK\$762,716,000 (2015: approximately HK\$1,033,652,000), with a decrease by 26.2%. The substantial drop in the sales of LED backlight products can be explained by the cessation of sales of smartphone backlight products under the Company's transition into focusing on other high-margin products. Revenue from the sales of LED lighting products was approximately HK\$57,319,000 (2015: approximately HK\$66,839,000), with a decrease of 14.2%, and such regression can be explained by the weakened domestic demand in China which led to decreased spending from commercial customers on related LED lighting projects.

Throughout the year under review, the Group took strategic measures in restructuring product portfolio, as well as continuing with stringent cost control which involved the full implementation of the enterprise resource planning (“**ERP**”) system for timely monitoring of its operational process, to promote information exchange between functions and to store and manage operational data. The ERP system in particular successfully lowered operational cost for the Group during the manufacturing process. In the same aspect, there was also a system upgrade which facilitated a higher degree of process automation, enhancing production line productivity. This resulted in better resource allocation and utilization, effecting overall improvement of financial and work efficiency.

LED Backlight Business

The Group's LED backlight products are classified into four types, including: 1) smartphones; 2) automobile on-board displays; 3) television displays; and 4) other industrial equipment displays. During the year, revenue derived from LED backlight products related to smartphones, automobile on-board displays, television displays and industrial equipment displays were approximately HK\$230,508,000, HK\$164,922,000, HK\$144,103,000 and HK\$223,183,000 respectively.

From the above, smartphone LED backlight production ceased in the second half of the year under review due to the declining profitability of smartphone backlight products relative to other existing products, which was caused by the heightened cost of research & development (“**R&D**”) under robust market competition and the smartphone consumer market slowdown after a decade of rapid development. This led to oversupply and price wars, hence stagnant growth in the smartphone backlight market, with especially detrimental impact from the sub-market of low-end handsets. According to the International Data Corporation's Worldwide Quarterly Mobile Phone Tracker, the worldwide smartphone market saw a total of 1.47 billion units shipped, only marking 2.3% growth from the previous year, which is a considerable decline with reference to the 10.1% growth in 2015 and 27.5% growth in 2014. As the Chinese smartphone market continues to mature, pricing will only be increasingly competitive, chipping away profits along with secondary competition for the material suppliers. Together with the wave of new display technologies, such as the featuring of OLED displays for some international smartphone brands, the demand for LED backlight shrank drastically leading to discouraging rate of growth in the smartphone backlight market.

The Group adopted the new focus on its high-margin products, namely automobile on-board displays and television displays LED backlight. They emerged to be the two key revenue drivers for the Group this year. LED displays faced with a drop in market price over the past year, with the observed technological advancement, demand for automobile on-board displays catering for middle to high-end vehicles in China and international markets surged. Given the relatively high entry barrier on specialized automotive products, the Group believes that its existing manufacturing technologies and resources for automobile on-board displays LED backlight are advantageous to its growth in this specific market. Business conditions are also less challenging, thus less costly in terms of R&D because of the durability of such products.

Another division of the Group's backlight products is for television displays, sales performance of which remained stable in the year under review. According to IHS Technology, a leading research and analysis firm specializing in the industries of technology, media, and telecommunications, smart TV shipments had been predicted to reach 109 million units in 2016, and is expected to rise to 134 million units in 2020. China continues to dominate the worldwide smart TV manufacturing market. The Group remains optimistic about the stable growth of TV backlight market in the foreseeable future.

The Group understands and treasures the value of customer loyalty for its business, having long been supported by groups of long-term clients. In view of the weakened domestic consumption market, the Group sets out on product restructuring – starting to fine-tune its product mix by placing emphasis on high-margin backlight products to safeguard profit margins and to attain more business security. On top of that, the Group is also working on customer diversification – exploring new markets and clientele, in the meantime landing new sources of income. The Group is confident that the above measures will enhance its business sustainability.

LED Backlight Revenue Breakdown

	For the year ended 31 December			
	2016		2015	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Smartphone	230,508	30.2	598,903	57.9
Automobile Displays	164,922	21.6	145,480	14.1
Televisions	144,103	18.9	105,352	10.2
Equipment Displays	223,183	29.3	183,917	17.8
	<u>762,716</u>	<u>100.0</u>	<u>1,033,652</u>	<u>100.0</u>

LED Lighting Service Business

The Group's LED lighting business is classified into 2 types, including public lighting and commercial lighting. The Group provides various services including products, lighting solutions design, installation and maintenance etc. During the year under review, revenue from public lighting and commercial lighting was approximately HK\$33,271,000 and HK\$24,048,000 respectively, showing decrease of 16.7% and 10.7% compared to respective approximates of HK\$39,921,000 and HK\$26,918,000 for the year of 2015.

The Chinese government has determined to stimulate the public penetration of LED street lights in previous years, bringing about strong demand for such LED street lighting products. This, however, has been adversely affected by the weak consumption sentiment due to economic breakdown, causing many projects to be delayed and major disruption of the domestic LED lighting market. The Group had successfully completed over 200 LED lighting projects with major supermarkets in China prior to the market slowdown and built up its reputation and strong client database. It is striving to acquire more domestic LED lighting upgrade projects in various supermarket chain stores as the market momentum resumes.

The markets of the U.S. and Europe appear promising during the year under review. The Group reported satisfactory sales to both markets for large-scale business arrangement have been established or put in progress. The Group has been conducting research and building its profile in LED street lighting market in Mexico over the years and projects are now in progress. Both the North American and European markets will remain the Group's short-term sales focus for the LED lighting segment.

LED Lighting Revenue Breakdown

	For the year ended 31 December			
	2016		2015	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Public Lighting	33,271	58.0	39,921	59.7
Commercial Lighting	24,048	42.0	26,918	40.3
	<u>57,319</u>	<u>100.0</u>	<u>66,839</u>	<u>100.0</u>

High-Tech Electronic Components and Products Sourcing Business

For the year of 2016, the Group engaged in a non-core business of provision of sourcing business of high-tech electronic components and products with the background of being a seasoned industry player. The move was an expedient to migrating to high margin business segments. During the year under review, revenue from the provision of sourcing business was approximately HK\$501,566,000, taking up approximately 38% of this year's total revenue.

High-Tech Electronic Components and Products Sourcing Business

	For the year ended 31 December			
	2016		2015	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
High-Tech Electronic Components and Products Sourcing Business	<u>501,566</u>	<u>100</u>	<u>N/A</u>	<u>N/A</u>
	<u>501,566</u>	<u>100</u>	<u>N/A</u>	<u>N/A</u>

Quality Control

The Group has established stringent quality control procedures to ensure the quality of the LED products. From the very beginning of production at the stage of product design, the Group's quality control procedures continue throughout the entire product manufacturing and storage process. Staffs in quality control participate in the process of product design, which ensures quality excellence starting from the fundamentals. 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 quality and reliability of the Group's products.

Research and Development

Being a competitive member in the industry, the Group believes the upkeep of product innovation and the research and development capabilities can immensely boost its competitiveness and market status. Therefore, the Group puts forth the development of new LED backlight and LED lighting products, which is pivotal in the industry of rapidly advancing technologies and supports the Group's competitiveness in the long-term.

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 our 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 throughout the years and, as of 31 December 2016, the Group holds 45 patents registered in the PRC. Looking 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.

Awards for Corporate Responsibility

The Group stays ahead in terms of corporate responsibility while in pursuit for commercial gains. During the year, a subsidiary of the Group has once again been awarded the Green Office Awards Labelling Scheme (“GOALS”) Green Office Label by the World Green Organization (“WGO”), in recognition of the Group's continued efforts in aiding environmental protection.

WGO launched GOALS in 2013 with the objectives of raising awareness of global environmental issues and encouraging corporations to implement the best green practices in their offices in 9 stipulated aspects of operations, including energy savings, water savings, waste reduction, paper and printing reduction, green procurement, IT use and disposal, transportation, education and awareness, and finally green innovation. Companies have to undergo a process of stringent green audit, during which the Group has demonstrated its commitment in corporate social responsibility by incorporating its green mission into daily practice and corporate culture.

Certifying the Group's all-rounded performance in its corporate social responsibility, the Group had been presented with the Outstanding SME Social Responsibility Award for the first time, by Hong Kong's Mirror Post in the Fifth Annual Outstanding CSR Award Ceremony.

Mirror Post, a longstanding monthly magazine in Hong Kong, first organized the Outstanding CSR Award in 2012 aiming to celebrate Chinese enterprises excelling in their realization of CSR. To be eligible for nomination, companies have to pass through a strict selection process with the 7 criteria of obligations towards shareholders, caring of employees, environmental protection, commitment to customers, community and society relations, leadership ability and other indices related to the enterprise's own specialty of the profession.

Prospects

Having seen the recent sluggish growth in China's economy, domestic demand and business investment are under uncertain circumstances, but expected to be stimulated by the PRC government's economic reform policies along the line of the "new normal" routine. Incentives over consumer spending and enhancing the service sector are put in place to create solid domestic demand, while encouragement towards domestic manufacturing and energy-saving can be directly favorable for business owners. Particularly, the PRC government has opened up subsidizing program in light of supportive policies on high and new tech enterprises, holding the industry optimistic for more extensive benefits and reinforcement in the future.

Both overseas and domestic opportunities may arise for the Group's LED backlight business, hence the Group strives to constantly better itself by operating in the principle of sustainability. Aside from optimizing efficiency and cost-effectiveness through various means like business streamlining, process automation and system upgrades, the Group redesigns the composition of its output to capture the most market gains. In the immediate future, automobile displays LED backlight will be receiving key focus of development following the parting of smartphone LED backlight products. The Group believes it will benefit from the relatively long life of automobile displays as opposed to smartphone LED backlight, in that costs of frequent creation of new models are reduced; while fewer entrants appear in the automobile displays backlight market than in the smartphone LED backlight market due to higher entry barriers.

Regarding the segment of LED lighting, the Group has established or begun execution of large-scale business arrangement for the European and North American market, involving collaboration with major agents in the European market and with the government in North America. The Group has dedicated its effort in exploring and establishing business relationship with the Mexican government since 2012. Due to the temporal investment required for these jobs, the Group is confident in securing and aggressively increasing its market share in the foreign LED lighting market. Also, the Group will continue participating in various global lighting trade shows in different international markets while devoting reasonable resources in R&D to keep up with the changing market.

With over 30 years of LED backlight and lighting 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

During the year under review, the sources of revenue for the Group were the sales of LED backlight products, the sales of LED lighting products and the provision of high-tech electronic components and products sourcing business. For the year ended 31 December 2016, the sales of the Group's LED backlight products was approximately HK\$762,716,000, a decrease by 26.2% from approximately HK\$1,033,652,000 in 2015; the fall was mainly attributable to the cessation of sales of smartphone backlight products. The sales of the Group's LED lighting products was approximately HK\$57,319,000, a decrease by 14.2% from approximately HK\$66,839,000 in 2015. The fall was mainly attributable to the decreased spending from commercial customers on related LED lighting projects. A newly developed segment in the year under review, the provision of high-tech electronic components and products sourcing business, had relevant sales approximating to HK\$501,566,000.

The Group has strategized with great effort about new forms of profit optimization, and changes took place in the year under review. Further from raising the sales contribution from high margin goods, namely automobile on-board displays and television LED backlight products, there was the cessation of sales of smartphone LED backlight products in the second half of the year.

Meanwhile, a share of revenue stemmed from the Group's engaging in a newly developed business of provision of sourcing business of high-tech electronic components and products. The introduction of this business is part of the actions the Group takes to continuously diversify its profit sources by exploring opportunities from new business segments and new markets. The Group acknowledges its appeal as a seasoned industry professional towards the alternative clients in these services, however, it will carefully examine the compatibility between such service provision and its main business to further define an appropriate mode of operation.

Total Revenue	For the year ended 31 December			
	2016		2015	
	HK\$'000	%	HK\$'000	%
LED Backlight	762,716	57.7	1,033,652	93.9
LED Lighting	57,319	4.3	66,839	6.1
High-Tech Electronic Components and Products Sourcing Business	501,566	37.9	N/A	N/A
	<u>1,321,601</u>	<u>100.0</u>	<u>1,100,491</u>	<u>100.0</u>

Gross Profit and Gross Profit Margin

For the year ended 31 December 2016, gross profit from the sales of LED backlight and LED lighting products was HK\$156,770,000, representing a decrease of 36.1% from approximately HK\$245,512,000 in 2015, mainly due to the cessation of the sales of smartphone LED backlight products. Gross profit margin for these two segments decreased by 3.2 percentage points from 22.3% in 2015 to 19.1% for the year under review. Gross profit and gross profit margin from the provision of sourcing business of high-tech electronic components and products were HK\$4,495,000 and 0.9% respectively.

For the year ended 31 December 2016, the Group's overall gross profit was approximately HK\$161,265,000, decreased by 34.3% from approximately HK\$245,512,000 in 2015. Gross profit margin was 12.2%, decreased by 10.1 percentage points from 22.3% in 2015 due to the temporary setback experienced by the Group during its transition of focus from smartphone backlight products to automobile on-board displays and other high-tech products, with the aim of abandoning the low-profitting division for gross profit optimization in the long run.

Selling and Distribution Expenses

Labour costs, sales commissions and transportation costs were the Group's major selling and distribution expenses. For the year ended 31 December 2016, the Group's selling and distribution expenses was approximately HK\$23,625,000, decreased by 8.9% compared to approximately HK\$25,926,000 for the year 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. For the year ended 31 December 2016, the Group's administrative expenses was approximately HK\$75,227,000, decreased by 29.8% compared to approximately HK\$107,129,000 of the year of 2015. The decrease was mainly attributable to the scale down of low profit margin operation and the adopting of stringent cost control measures.

Other Income and Other Gains

During the year under review, other income and gains was approximately HK\$23,901,000, increased by 121.6% in comparison with approximately HK\$10,788,000 of the year of 2015. The significant increase can mainly be accounted for by the Group's subsidies receipt from the PRC government in light of supportive policies on high and new tech enterprises.

Taxation

Taxation 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 year under review, the Group's tax expenses was approximately HK\$383,000 (for the year ended 31 December 2015: approximately HK\$1,106,000), which was mainly attributable to the taxable profit generated by the subsidiaries of the Company located in PRC and the over-provision of taxation expenses in previous years.

Inventories

As at 31 December 2016, the Group's inventory was approximately HK\$191,838,000, decreased by 13.7% as compared to approximately HK\$222,385,000 as at 31 December 2015. The decrease in inventory was attributable to lesser stock of smartphone backlight products.

Trade Receivables

As at 31 December 2016, the Group's net trade receivables was approximately HK\$437,263,000, which increased by 25.9% as compared to approximately HK\$347,231,000 as at 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 at 31 December 2016, the Group's trade payables was approximately HK\$154,167,000, decreased by 16.2% as compared to the approximately HK\$183,936,000 as at 31 December 2015, the decrease was attributable to decline in purchase of materials.

Placing of New Shares and Offer to Acquire the Company's Shares

On 6 May 2016, the Company completed a placing, allotted and issued 16,825,000 new shares of the Company to not less than six individuals who are independent third parties at the price of HK\$2.00 per share. Net Proceeds from the Placing amounted to approximately HK\$31,134,000, which are intended to be used for financing any potential investment opportunities such as mergers and acquisitions that may arise from time to time. Immediately after the completion of the placing, there were 216,825,000 shares of the company in issue, with Mr. Yiu Chi To as the major shareholder holding 52.25% of all issued shares.

On 17 May 2016, the Company entered into a placing agreement with Kingston Securities Limited (the “**Placing Agent**”), pursuant to which the Company conditionally agreed to place, through the Placing Agent on a best effort basis, up to 23,175,000 placing shares at the price of HK\$2.05 per share to not fewer than six placees. The expected maximum net proceeds was approximately HK\$46,700,000. On 31 May 2016, the Company announced that such placing agreement has lapsed as the conditions of the placing agreement have not been fulfilled and/or waived (as the case may be). The Directors are of the view that the lapse of the placing agreement had no material adverse impact on the business operation and financial position of the Group.

On 13 December 2016, Rexell Technology Company Limited (all the issued shares of which are legally and beneficially owned by Mr. Yiu Chi To), showing confidence in the Company’s prospects, offered to acquire all the issued shares of the Company (other than those already owned by Rexell Technology Company Limited) at the offer price of HK\$2.00 per share, with the total consideration of the offer being HK\$207,078,000. As at 9 December 2016, Rexell Technology Company Limited held 113,286,000 shares which represented approximately 52.25% of the issued share capital of the Company. Subsequently on 3 January 2017, 5 valid acceptances in respect of a total of 20,587,000 shares had been received, representing approximately 9.49% of the entire issued share capital of the Company as at 3 January 2017.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company’s ordinary shares were listed on the Main Board of the Stock Exchange on 18 November 2014. The total net proceeds from the initial public offering amounted to approximately HK\$161,542,000. The Group has, up to 31 December 2016, utilized approximately HK\$22,092,000 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 ERP system; and approximately HK\$40,500,000 for our research and development activities including recruiting technical and expert staffs and enhancing our research and development capacity. At the end of the year 2016, 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

The Company and any of its subsidiaries have not purchased or redeemed any of the Company’s listed securities during the year ended 31 December 2016. The controlling shareholder of the Company, Rexell Technology Company Limited, has disposed of 16,925,000 listed shares and purchased 201,000 listed shares during the year ended 31 December 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 essential for continual growth and enhancement of shareholders' value. Throughout the years ended 31 December 2016 and 2015, the Company has applied the principles of and complied with the code provisions stipulated in the Corporate Governance Code and Corporate Governance Report 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 in corporate governance.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the Group's consolidated financial statements for the year ended 31 December 2016, the accounting principles and practices adopted and discussed auditing, internal controls and financial reporting matters.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company will be held on 24 May 2017. The notice of the annual general meeting will be published in the Company's website and sent to the shareholders of the Company in the manner required by the Listing Rules in due course.

PUBLICATION OF ANNUAL REPORT

The 2016 annual 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 and HKEx news website at 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 the Group's management. We would also like to thank all our business partners and bank enterprises who have supported and stood by us at all times.

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

Hong Kong, 24 March 2017

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 and Ms. Yong Jian Hui. The independent non-executive directors are Mr. Au Yeung Tin Wah, Mr. Chen Kwok Wang and Mr. Ho Chi Wai.