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Wai Chi Holdings Company Limited

偉志控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1305)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS	For the six months ended 30 June	
	2017 Unaudited HK\$'000	2016 Unaudited HK\$'000
Revenue	624,156	432,618
Gross profit	90,628	76,758
Gross profit margin	14.5%	17.7%
Profit (loss) for the period	10,533	(801)
Basic and diluted earnings (loss) per share	HK\$4.86 cents	HK\$(0.39) cents

INTERIM RESULTS

The Board of Directors (the “Board”) of Wai Chi Holdings Company Limited (the “Company”) is pleased to announce the unaudited interim condensed consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2017 (the “Period”), together with the comparative figures for the same period of 2016 and the unaudited interim condensed consolidated statement of financial position of the Group as at 30 June 2017 together with audited comparative figures as at 31 December 2016.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS*For the six months ended 30 June 2017*

		Six months ended 30 June	
		2017	2016
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4	624,156	432,618
Cost of sales		<u>(533,528)</u>	<u>(355,860)</u>
Gross profit		90,628	76,758
Other income and other gains	4	9,599	13,521
Selling and distribution expenses		(12,439)	(12,160)
Administrative expenses		(50,139)	(50,360)
Research and development expenses		(14,161)	(19,490)
Finance costs	6	<u>(9,599)</u>	<u>(12,252)</u>
Profit (loss) before tax		13,889	(3,983)
Income tax (expense) credit	7	<u>(3,356)</u>	<u>3,182</u>
Profit (loss) for the period	8	<u>10,533</u>	<u>(801)</u>
Earnings (loss) per share	10		
Basic and diluted (<i>HK\$ cents</i>)		<u>4.86</u>	<u>(0.39)</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit (loss) for the period	10,533	(801)
Other comprehensive income (expense) for the period		
Other comprehensive income (expense) to be reclassified to profit or loss in subsequent periods, net of tax		
Exchange differences arising on translation of foreign operations	<u>13,917</u>	<u>(11,277)</u>
Total comprehensive income (expense) for the period, net of tax	<u>24,450</u>	<u>(12,078)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30/6/2017 HK\$'000 (Unaudited)	31/12/2016 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	237,393	231,948
Prepaid lease payments	12	36,720	36,057
Deferred taxation		5,276	5,120
		<u>279,389</u>	<u>273,125</u>
Current assets			
Inventories		205,321	191,838
Prepaid lease payments	12	881	856
Trade receivables	13	338,032	437,263
Bills receivables	13	65,427	60,461
Prepayment, deposits and other receivables		114,785	95,134
Pledged bank deposits	14	149,149	238,467
Bank balances and cash	14	190,960	152,341
		<u>1,064,555</u>	<u>1,176,360</u>
Current liabilities			
Trade payables	15	134,937	154,167
Bills payables	15	249,519	351,656
Other payables and accruals	15	64,248	42,101
Bank borrowings – due within one year		245,254	272,920
Obligations under finance leases			
– due within one year		1,967	3,051
Income tax payables		5,664	8,115
		<u>701,589</u>	<u>832,010</u>
Net current assets		<u>362,966</u>	<u>344,350</u>
Total assets less current liabilities		<u>642,355</u>	<u>617,475</u>

	30/6/2017 <i>HK\$'000</i> (Unaudited)	31/12/2016 <i>HK\$'000</i> (Audited)
Non-current liabilities		
Bank borrowings – due more than one year	2,477	2,660
Obligations under financial leases		
– due more than one year	687	1,607
Corporate bond	1,835	1,736
Government grants	30,930	29,496
	<u>35,929</u>	<u>35,499</u>
Net assets	<u>606,426</u>	<u>581,976</u>
Capital and reserves		
Share capital	2,168	2,168
Reserves	604,258	579,808
Total equity	<u>606,426</u>	<u>581,976</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

1. GENERAL

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

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

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

2. BASIS OF PREPARATION

The condensed consolidated interim financial information of the Group for the six months ended 30 June 2017 has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2016 except as described below.

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretation (“new HKFRSs”) issued by the HKICPA which are effective for the Group’s financial year beginning 1 January 2017.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

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

4. REVENUE, OTHER INCOME AND OTHER GAINS

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Sales of goods	<u>624,156</u>	<u>432,618</u>
Other income and other gains		
Bank interest income	2,807	4,661
Government grants (<i>note</i>)	2,927	1,425
Sales of scrapped materials	3	5
Reversal of allowance for trade and other receivables	3	6,001
Reversal of impairment loss on inventories	2,764	–
Sundry income	<u>1,095</u>	<u>1,429</u>
	<u>9,599</u>	<u>13,521</u>

Note: Included in the amount of government grants recognised during each of the periods ended 30 June 2017 and 2016 of approximately HK\$2,858,000 (unaudited) and HK\$1,353,000 (unaudited) respectively were received in respect of certain research projects and export encouragement scheme, the relevant granting criteria for which have been fulfilled and were immediately recognised as other income for the periods. For the six months ended 30 June 2017 and 2016, the government grants of approximately HK\$69,000 (unaudited) and HK\$72,000 (unaudited) were recognised as deferred income utilised during the periods 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 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 types 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 – Manufacturing and trading of LED backlight products in different sizes and applications
2. LED lighting – Manufacturing and trading of LED lighting products for public and commercial use
3. Sourcing business – Provision of high-tech electronic components and products sourcing business

5. SEGMENT INFORMATION *(continued)*

Segment revenues and results

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

For the six months ended 30 June 2017 (unaudited)

	LED backlight HK\$'000	LED lighting HK\$'000	Sourcing business HK\$'000	Total HK\$'000
REVENUE				
External sales	<u>322,872</u>	<u>29,637</u>	<u>271,647</u>	<u>624,156</u>
Segment profit	<u>52,340</u>	<u>5,333</u>	<u>3,259</u>	<u>60,932</u>
Unallocated income				3,905
Unallocated expenses				(41,349)
Finance costs				<u>(9,599)</u>
Profit before tax				<u>13,889</u>

For the six months ended 30 June 2016 (unaudited)

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

5. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

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

Segment assets

	30/6/2017 HK\$'000 (Unaudited)	31/12/2016 HK\$'000 (Audited)
LED backlight	773,007	714,976
LED lighting	89,071	95,903
Sourcing business	21,696	190,654
Total segment assets	883,774	1,001,533
Unallocated assets	460,170	447,952
Consolidated total assets	1,343,944	1,449,485

Segment liabilities

	30/6/2017 HK\$'000 (Unaudited)	31/12/2016 HK\$'000 (Audited)
LED backlight	382,869	478,117
LED lighting	78,778	98,435
Sourcing business	17,897	–
Total segment liabilities	479,544	576,552
Unallocated liabilities	257,974	290,957
Consolidated total liabilities	737,518	867,509

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

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

5. SEGMENT INFORMATION *(continued)*

For the six months ended 30 June 2017 (unaudited)

	LED backlight HK\$'000	LED lighting HK\$'000	Sourcing business HK\$'000	Unallocated HK\$'000	Total HK\$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Additions to non-current assets [#]	51,688	134	–	–	51,822
Amortisation of prepaid lease payments	249	186	–	–	435
Depreciation of property, plant and equipment	17,138	476	–	–	17,614
Impairment loss on trade and other receivables	6,385	148	–	–	6,533
Net loss on disposal of property, plant and equipment	676	–	–	–	676
Write-off of property, plant and equipment	36	–	–	–	36
Reversal of impairment loss on inventories	(2,689)	(75)	–	–	(2,764)
Reversal of allowance for trade and other receivables	(1)	(2)	–	–	(3)
Amounts regularly provided to the Chief Executive Officer but not included in the measure of segment profit or loss or segment assets:					
Interest income	–	–	–	(2,807)	(2,807)
Finance costs	–	–	–	9,599	9,599
Income tax expense	1,664	1	1,691	–	3,356

[#] Non-current assets excluded deferred tax assets.

5. SEGMENT INFORMATION *(continued)*

For the six months ended 30 June 2016 (unaudited)

	LED backlight HK\$'000	LED lighting HK\$'000	Unallocated HK\$'000	Total HK\$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets [#]	4,796	220	–	5,016
Amortisation of prepaid lease payments	–	190	268	458
Depreciation of property, plant and equipment	19,781	2,295	–	22,076
Impairment loss on trade and other receivables	3,320	7,339	–	10,659
Impairment loss on inventories	2,502	2,411	–	4,913
Net loss on disposal of property, plant and equipment	22	5	–	27
Reversal of allowance for inventories	(3,057)	(701)	–	(3,758)
Reversal of allowance for trade and other receivables	(4,871)	(1,130)	–	(6,001)
Amounts regularly provided to the Chief Executive Officer but not included in the measure of segment profit or loss or segment assets:				
Interest income	–	–	(4,661)	(4,661)
Finance costs	–	–	12,252	12,252
Income tax credit	(2,992)	(190)	–	(3,182)

[#] Non-current assets excluded deferred tax assets.

5. SEGMENT INFORMATION *(continued)*

Revenue from major products

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

Analysis by type of products

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
LED backlight		
– Small dimension	161,694	282,205
– Medium dimension	107,459	55,419
– Large dimension	53,719	66,001
Sub-total	322,872	403,625
LED lighting		
– Indoor lighting	12,469	12,050
– Outdoor lighting	17,168	16,943
Sub-total	29,637	28,993
Sourcing business	271,647	–
Total	624,156	432,618

Analysis by application of products

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
LED backlight		
– Smartphone	–	164,855
– Automobile displays	145,651	97,558
– Equipment displays	123,283	71,673
– Televisions	53,938	69,539
Sub-total	322,872	403,625
LED lighting		
– Public lighting	16,839	18,846
– Commercial lighting	12,798	10,147
Sub-total	29,637	28,993
Sourcing business	271,647	–
Total	624,156	432,618

5. SEGMENT INFORMATION *(continued)*

Geographical information

The Group's operations are located in Hong Kong and the PRC (country of domicile). The Group's customers are mainly located in Hong Kong and the PRC.

An analysis of the Group's revenue from external customers is presented based on the location of customers as below:

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The PRC	573,394	396,425
Hong Kong	11,769	10,567
Others	38,993	25,626
	624,156	432,618

The Group's information about its non-current assets is presented based on location of the assets as below:

	30/6/2017	31/12/2016
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Hong Kong	976	1,234
The PRC	273,137	266,771
	274,113	268,005

Non-current assets excluded deferred tax assets.

Information about major customers

Details of the customers accounting for 10% or more of aggregate revenue of the Group are as follows:

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Customer A**	N/A*	90,288
Customer B**	144,000	126,315
Customer C***	271,647	N/A*

* The corresponding revenue does not contribute over 10% of the total revenue of the Group in the respective period.

** Revenue from LED backlight.

*** Revenue from sourcing business.

6. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expenses on:		
– bank borrowings wholly repayable within five years	9,400	11,996
– finance leases	100	209
– corporate bond	99	47
	<u>9,599</u>	<u>12,252</u>

7. INCOME TAX EXPENSE (CREDIT)

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PRC Enterprise Income tax		
– Current period	3,356	856
– Over-provision in prior year	–	(4,038)
Total income tax expense (credit) for the period	<u>3,356</u>	<u>(3,182)</u>

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

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2017 and 2016.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25% for the six months ended 30 June 2017 and 2016.

Pursuant to the relevant laws and regulation in the PRC, the Group’s subsidiaries, Wai Chi Opto Technology (Shenzhen) Limited* (偉志光電(深圳)有限公司) and Huizhou Wai Chi Electronics Company Limited* (惠州偉志電子有限公司), was accredited as a high-tech enterprise. They are entitled to the preferential tax rate of 15% for both of the six months ended 30 June 2017 and 2016.

* For translation purpose only

8. PROFIT (LOSS) FOR THE PERIOD

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit (loss) for the period has been arrived at after charging:		
Salaries and allowances (excluding directors' emoluments)	65,775	94,669
Retirement benefit scheme contributions (excluding directors)	6,933	6,418
Total staff costs	72,708	101,087
Amortisation of prepaid lease payments	435	458
Amounts of inventories recognised as expenses	533,528	355,860
Depreciation of property, plant and equipment	17,614	22,076
Impairment loss on inventories (included in cost of sales)	–	4,913
Net loss on disposal of property, plant and equipment	676	27
Write-off of property, plant and equipment	36	–
Impairment loss on trade and other receivables	6,533	10,659
Operating lease payment on premises	3,232	3,621

9. DIVIDENDS

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interim dividend declared and paid after the interim period of HK\$nil cent per share (2016: HK\$nil cent per share)	–	–

10. EARNINGS (LOSS) PER SHARE

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings (Loss)		
Earnings (loss) for the purpose of basic earnings (loss) per share	10,533	(801)
Number of shares held		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share (<i>Note</i>)	216,825,000	205,176,923
Basic earnings (loss) per share (HK cents per share)	4.86	(0.39)

Notes:

Diluted earnings (loss) per share was the same as the basic earnings (loss) per share as there were no dilutive potential ordinary shares outstanding during the six months ended 30 June 2017 and 2016.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired items of property, plant and equipment with a cost of approximately HK\$17,034,000 (unaudited) (six months ended 30 June 2016 (unaudited): approximately HK\$5,016,000) for the expansion of production facilities. Items of property, plant and equipment with a carrying amount of approximately HK\$1,213,000 (unaudited) were disposed of during the six months ended 30 June 2017 (six months ended 30 June 2016 (unaudited): approximately HK\$27,000), with approximately HK\$676,000 (unaudited) loss on disposal (six months ended 30 June 2016 (unaudited): approximately HK\$27,000).

12. PREPAID LEASE PAYMENTS

Prepaid lease payments comprise leasehold land held in the PRC under medium-term lease and are analysed for reporting purposes as follows:

	30/6/2017 HK\$'000 (Unaudited)	31/12/2016 HK\$'000 (Audited)
Current assets	881	856
Non-current assets	36,720	36,057
	37,601	36,913

As at 30 June 2017, leasehold land with carrying values of approximately HK\$21,118,000 (unaudited) (31 December 2016 (audited): approximately HK\$20,742,000) have been pledged to secure banking facilities granted to the Group.

13. TRADE AND BILLS RECEIVABLES

	30/6/2017 HK\$'000 (Unaudited)	31/12/2016 HK\$'000 (Audited)
Trade receivables	368,612	460,863
Less: Impairment	(30,580)	(23,600)
	338,032	437,263
Bills receivables	65,427	60,461
	403,459	497,724

The Group generally allows a credit period of 15 to 180 days to its trade customers. The Group does not hold any collateral over these balances.

As at 31 December 2016 (audited), approximately HK\$11,850,000 have been pledged to secure banking facilities granted to the Group.

13. TRADE AND BILLS RECEIVABLES *(continued)*

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.

	30/6/2017 HK\$'000 (Unaudited)	31/12/2016 HK\$'000 (Audited)
0 to 90 days	259,769	347,103
91 to 180 days	7,497	74,836
181 to 365 days	69,959	15,324
Over 365 days	807	–
	338,032	437,263

All the bills receivables are aged within 365 days.

14. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The bank balances and cash comprised cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank balances as at 30 June 2017 carried interest at the variable interest rates ranging from 0.048% to 0.057% per annum (unaudited) (31 December 2016 (audited): 0.048% to 0.057% per annum). The pledged deposits carried fixed interest rate 2.1% per annum (unaudited) (31 December 2016 (audited): 2.1% per annum) as at 30 June 2017. The pledged bank deposits carried variable interest rate from 0.3% to 0.5% per annum (unaudited) (31 December 2016 (audited): 0.3% to 0.5% per annum) as at 30 June 2017.

Pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to approximately HK\$149,149,000 (unaudited) (31 December 2016 (audited): approximately HK\$238,467,000) as at 30 June 2017 had been pledged to secure bank borrowings and bills falling due within one year and are therefore classified as current assets.

15. TRADE, BILLS AND OTHER PAYABLES AND ACCRUALS

	30/6/2017 HK\$'000 (Unaudited)	31/12/2016 HK\$'000 (Audited)
Trade payables (<i>Note a</i>)	134,937	154,167
Bills payables (<i>Note a</i>)	249,519	351,656
	<u>384,456</u>	<u>505,823</u>
Receipt in advance (<i>Note b</i>)	20,212	3,082
Construction cost payables	1,386	1,374
Other payables	15,416	14,676
Accrued expenses	19,628	14,285
Value added tax payables	7,606	8,684
	<u>64,248</u>	<u>42,101</u>
	<u>448,704</u>	<u>547,924</u>

Notes:

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

	30/6/2017 HK\$'000 (Unaudited)	31/12/2016 HK\$'000 (Audited)
0 to 90 days	99,325	119,988
91 to 180 days	25,963	26,796
181 to 365 days	4,493	2,756
Over 365 days	5,156	4,627
	<u>134,937</u>	<u>154,167</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 average credit period bills payables is within 365 days.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

In the first half of 2017, the Chinese GDP growth was approximately 6.9%, slightly exceeded the full-year target of 6.5% aimed by the Chinese government. The overall investment sentiment towards the Chinese economy was optimistic and reached a 2-year high since mid-2015. One of the most important contributors was expanding government expenditures on boosting different industry sectors such as infrastructure and new energy as well as strong domestics retail sales.

In view of the global LED industry performance, as LEDinside forecasts, the value of automotive LED would achieve a 14.8% growth on year-over-year basis in 2017 stemming from the steady market value of LED and the rapid market growth of automotive LED. Generally, the compound average growth rate of the industry would be merely 3% during 2015 to 2021. Providing rapid development for niche markets of industrial LED products, automotive LEDs could currently be considered as one of the huge application markets. Similarly, in China, the growth rate of automotive LED backlight maintained a steady pace of development which is attributable to the intense demand for transformation of interior LED display panel. Whereas, the market for LED backlight products for LED TV and smartphone was stagnant due to the fast replacement trend of direct-lit LED TV by other advanced TV technologies such as OLED and the over-saturated smartphone LED backlight market under the intensified market competition.

Regarding the current automotive LED backlight industry, presently, the transformation of car panel has been achieved in the dashboard and in the automotive Center Information Display (CID) with more advanced touch-sensing technology. Automotive manufacturers are committed to improving users' experience and differentiating their vehicles by enhancing the intelligent and safety functions inside their vehicles which match the ease of use of smartphones, and also comply with the rigorous automotive requirements for safety and reliability. According to LEDinside estimate, being the only promising segment among interior applications, the market value of panel LED is expected to grow 70.4% between 2016 and 2018.

According to the Automotive Display Market Tracker from IHS Markit, the market shipments of thin film transistor liquid crystal display (TFT LCD) automotive display panel is prospected to increase to 200 million units in 2022 from 135 million units in 2016, the reasons behind are mainly attributable to the current strong volumes for infotainment display panels and the future double digit growth on demand for display panels with safety control and monitoring functions. Therefore, more than 67% share of automotive display shipments will be occupied by TFT LCD technology.

Business Review

Thanks to the prompt and proactive strategic measures taken in the second half of 2016 in restructuring product mix to achieve profit optimization by ceasing the smartphone LED backlight business, the Group has been able to devote more resources and capital in capturing the accelerating growth of other profitable LED backlight business segments with more desirable margins including automobile on-board displays and television displays LED backlights during the period under review. The addition of the new non-core high-tech electronic components and products sourcing business proved to be a successful expedient in the migration to a high-margin business portfolio.

During the period under review, the total revenue of the Group significantly increased by 44.27% to approximately HK\$624,156,000 from HK\$432,618,000 in the same period of 2016. Net profit of the Group during the period under review recorded a turnaround to approximately HK\$10,533,000 (2016: Loss approximately HK\$801,000). Revenue of LED backlight products registered a decrease of 20% to approximately HK\$322,872,000 (2016: approximately HK\$403,625,000). Revenue from the sales of LED lighting products was approximately HK\$29,637,000 (2016: approximately HK\$28,993,000), with an increase of 2.22%. Revenue generated from new non-core business of sourcing of high-tech electronic components and products was approximately HK\$271,647,000. By strengthening the sales of automotive LED backlight products with better margins and adding a new revenue stream from sourcing business, the Group successfully achieved remarkable results even in the absence of revenue contribution from smartphone LED backlight products.

LED Backlight Business

The Group's LED backlight products are classified into three types, including: 1) automobile on-board displays; 2) television displays; and 3) other industrial equipment displays. During the period under review, revenue derived from LED backlight products related to automobile on-board displays, television displays and industrial equipment displays were approximately HK\$145,651,000, HK\$53,938,000 and HK\$123,283,000 respectively.

Proliferation of LEDs in China lighting market has ushered the industry into a new phase of intense competition, contracting net profits, increasingly homogenous products and business models. Innovation has stagnated in the industry. As a seasoned market player with strong research and development capacity, to cope with these market difficulties, we have been devoting to further develop automotive lighting, a niche and less penetrated lighting market with higher entry barrier and better profits because of its development costs and technology barriers. The Group believes that Chinese consumers are increasingly demanding for more sophisticated in-vehicle connectivity and technology which matches with the ease of use of smartphones and the efficient control of safety and reliability. The extended use of new energy vehicle under the government support will add fuel to the demand for automotive LED backlight demand. In view of this, the Group will introduce new production lines to capture the industry growth.

China television market on the other hand has faced continuous headwinds starting second quarter 2016. Since then panel prices have stayed flat, price wars were more intensive brought by competition among internet companies and falling average television selling prices in first quarter of 2017. China Market Monitor data shows television retail sales volume for first quarter of 2017 was 11.53 million sets, down 12.5% year on year; and sales volume recorded over the first four weeks of May 2017 was merely 4.5 million sets. The Group believes that China as the dominant engine of smart television growth, has little extra room to grow with the industry increasingly saturated. The Group will flexibly adjust manufacturing resources for television displays to automobile on-board displays to meet with the market changes.

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\$16,839,000 and HK\$12,798,000 respectively, showing a decrease of 10.65% and an increase of 26.13% as compared to respective approximates of HK\$18,846,000 and HK\$10,147,000 during the same period of 2016.

According to the latest report "2017 LED Street Light and Commercial Lighting Market" from LEDinside, with the promotion and policy support of all areas for LED street lights, street light replacement cases have rapidly developed. Global LED street lighting market value reaches USD 3.30 billion in 2017, among which Europe and North America still account for the largest regional market. Although smart street lights are at the early development stage in many developing countries, many of them have begun to launch demonstration cases gradually offering a promising prospect to the LED lighting service business. During the period under review, the Group reported satisfactory sales in both European and North American markets for new and existing projects. The Group has been conducting research and building its profile in LED street lighting market in Mexico over the years and six projects are now being arranged in full speed. Further, thanks to China's "Belt and Road" Initiatives, the Group is also actively exploring business opportunities in Southeast Asia including Indonesia.

High-Tech Electronic Components and Products Sourcing Business

To ride on the 30-year track record as a seasoned industry player, the Group has been engaging in a non-core business of providing sourcing business of high-tech electronic component and products since 2016 as part of the business restructuring scheme to migrate to higher margin business segments. The Group has adopted prudent strategies on developing the non-core business to make sure it does not impact normal operations and the operating cash flow. Revenue from the provision of sourcing business was approximately HK\$271,647,000, taking up approximately 43.52% of total revenue for the period under review and is becoming the third pillar of the business structure.

Quality Control

The Group has established stringent quality control procedures to ensure the quality of the LED products. Quality control kicks in from product design stage and continues throughout the entire product manufacturing and storage process. Quality control staff participate in the product design process to ensure quality excellence.

The Group has established and implemented a set of detailed procedures in selecting and approving new suppliers and raw materials. Thorough testing of product samples is being carried out before mass production of the LED products. The Group has purchased a series of advanced production and testing equipment for enhancing quality control. The Group has been awarded various certifications, including ISO 9001:2008 and ISO 14001:2004 for quality and environmental management systems, which serves as an important assurance of the quality and reliability of the Group's products.

Research and Development

The Group strongly believes Research and Development ("R&D") plays a critical role in the innovation process. It is an essential investment which helps transform ideas and concepts into new products, processes, and services that create better lives for human. As a competitive industry player, the Group places great emphasis on developing and improving the LED backlight and LED lighting products to keep up with the ever-changing market.

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 30 June 2017, 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.

Prospect

Looking forward, with our strong capability in R&D and tremendous experience in the LED sector, the Group aims to forge ahead with our strength in the automotive LED backlight market. The Group expects the demand for automotive LED backlight will be further elevated with great demand for vehicles with more intelligent and multimedia functions, especially on vehicle panel, the demand of which will increase most rapidly comparing to other vehicle applications within the coming five years. By leveraging our technological know-how, superior product quality and excellent track record, the Group is confident in riding on the growing demand for automobile LED backlight products and grasping a bigger market share.

Yet under the “New Normal” economic environment, uncertainties relating to declining growth, rising costs, increasing competition and changing consumption habits are still posing some downward pressure on the manufacturing sector. Industries with excessive capacities are expected to continue consolidation. Increasing car demand from lower tier cities coupled with extended government subsidies are likely to stimulate automotive sales. E-commerce and other digital related businesses are expected to climb higher as supported by over 700 million internet users.

In terms of LED lighting, as the penetration rate of LED street lights gradually improves, along with the promotion of smart lighting and smart city, smart street lights are rapidly developing. And due to the higher costs of smart street lights, developed economies in Europe and North America will grow at its fastest in the near future. After the hard work done over the past years, the Group has established or has commenced execution of large-scale business projects in Europe and North America, involving collaboration with major agents in the European market and with the government in North America. Further, the Group has been aggressively establishing networks and marking footprints in Mexican LED lighting sector by fostering its close and friendly business relationships with local partners and authorities. To further promote the brand and the products, the Group has always been and will actively participate in various international trade shows. The Group has good faith on the prospect of this business segment given the promising outlook.

China’s LED industry has experienced impressive development over the past few years. Being recognised as one of the key players in LED backlight and LED lighting industry, Wai Chi Holdings 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 revenue of the Group was mainly contributed by the sales of LED backlight and LED lighting products and the sourcing business of high-tech electronic components and products. During the period under review, the sales of LED backlight products decreased by 20% to approximately HK\$322,872,000 from HK\$403,625,000 in the same period of 2016. Owing to the strong growth of sales in automotive LED backlight products, it partly offsets the significant drop of sales brought by the cessation of smartphone LED backlight products. Sales of LED lighting products recorded a slight increase of 2.22% to approximately HK\$29,637,000 from HK\$28,993,000 in the same period of 2016, due to the satisfactory sales performance in both Europe and North America markets for new and existing projects. Revenue from the sourcing business of high-tech electronic components and products was approximately HK\$271,647,000, as a non-core business and an expedient in the migration to a high-margin business portfolio, the Group will make use of its strong overseas client network and experience in the industry to grow the business but without affecting the flow of resources and capital to the core business and the operating cash flow.

As a result of the restructuring of business structure in achieving profit optimization by promptly ceasing the smartphone LED backlight business, the Group has been seeing an improving profitability from the new LED backlight business portfolio during the period under review. With more resources and capital being deployed to automotive LED backlight products, the sales of which has been growing in satisfactory pace with good profit margins. Meanwhile, throughout the period under review, the Group continued to implement stringent cost control measures to enhance financial efficiency by fully implementing enterprise resource planning (“ERP”) system for lowering the operational cost for the entire manufacturing process that has been upgraded with advanced automation capabilities.

Gross Profit and Gross Profit Margin

During the period under review, the Group’s gross profit from the sales of LED backlight and LED lighting product was approximately HK\$87,370,000, increased by 13.8% from approximately HK\$76,758,000 in the same period of 2016. Gross profit margin of these two segments was 24.8%, increased by 7.1 percentage points from 17.7% in the same period of 2016, which was mainly attributable to the success in migration to high margin business segment. Gross profit and gross profit margin from the provision of sourcing business of high-tech electronic components and products were HK\$3,259,000 and 1.2% respectively.

Selling and Distribution Expenses

Labour costs, sales commissions and transportation costs were the Group’s major selling and distribution expenses. During the period under review, the Group’s selling and distribution expenses was approximately HK\$12,439,000, increased by 2.29% compared to approximately HK\$12,160,000 in the same period of 2016, which was in line with the increase in turnover.

Administrative Expenses

Administrative expenses refer to the general expenses incurred in offices and factories. The Group focuses on effective management, by means of resources consolidation in the Shenzhen and Huizhou factories. During the period under review, the Group’s administrative expenses was approximately HK\$50,139,000, decreased by 0.44% as compared to approximately HK\$50,360,000 in the same period of 2016. The decrease was mainly due to the scaling down of low profit margin operation and the adopting of stringent cost control measures.

Other Income and Other Gains

During the period under review, other income and gains was approximately HK\$9,599,000, decreased by 29% as compared to approximately HK\$13,521,000 in the same period of 2016, which was mainly due to the absence of reversal of allowance for trade and other receivables of approximately HK\$6,001,000 for the corresponding period in 2016.

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 period under review, the Group's tax expenses was approximately HK\$3,356,000, which was mainly attributable to the taxable profit generated by the subsidiaries of the Company located in PRC.

Inventories

As at 30 June 2017, the Group's inventory was approximately HK\$205,321,000, increased by 7.02% as compared to approximately HK\$191,838,000 as at 31 December 2016. The increase in inventory was attributable to higher stock of automotive backlight products.

Trade Receivables

As at 30 June 2017, the Group's net trade receivables was approximately HK\$338,032,000, decreased by 22.69% as compared to approximately HK\$437,263,000 as at 31 December 2016. 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 30 June 2017, the Group's trade payables was approximately HK\$134,937,000, decreased by 12.47% as compared to the approximately HK\$154,167,000 as at 31 December 2016, the decrease was attributable to decrease in purchase of materials.

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

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. 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 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 of Hong Kong Limited 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 the financial period ended 30 June 2017, utilized approximately HK\$39,126,000 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, approximately HK\$40,500,000 for our R&D activities including recruiting technical and expert staff and enhancing our research and development capacity. At the end of the period, net proceeds not yet utilized were deposited with licensed banks in Hong Kong and China.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period ended 30 June 2017. The controlling shareholder of the Company, Rexell Technology Company Limited, has purchased 20,386,000 listed shares during the period ended 30 June 2017.

CORPORATE GOVERNANCE PRACTICES

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

All other information on the Code has been disclosed in the corporate governance report contained in the 2016 annual report of the Company issued in March 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct governing Director's securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they had complied with the required standards set out in the Model Code throughout the period under review.

AUDIT COMMITTEE

The Audit Committee has reviewed the unaudited interim financial report for the six months ended 30 June 2017. On 24 August 2017, the Committee met with the management to review the unaudited interim financial statements with the attendance of the external auditor and to consider the significant accounting policies.

PUBLICATION OF INTERIM REPORT

The 2017 interim report of the Company containing all applicable information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the Company's website at www.waichiholdings.com 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 our Group's management. We would also like to thank all our business partners and bank enterprises who have supported and stood beside us at all times.

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

Hong Kong, 24 August 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.