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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 2015

**FINANCIAL HIGHLIGHTS**

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue | **1,100,491** | 1,165,579 |
| Gross profit | **245,512** | 275,843 |
| Gross profit margin | **22.3%** | 23.7% |
| (Loss)/profit for the year | **(38,767)** | 61,193 |
| Basic and diluted (loss)/earnings per share | **(HK$19 cents)** | HK$39 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 2015, together with comparative figures for the year ended 31 December 2014, as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**
*For the year ended 31 December 2015*

| | *Notes* | **2015** **HK$'000** | 2014 HK$'000 (restated) |
|---|---|---|---|
| **Revenue** | *4* | **1,100,491** | 1,165,579 |
| Cost of sales | | **(854,979)** | (889,736) |
| **Gross profit** | | **245,512** | 275,843 |
| Other income and other gains | *4* | **10,788** | 6,839 |
| Selling and distribution expenses | | **(25,926)** | (22,918) |
| Administrative expenses | | **(107,129)** | (99,466) |
| Other operating expense | | **(77,313)** | (413) |
| Research and development expenses | | **(53,059)** | (48,625) |
| Finance costs | *6* | **(30,534)** | (29,672) |
| **(Loss) profit before tax** | | **(37,661)** | 81,588 |
| Income tax expense | *7* | **(1,106)** | (20,395) |
| **(Loss) profit for the year** | *8* | **(38,767)** | 61,193 |
| | | **HK$** | HK$ |
| **(Loss) earnings per share** | | | |
| Basic and diluted | *12* | **(0.19)** | 0.39 |

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the year ended 31 December 2015*

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **(Loss) profit for the year** | **(38,767)** | 61,193 |
| **Other comprehensive (expense) income that may be subsequently reclassified to profit or loss** | | |
| Exchange differences arising on translation of foreign operations | **(33,026)** | 364 |
| **Total comprehensive (expense) income for the year** | **(71,793)** | 61,557 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2015*

| | Notes | 2015 HK$'000 | 2014 HK$'000 (restated) |
|---|---|---|---|
| **Non-Current Assets** | | | |
| Property, plant and equipment | | **285,415** | 312,335 |
| Prepaid lease payments | | **39,364** | 42,840 |
| Deferred taxation | | **6,216** | 1,349 |
| | | **330,995** | 356,524 |
| **Current assets** | | | |
| Inventories | *9* | **222,385** | 201,120 |
| Prepaid lease payments | | **967** | 967 |
| Trade receivables | *10* | **347,231** | 532,657 |
| Bills receivables | *10* | **206,399** | 92,754 |
| Prepayments, deposits and other receivables | | **44,822** | 36,324 |
| Amount due from a related company | | **477** | – |
| Pledged bank deposits | | **225,710** | 56,715 |
| Deposits with bank | | **29,505** | – |
| Bank balances and cash | | **240,013** | 331,864 |
| | | **1,317,509** | 1,252,401 |
| **Current liabilities** | | | |
| Trade payables | *11* | **183,936** | 222,643 |
| Bills payables | *11* | **444,708** | 284,453 |
| Other payables and accruals | *11* | **43,213** | 44,432 |
| Bank borrowings – due within one year | | **345,719** | 348,521 |
| Obligations under finance leases – due within one year | | **4,190** | 2,252 |
| Income tax payables | | **10,414** | 17,141 |
| | | **1,032,180** | 919,442 |
| **Net current assets** | | **285,329** | 332,959 |
| **Total assets less current liabilities** | | **616,324** | 689,483 |
| **Non-current liabilities** | | | |
| Bank borrowings – due more than one year | | **3,027** | – |
| Obligations under finance leases – due more than one year | | **4,005** | 3,381 |
| Government grants | | **32,854** | 33,871 |
| | | **39,886** | 37,252 |
| **Net assets** | | **576,438** | 652,231 |
| **Capital and reserves** | | | |
| Share capital | | **2,000** | 2,000 |
| Reserves | | **574,438** | 650,231 |
| **Total equity** | | **576,438** | 652,231 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2015*

### 1. GENERAL

Wai Chi Holdings Company Limited 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 while the principal subsidiaries are principally 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$**") while that of the subsidiaries established in the People's Republic of China (the "**PRC**") are Renminbi ("**RMB**"). For the purpose of presenting the financial statements, the Company and its subsidiaries adopted HK$ 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

The Group has consistently adopted the HKFRSs, Hong Kong Accounting Standards ("**HKASs**") amendments and interpretations ("**Ints**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") which are effective for the Group's Financial year beginning on 1 January 2015.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

| | |
|---|---|
| HKFRS 9 (2014) | Financial Instruments[2] |
| HKFRS 15 | Revenue from Contracts with Customers[2] |
| Amendments to HKFRSs | Annual improvement to HKFRSs 2012–2014 Cycle[1] |
| Amendments to HKAS 1 | Disclosure Initiative[1] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[1] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants[1] |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Veuture[3] |
| Amendments to HKFRS 10 and HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception[1] |
| Amendments to HKFRS 11 | Accounting from Acquisitions of Interests in Joint Operations[1] |

1 Effective for annual periods beginning on or after 1 January 2016.
2 Effective for annual periods beginning on or after 1 January 2018.
3 Effective date not yet been determined.

The directors of the Company anticipate that, the application of other new and revised HKFRSs will not have material impact on the results and the financial position of the Group.

## 3. BASIS OF CONSOLIDATION

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

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns. When the Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Group's voting rights and potential voting rights; or (iv) a combination of the above, based on all relevant facts and circumstances.

The Company reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control of the subsidiary and cease when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company 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 entities of the Group are eliminated in full on consolidation.

## 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:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Revenue** | | |
| Sales of goods | **1,100,491** | 1,165,579 |
| **Other income and other gains** | | |
| Bank interest income | **4,930** | 1,520 |
| Government grants *(Note)* | **2,952** | 3,877 |
| Reversal of allowance on inventories | **407** | – |
| Reversal of impairment loss recognised in respect of other receivables | **249** | – |
| Net foreign exchange gain | **–** | 380 |
| Sales of scrapped materials | **27** | 383 |
| Sundry income | **2,223** | 679 |
| | **10,788** | 6,839 |

*Note:*

Included in the amount of government grants recognised during each of the years ended 31 December 2015 and 2014 of approximately HK$2,775,000 and HK$3,170,000 respectively 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 years. For the years ended 31 December 2015 and 2014, amount of approximately HK$177,000 and HK$707,000 were government grants recognised as deferred income utilised during the years respectively.

## 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 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 products. 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 – 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

**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 2015*

| | LED backlight | LED lighting | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *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)** |

*For the year ended 31 December 2014*

| | LED backlight *HK$'000* | LED lighting *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **REVENUE** | | | |
| External sales | 1,070,946 | 94,633 | 1,165,579 |
| Segment profit | 189,534 | 12,586 | 202,120 |
| Unallocated income | | | 3,490 |
| Unallocated expenses | | | (94,350) |
| Finance costs | | | (29,672) |
| Profit before tax | | | 81,588 |

**Revenue from major products**

*Analysis by type of products*

| | **2015** *HK$'000* | 2014 *HK$'000* |
|---|---|---|
| LED backlight | | |
| – Small dimension | **831,930** | 869,160 |
| – Medium dimension | **97,343** | 48,597 |
| – Large dimension | **104,379** | 153,189 |
| Sub-total | **1,033,652** | 1,070,946 |
| LED lighting | | |
| – Indoor lighting | **26,928** | 60,768 |
| – Outdoor lighting | **39,911** | 33,865 |
| Sub-total | **66,839** | 94,633 |
| Total | **1,100,491** | 1,165,579 |

*Analysis by application of products*

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| LED backlight | | |
| – Smartphone | **598,903** | 560,833 |
| – Automobile displays | **145,480** | 149,412 |
| – Equipment displays | **183,917** | 201,105 |
| – Televisions | **105,352** | 159,596 |
| Sub-total | **1,033,652** | 1,070,946 |
| LED lighting | | |
| – Public lighting | **39,921** | 38,857 |
| – Commercial lighting | **26,918** | 55,776 |
| Sub-total | **66,839** | 94,633 |
| Total | **1,100,491** | 1,165,579 |

**Segment assets and liabilities**

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

*Segment assets*

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| LED backlight | **890,146** | 948,263 |
| LED lighting | **211,613** | 234,410 |
| Total segment assets | **1,101,759** | 1,182,673 |
| Unallocated assets | **546,745** | 426,252 |
| Consolidated total assets | **1,648,504** | 1,608,925 |

*Segment liabilities*

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| LED backlight | **618,115** | 501,242 |
| LED lighting | **86,161** | 78,754 |
| Total segment liabilities | **704,276** | 579,996 |
| Unallocated liabilities | **367,790** | 376,698 |
| Consolidated total liabilities | **1,072,066** | 956,694 |

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 and obligations under finance leases. Liabilities for which operating segments are jointly liable are allocated in proportion to segment revenue.

## 6. FINANCE COSTS

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest expenses on: | | |
| – bank borrowings | **30,175** | 29,552 |
| – finance leases | **359** | 120 |
| | **30,534** | 29,672 |

## 7. INCOME TAX EXPENSE

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current income tax | | |
| – PRC Enterprise Income Tax | | |
| – Current year | **9,265** | 18,102 |
| – Over-provision in respect of prior years | **(3,007)** | – |
| | **6,258** | 18,102 |
| Deferred taxation | **(5,152)** | 2,293 |
| Total income tax expense for the year | **1,106** | 20,395 |

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 2015 and 2014.

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 2015 (2014: 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.

## 8. (LOSS) PROFIT FOR THE YEAR

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss) profit for the year has been arrived at after charging (crediting): | | |
| Directors' emoluments | **5,763** | 4,423 |
| Salaries and allowances (excluding directors' emoluments) | **238,568** | 204,739 |
| Retirement benefit scheme contributions (excluding directors) | **16,478** | 13,779 |
| Total staff costs | **260,809** | 222,941 |
| Auditor's remuneration | **880** | 750 |
| Amortisation of prepaid lease payments | **958** | 971 |
| Net foreign exchange loss | **8,898** | – |
| Amounts of inventories recognised as expenses | **896,809** | 889,736 |
| Depreciation of property, plant and equipment | **47,746** | 42,327 |
| Write-down of inventories (included in other operating expenses) | **41,830** | – |
| Impairment loss on inventories (included in cost of sales) | **–** | 891 |
| Impairment loss on trade and other receivables (included in other operating expenses) | **21,319** | 413 |
| Impairment loss on construction in progress (included in other operating expenses) | **14,164** | – |
| Listing expenses | **–** | 16,927 |
| Loss on disposal of property, plant and equipment, net | **243** | 181 |
| Minimum lease payments paid under operating lease on premises | **7,811** | 6,237 |

## 9. INVENTORIES

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **48,046** | 42,796 |
| Work-in-progress | **64,074** | 65,804 |
| Finished goods | **110,265** | 92,520 |
| | **222,385** | 201,120 |

## 10. TRADE AND BILLS RECEIVABLES

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **371,831** | 540,637 |
| Less: Impairment | **(24,600)** | (7,980) |
| | **347,231** | 532,657 |
| Bills receivables | **206,399** | 92,754 |
| | **553,630** | 625,411 |

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.

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 90 days | **253,711** | 440,920 |
| 91 to 180 days | **47,772** | 50,495 |
| 181 to 365 days | **43,361** | 33,276 |
| Over 365 days | **2,387** | 7,966 |
| | **347,231** | 532,657 |

All the bills receivables are aged within 365 days.

## 11. TRADE, BILLS AND OTHER PAYABLES AND ACCRUALS

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade payables *(Note a)* | **183,936** | 222,643 |
| Bills payables *(Note a)* | **444,708** | 284,453 |
| | **628,644** | 507,096 |
| Receipt in advance *(Note b)* | **3,142** | 1,408 |
| Construction cost payables | **1,467** | 1,557 |
| Other payables | **10,378** | 6,478 |
| Accrued expenses | **19,930** | 24,845 |
| Value added tax payables | **8,296** | 10,144 |
| | **43,213** | 44,432 |
| | **671,857** | 551,528 |

*Notes:*

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

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 0 to 90 days | **126,444** | 176,595 |
| 91 to 180 days | **44,017** | 32,775 |
| 181 to 365 days | **9,862** | 6,872 |
| Over 365 days | **3,613** | 6,401 |
| | **183,936** | 222,643 |

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. (LOSS) EARNINGS PER SHARE

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss) earnings for the purpose of basic earnings per share | **(38,767)** | 61,193 |

The calculation of the basic earnings per share for the years ended 31 December 2015 and 2014 is based on the (loss) profit for the year attributable to the owners of the Company and the weighted average number of ordinary shares amounted to 200,000,000 and 156,027,397 in issue during the years ended 31 December 2015 and 2014 respectively after taking into account the capitalisation issue pursuant to the reorganisation for the preparation for the Company's listing.

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 2015 and 2014.

## 13. DIVIDENDS

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Dividend recognised as distribution during the year 2015 Interim – HK2 cents (2014: Nil) per share | **4,000** | – |

No dividend has been proposed since the end of the reporting period (2014: Nil).

## 14. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 14 March 2016, the Company has made arrangement to procure or refer independent private investors to subscribe for corporate bonds in an aggregate principal amount of up to HK$150,000,000 bearing interest rate of 8% per annum with maturity ranging from 3 years to 7.5 years from the date of issue. Up to 24 March 2016, HK$2,000,000 of the corporate bonds were issued.

## 15. COMPARATIVES

Impairment loss recognised in respect of trade and other receivables presented in the consolidated statement of profit or loss were previously included in administrative expenses. To conform to current year's presentation, the impairment loss recognised for the year ended 31 December 2014 have been reclassified to other operating expenses in the consolidated statement of profit or loss to facilitate a better presentation.

Trade receivables and bills receivables were previously combined as a single line item in the consolidated statement of financial position. To conform to current year's presentation, trade receivables and bills receivable as at 31 December 2014 have been separated in the consolidated statement of financial position to facilitate a better presentation.

Trade payables and bills payables were previously combined as a single line item in the consolidated statement of financial position. To conform to current year's presentation, trade payables and bills payables as at 31 December 2014 have been separated in the consolidated statement of financial position to facilitate a better presentation.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Review

China recorded a pronounced deceleration in growth in 2015, affirming that a multiyear slowdown is biting the world's second-largest economy harder and is showing little sign of abating. The annual GDP growth rate announced was 6.9%, lowest since 1990. Despite the respectable headline growth figure, pain is deepening across the country in the sectors that have traditionally driven Chinese economic growth and is translating directly into slower economic activities as well as even dimmer prospects. As the Chinese economy continues to shift away from its manufacturing roots, the growth for manufacturing sector slowed to 6.0% in 2015 from 7.3% in 2014. Related activities continued to contract at fast pace during the start of the new year and recorded the worst readings in almost three-and-a-half years by January 2016. 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 no exception under the sudden market meltdown. The overall LED backlight market in China was seen increasingly mature and started saturating during the first half of 2015, leading to sluggish growth for the full year. Smartphone LED backlight sector lost its growth momentum under the intensified market competition across the country, whereas automobile and TV LED backlight sectors managed to maintain a healthy development pace. Market recovery is expected to remain lackluster with higher degree of consolidation, business environment will be a lot trickier and tougher.

### Business Review

2015 was definitely a year of turbulence for China's economy. The Group experienced a slide in overall business despite its prudent management as well as technological advancements and breakthroughs made. The total revenue was approximately HK$1,100,491,000, decreased by 5.6% as compared to 2014. Revenue from the sales of LED backlight products was approximately HK$1,033,652,000 and revenue from the sales of LED lighting products was approximately HK$66,839,000, decreased by 3.5% and by 29.4% respectively as compared to 2014. The significant drop in the sales of LED lighting products was mainly attributable to the slowdown of tenders on commercial and government lighting projects in China as well as overseas markets.

The Group is putting effort in product mix restructuring to reduce the proportion of goods with low profit margin. To further optimise business performance, the Group has continued adopting stringent cost control measures. The Group has been using ERP system for timely monitoring of its operation process, to promote information exchange between functions and to store and manage operational data. During the year under review, the Group successfully completed a system upgrade of its production lines to achieve higher process automation. Resources therefore were reallocated and better utilised which improved the overall financial and work efficiency.

*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$598,903,000, HK$145,480,000, HK$105,352,000, and HK$183,917,000, respectively.

After the exponential growth in China's low-to-mid end smartphone market during 2011 to 2014, the growth significantly slowed down due to oversupply and price wars. Competition was most severe for low-end smartphones bringing devastating impacts to the overall industry. According to the International Data Corporation, the worldwide smartphone growth is slow to 10.1% in 2015, marked a total of 1,432.9 million units, down from 27.5% growth in 2014. According to Strategy Analytics, smartphone shipments in China grew just 3.0% annually from 423.6 million units in 2014 to 437.8 million in 2015. 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 Organic Light-Emitting Diode (OLED) displays for some international smartphone players, the demand for LED backlight was dragged leading to the massive revised down of the growth pace of smartphone backlight market in 2015. However, thanks to the satisfactory demand for the Group's automobile on-board displays and television displays backlight products, the revenue of the Group's LED backlight products remained stable during 2015.

For the year under review, automobile on-board LED backlight was the Group's key development driver. Due to the drop in LED price over the past year, together with the technology advancement, the demand for automobile on-board displays being used in middle-to-high end vehicles in China and international markets spurred. The Group believes that this transformational trend in automobile on-board displays will continue in the coming years.

Furthermore, as the Chinese economy has experienced the lowest GDP growth in 2015 since 1990, consumption slowdown has dragged the demands on TV LED market in China. Nevertheless, the Group is confident that the growth for TV backlight products will remain steady in the future.

The Group always believes customer loyalty is one of its most valuable intangibles and the Group 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 has started 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. The Group provides various services including products, lighting solutions design, installation and maintenance etc. During the period under review, revenue from public lighting and commercial lighting was approximately HK$39,921,000 and HK$26,918,000 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 year under review, upon the weak consumption sentiment due to economic breakdown, many of the 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. The Group strives 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 year under review. The Group managed to report satisfactory sales numbers from these 2 regions and both U.S. and Europe will remain the Group's short-term 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 will 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 characterised 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.

During the second half of 2015, the Group has showcased 3 key commercial lighting products during the Hong Kong International Lighting Fair (Autumn Edition), among which, the Group has developed a new sensor light function for its high bay light series, which can further reduce energy and emission and lower operating costs. The Group will continue to devote reasonable amount of resources in R&D to keep up with the changing market.

**Awards for Environmental Policy**

During the year under review, a subsidiary of the Group has been awarded the Green Office Awards Labelling Scheme ("**GOALS**") Green Office Label and United Nations Millennium Development Goals "Better World Company" Label by the World Green Organisation ("**WGO**") and Junior Chamber International Hong Kong, in recognition of the Group's continued efforts in corporate sustainability and environmental protection.

WGO has launched GOALS since 2013 with the aim to raise awareness of global environmental issues and to encourage corporations to implement 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 green innovation. Having passed the stringent green audit, the Group has demonstrated its commitment in corporate social responsibility by incorporating its green mission into daily practice and corporate culture.

**Prospects**

2015 was definitely a tough year for business owners. China economy was in shortage of a positive dynamic, exemplified by the combination of slow investment growth, lack of consumer confidence, weak productivity, and a range of lingering policy and business challenges. This puts the global economy in a holding pattern at least for the immediate future, among which China's slowing economic growth continued to be the red flag.

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.

With over 30 years of experience, industry expertise and wide market recognition received, 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. For the year ended 31 December 2015, the sales of the Group's LED backlight products was approximately HK$1,033,652,000, decreased by 3.5% from approximately HK$1,070,946,000 in 2014; the decrease was mainly attributable to the slowdown in growth in mid-to-high end smartphones and television markets. The sales of the Group's LED lighting products was approximately HK$66,839,000, with a decrease of 29.4% from approximately HK$94,633,000 in 2014. 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 has further strengthened its R&D capabilities by obtaining 3 new patents in 2015 to catch up with the fast changing LED backlight and LED lighting products markets.

*Gross Profit and Gross Profit Margin*

For the year ended 31 December 2015, the Group's gross profit was approximately HK$245,512,000, decreased by 11% from approximately HK$275,843,000 in 2014. Gross profit margin was 22.3%, slightly decreased by 1.4 percentage point from 23.7% in 2014 due to increasing labour cost. The Group is actively eliminating outdated production procedures and upgrading production facilities for more automation as well as to launch new and upgraded products to maintain gross profit margin.

*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 2015, the Group's selling and distribution expenses was approximately HK$25,926,000, increased by 13.1% compared to the same period of 2014, which was attributable to the increase in labour cost.

*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, as well as moving the molds production departments from Shenzhen to Huizhou to reduce rental expenses. For the year ended 31 December 2015, the Group's administrative expenses was approximately HK$107,129,000, increased by 7.7% compared to the same period of 2014. The increase was mainly attributable to increase in labour cost.

*Other Operating Expense*

Other operating expense of approximately HK$77,313,000 comprise: (i) impairment loss of trade receivables of approximately HK$21,319,000; (ii) impairment loss of inventories of approximately HK$41,830,000; and (iii) impairment loss on construction in progress of approximately HK$14,164,000.

Impairment for trade receivables with aging over 1 year has been made with total amounting to approximately HK$21,319,000. After the sudden economic downturn since mid-2015, the management understands that some of our business partners especially those small to medium size entities are facing huge financial and operating challenges. Hence, the Group has reassessed the recoverability of those trade receivables and made a comparatively prudent allowance policy for those remaining balances.

Impairment for inventories with aging over 1.5 years has been made with total amounting to approximately HK$41,830,000. Due to the change in economic environment and rapid technological advancements, the product life cycle for LED products become shorter and shorter. The group therefore changes this impairment policy on inventory from provision made for all inventory over 2 years to 1.5 year. A further impairment of approximately HK$41,830,000 has been made during the year of review.

Impairment for construction in progress was made for the facilities of our production plant located in Yichang. The production plant in Yichang is for the production of LED lighting products for Government project in different cities and districts in the Hubei province. There is a development plan for the construction of factories which was expected to be completed by December 2015. However due to the economic downturn and the change in local government financial position, many LED lighting upgrade projects were delayed and postponed. Thus we postponed the development plan for the Yichang facilities and may reconsider the development plan over such area according to the economic environment of PRC in the future.

*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 are 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 income tax expense was approximately HK$1,106,000, decreased by 94.6% as compared to the same period of 2014 due to decrease in taxable profits.

*Inventories*

As of 31 December 2015, the Group's inventory was approximately HK$222,385,000, increased by 10.6% as compared to 31 December 2014. 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 31 December 2015, the Group's net trade receivables was approximately HK$347,231,000, decreased by 34.8% as compared to 31 December 2014. 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 31 December 2015, the Group's trade payables was approximately HK$183,936,000, decreased by 17.4% as compared to 31 December 2014, the decrease was attributable to decrease in purchase of materials and longer credit period granted by suppliers.

## SUBSEQUENT EVENT

On 14 March 2016, the Company has made arrangement to procure or refer independent private investors to subscribe for corporate bonds in an aggregate principal amount of up to HK$150,000,000 bearing interest rate of 8% per annum with maturity ranging from 3 years to 7.5 years from the date of issue. Up to 24 March 2016, HK$2,000,000 of the corporate bonds were issued.

The proceeds from the subscribed for corporate bonds will be utilised as general working capital of the Group and to finance any potential investment opportunities of the Group that may arise from time to time.

## DIVIDEND

The board of directors resolved not to declare final dividend for the year ended 31 December 2015.

## 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 2015, utilized approximately HK$21,511,000 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 2015, 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 2015. The controlling shareholder of the Company, Rexell Technology Company Limited, has disposed of 27,289,000 listed shares during the year ended 31 December 2015.

## 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 2015 and 2014, 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 2015, 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 20 May 2016. 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 2015 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 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.*