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 2017

FINANCIAL HIGHLIGHTS

	2017	2016
	HK$'000	*HK$'000*
Revenue	**1,677,966**	1,321,601
Gross profit	**218,837**	161,265
Gross profit margin	**13.0%**	12.2%
Profit for the year	**22,330**	6,399
Basic and diluted earnings per share	**HK$10 cents**	HK$3 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 2017, together with comparative figures for the year ended 31 December 2016, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	**2017** *HK$'000*	2016 *HK$'000*
Revenue	4	**1,677,966**	1,321,601
Cost of sales		**(1,459,129)**	(1,160,336)
Gross profit		**218,837**	161,265
Other income and other gains	4	**16,310**	23,901
Selling and distribution expenses		**(23,943)**	(23,625)
Administrative expenses		**(87,638)**	(75,227)
Other operating expense		**(18,715)**	(18,454)
Research and development expenses		**(51,873)**	(38,212)
Finance costs	6	**(24,646)**	(22,866)
Profit before tax		**28,332**	6,782
Income tax expense	7	**(6,002)**	(383)
Profit for the year	8	**22,330**	6,399
		HK$	*HK$*
Earnings per share			
Basic and diluted		**0.10**	0.03

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017	2016
	HK$'000	*HK$'000*
Profit for the year	**22,330**	6,399
Other comprehensive income (expense) that may be subsequently reclassified to profit or loss		
Exchange differences arising on translation of foreign operations	**41,702**	(33,685)
Total comprehensive income (expense) for the year	**64,032**	(27,286)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**245,238**	231,948
Prepaid lease payments		**37,665**	36,057
Deferred taxation		**6,586**	5,120
		289,489	273,125
Current assets			
Inventories	9	**207,631**	191,838
Prepaid lease payments		**915**	856
Trade receivables	10	**392,747**	437,263
Bills receivables	10	**26,922**	60,461
Prepayments, deposits and other receivables	11	**400,157**	95,134
Available-for-sale investment		**23,926**	–
Pledged bank deposits		**144,353**	238,467
Deposits with bank		**186,623**	–
Bank balances and cash		**111,722**	152,341
		1,494,996	1,176,360
Current liabilities			
Trade payables	12	**194,387**	154,167
Bills payables	12	**327,304**	351,656
Other payables and accruals	12	**262,992**	42,101
Bank borrowings – due within one year		**321,441**	272,920
Obligations under finance leases – due within one year		**974**	3,051
Income tax payables		**9,706**	8,115
		1,116,804	832,010
Net current assets		**378,192**	344,350

	Notes	2017 HK$'000	2016 HK$'000
Total assets less current liabilities		**667,681**	617,475
Non-current liabilities			
Bank borrowings			
– due more than one year		**–**	2,660
Obligations under finance leases			
– due more than one year		**90**	1,607
Corporate bond		**1,776**	1,736
Government grants		**19,793**	29,496
Deferred taxation		**14**	–
		21,673	35,499
Net assets		**646,008**	581,976
Capital and reserves			
Share capital		**2,168**	2,168
Reserves		**643,840**	579,808
Total equity		**646,008**	581,976

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

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

The Company is principally engaged in investment holding. The principal activities of its subsidiaries are engaged in manufacturing and trading of Light-Emitting Diode ("**LED**") backlight and LED lighting products, and provision of high-tech electronic components and products sourcing business.

The functional currency of the Company and the subsidiaries incorporated in Hong Kong are Hong Kong dollars ("**HK$**") while that of the subsidiaries established in the People's Republic of China (the "**PRC**") are Renminbi ("**RMB**"). For the purpose of presenting the financial statements, the Company and its subsidiaries (hereinafter collectively referred to as the "**Group**") adopted HK$ as its presentation currency which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2014–2016 Cycle: Amendments to HKFRS 12
Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

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

3. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis.

Historical cost is generally based on fair value of the consideration given in exchange for goods and services.

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:

	2017	2016
	HK$'000	*HK$'000*
Revenue		
Sales of goods	**1,677,966**	1,321,601
Other income and other gains		
Bank interest income	**7,224**	7,298
Government grants *(Note)*	**3,803**	12,816
Net foreign exchange gain	**–**	1,662
Reversal of allowance on inventories	**2,720**	–
Reversal of impairment loss recognised in respect of trade and other receivables	**1,076**	599
Sales of scrapped materials	**9**	16
Sundry income	**1,478**	1,510
	16,310	23,901

Note: Included in the amount of government grants recognised during the year ended 31 December 2017 of approximately HK$3,388,000 (2016: approximately HK$11,484,000) were received from the PRC government in respect of certain research projects and export encourage scheme, the relevant granting criteria for which have been fulfilled and were immediately recognised as other income for the year. For the year ended 31 December 2017, amount of approximately HK$415,000 (2016: approximately HK$1,332,000) were government grants recognised as deferred income utilised during the year.

5. SEGMENT INFORMATION

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

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

1. LED backlight – Manufacture and trading of LED backlight products in different sizes and applications

2. LED lighting – Manufacture and trading of LED lighting products for public and commercial use

3. Sourcing business – Provision of high-tech electronic components and products sourcing business

Segment revenues and results

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

For the year ended 31 December 2017

	LED backlight *HK$'000*	**LED lighting** *HK$'000*	**Sourcing business** *HK$'000*	**Total** *HK$'000*
REVENUE				
External sales	**756,075**	**54,531**	**867,360**	**1,677,966**
Segment profit	**102,478**	**9,602**	**7,343**	**119,423**
Unallocated income				**8,702**
Unallocated expenses				**(75,147)**
Finance costs				**(24,646)**
Profit before tax				**28,332**

For the year ended 31 December 2016

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

Revenue from major products

Analysis by type of products

	2017	2016
	HK$'000	*HK$'000*
LED backlight		
– Small dimension	**331,363**	468,148
– Medium dimension	**295,997**	151,092
– Large dimension	**128,715**	143,476
Sub-total	**756,075**	762,716
LED lighting		
– Indoor lighting	**19,395**	25,728
– Outdoor lighting	**35,136**	31,591
Sub-total	**54,531**	57,319
Sourcing business	**867,360**	501,566
Total	**1,677,966**	1,321,601

Analysis by application of products

	2017	2016
	HK$'000	*HK$'000*
LED backlight		
– Smartphone	**–**	230,508
– Automobile displays	**357,110**	164,922
– Equipment displays	**270,145**	223,183
– Televisions	**128,820**	144,103
Sub-total	**756,075**	762,716
LED lighting		
– Public lighting	**34,839**	33,271
– Commercial lighting	**19,692**	24,048
Sub-total	**54,531**	57,319
Sourcing business	**867,360**	501,566
Total	**1,677,966**	1,321,601

6. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interest expenses on:		
– bank borrowings	**24,271**	22,348
– corporate bond	**200**	163
– finance leases	**175**	355
	24,646	22,866

7. INCOME TAX EXPENSE

	2017	2016
	HK$'000	*HK$'000*
Current income tax		
PRC Enterprise Income Tax		
– Current year	**9,447**	3,612
– Over-provision in respect of prior years	**(2,390)**	(3,966)
	7,057	(354)
Deferred taxation	**(1,055)**	737
Total income tax expense for the year	**6,002**	383

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 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 year ended 31 December 2017 (2016: 25%).

Pursuant to the relevant laws and regulation in the PRC, the Group's subsidiaries, Wai Chi Opto Technology (Shenzhen) Limited* (偉志光電(深圳)有限公司) and Huizhou Wai Chi Electronics Company Limited* (惠州偉志電子有限公司), were accredited as high-tech enterprises. They are entitled to the preferential tax rate of 15% for both years.

* *For translation purpose only*

8. PROFIT FOR THE YEAR

	2017	2016
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments	**6,174**	5,380
Salaries and allowances (excluding directors' emoluments)	**148,225**	171,470
Retirement benefit scheme contributions (excluding directors)	**10,835**	10,999
Total staff costs	**165,234**	187,849
Auditor's remuneration	**975**	935
Amortisation of prepaid lease payments	**889**	899
Amortisation of bond issue expense	**40**	36
Net foreign exchange loss (gain)	**8,205**	(1,662)
Amounts of inventories recognised as expenses (included in cost of sales)	**1,459,129**	1,160,336
Write-down of inventories (included in other operating expenses) *(Note)*	**7,439**	16,739
Reversal of allowance on inventories (included in other income and other gains)	**(2,720)**	–
Depreciation of property, plant and equipment	**37,658**	39,422
Impairment loss on trade and other receivables (included in other operating expenses)	**11,276**	1,715
Reversal of impairment loss recognised in respect of trade and other receivables (included in other income and other gains)	**(1,076)**	(599)
Loss on disposal of property, plant and equipment, net	**690**	216
Loss on write-off of property, plant and equipment	**55**	24
Minimum lease payments paid under operating lease on premises	**10,155**	6,445

Note: During the year ended 31 December 2017, a provision of approximately HK$7,439,000 (2016: approximately HK$16,739,000) was made for write-down of obsolete inventories that are no longer suitable for use in production or saleable in the market.

9. INVENTORIES

	2017	2016
	HK$'000	*HK$'000*
Raw materials	**27,025**	25,031
Work-in-progress	**81,091**	49,742
Finished goods	**99,515**	117,065
	207,631	191,838

During the year ended 31 December 2017, certain inventories which were impaired in prior years were sold. As a result, a reversal of allowance for inventories of approximately HK$2,720,000 (2016: HK$nil) has been recognised and included in other income and other gains in the current year.

10. TRADE AND BILLS RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**427,722**	460,863
Less: Impairment	**(34,975)**	(23,600)
	392,747	437,263
Bills receivables	**26,922**	60,461
	419,669	497,724

During the year ended 31 December 2017, the Group generally allows a credit period of 15 to 180 days (2016: 15 to 180 days) to its trade customers. The Group does not hold any collateral over these balances.

At 31 December 2016, bills receivables with carrying amount of approximately HK$11,800,000 (2017: HK$nil) have been pledged to secure banking facilities granted to the Group.

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.

	2017	2016
	HK$'000	*HK$'000*
0 to 90 days	**375,159**	347,103
91 to 180 days	**4,387**	74,836
181 to 365 days	**723**	15,324
Over 365 days	**12,478**	–
	392,747	437,263

All the bills receivables are aged within 365 days.

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Deposits and other receivables	**39,680**	25,845
Less: Impairment	**(794)**	(1,636)
	38,886	24,209
Value added tax receivables	**5,094**	17,290
Prepayments for:		
– Sourcing business	**344,112**	43,155
– Others	**12,065**	10,480
	400,157	95,134

12. TRADE, BILLS AND OTHER PAYABLES AND ACCRUALS

	2017	2016
	HK$'000	*HK$'000*
Trade payables *(Note a)*	**194,387**	154,167
Bills payables *(Note a)*	**327,304**	351,656
	521,691	505,823
Receipt in advance for: *(Note b)*		
– Sourcing business	**204,017**	–
– Others	**3,162**	3,082
Construction cost payables	**758**	1,374
Other payables	**18,031**	14,676
Accrued expenses	**16,020**	14,285
Value added tax payables	**9,041**	8,684
Government grants	**11,963**	–
	262,992	42,101
	784,683	547,924

Notes:

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

	2017	2016
	HK$'000	*HK$'000*
0 to 90 days	**143,412**	119,988
91 to 180 days	**41,173**	26,796
181 to 365 days	**3,075**	2,756
Over 365 days	**6,727**	4,627
	194,387	154,167

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.

13. EARNINGS PER SHARE

	2017	2016
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share	**22,330**	6,399

	2017	2016
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**216,825,000**	211,032,787
Basic and diluted earnings per share (HK$ per share)	**0.10**	0.03

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 2017 and 2016.

14. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2017, nor has any dividend been proposed since the end of the reporting period (2016: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

Looking back at 2017, the global economy concluded with the GDP growth for three quarters of countries in spite of the many dramatic political events and natural disasters, symbolizing the time of recovery from the last economic turmoil. Global trade growth was boosted by a revival in investment, snapping back from its slowest since the recession in 2009. Looking closely at China, 6.9% growth in GDP, the first year-on-year accelerated growth in 7 years, was achieved according to the National Bureau of Statistics of China. Together with rising disposable income and consumption expenditure per capita, China's economy has sustained a steady growth pace during recent years under the "new normal" scheme. It is expected that different means to tackle industrial over-capacity will endure, so as the state of restructuring for some industries. At the same time, "The Belt and Road" Initiative is expected to bring new business opportunities in regions like Southeast Asia and South Asia over the long haul.

2017 presented an encouraging development in China LED industry, as shown by the evident from improved financial results of major Chinese enterprises and certain international LED market leaders. Nonetheless, conditions remained uneasy for the past year as market saturation continued to weigh on many small-to-medium businesses. Sizable and resourceful firms were able to tackle the overcapacity problem by aptly refining business directions and readily catching up with market changes. LED backlight markets for automobile and television are expected to continue with healthy growth. Specifically, with China being the largest automobile market, relevant demand for LED displays of different functionalities and varieties is deemed auspicious.

Business Review

The Group fully embraced the new direction in 2017 after its business restructuring in 2016, and refocused on the up-and-coming market demands for both LED backlight and lighting products. Aiming at profit optimization, it continued to explore the higher-margin products while adding resilience to the business with a non-core business segment of high-tech electronic components and products sourcing.

Total revenue for the year under review was approximately HK$1,677,966,000, increased by 27.0% as compared to approximately HK$1,321,601,000 in 2016. Revenue from the sales of LED backlight products was approximately HK$756,075,000 (2016: approximately HK$762,716,000), of a slight decrease of 0.9% due to the cessation of business in LED backlights for smartphones. Revenue from the sales of LED lighting products was approximately HK$54,531,000 (2016: approximately HK$57,319,000), of a decrease of 4.9%. Different markets for LED lighting products are developing, for this reason a significant increase in revenue is expected.

The Group recognises studious focus needs to be put on product quality to set up solid and credible industry reputation especially after narrowing down on high-margin products. The Group's enterprise resource planning ("**ERP**") system has been effective in achieving stringent cost control, engaging timely monitoring of its operation process to promote information exchange between functions and storing and managing operational data. The ERP system has consistently lowered operational cost for the Group during the manufacturing process, as well as enhanced financial and work efficiency with a higher level of process automation.

LED Backlight Business

The three types of the Group's LED backlight products are: 1) automobile on-board displays; 2) television displays; and 3) other industrial equipment displays. For the year under review, revenue derived from LED backlight products in automobile on-board displays, television displays and industrial equipment displays were approximately HK$357,110,000, HK$128,820,000 and HK$270,145,000 respectively.

Automobile on-board displays have emerged as the focal point of the Group's LED backlight business and have generated notable increase in revenue during the year under review. This product line has high margin with bright prospect. Both in China's and international mid to high-end automobile markets, demand for automobile on-board displays has surged in recent years. Automobile sales in China took up 28% of global sales in 2016 and is expected to continue rising. In this respect, demands for on-board displays such as central information displays, GPS, infotainment and dashboard project are rapidly growing. According to LEDinside's forecast, relevant output value is expected to rise at a CAGR of 25% from 2016 to 2020. The Group believes that it is well-equipped with manufacturing technologies, human capital and R&D capabilities to produce innovative models meeting with such active market. The Group is confident in balancing the cut-down in product mix with the promising market dynamics of automobile on-board displays as the industry evolves.

The sales of the Group's television displays recorded mild decline for the year under review. According to market research by the leading research and analysis firm IHS Markit Ltd., smart TVs were expected to take up over 60% of market share in the global TV market in 2017. GfK SE, a global market researcher, pointed out in a report that China's consumption is leading the smart TV trend with smart TVs as 89% of televisions sold in the first half of 2017. The Group remains optimistic about the TV backlight market in the foreseeable future.

	For the year ended 31 December			
LED Backlight Revenue Breakdown	**2017**		2016	
	HK$'000	***%***	*HK$'000*	*%*
Smartphone	**N/A**	**N/A**	230,508	30.2
Automobile Displays	**357,110**	**47.2**	164,922	21.6
Televisions	**128,820**	**17.0**	144,103	18.9
Equipment Displays	**270,145**	**35.8**	223,183	29.3
	756,075	**100.0**	762,716	100.0

LED Lighting Service Business

The Group's LED lighting business is classified into 2 categories, namely public lighting and commercial lighting. The Group provides various services including products, lighting solutions design, installation and maintenance etc. During the year under review, revenues from public lighting and commercial lighting were approximately HK$34,839,000 and HK$19,692,000 respectively, observing an increase in the former of 4.7% and a decrease in the latter of 18.1% (2016: HK$33,271,000 and HK$24,048,000).

While the Chinese government has been slow in implementing LED street lighting, the Group began to venture out of the domestic LED lighting market to offer public lighting projects overseas. Under the backdrop of global smart cities, implementation of smart street lights is rapidly rising. Europe and North America, where the Group has large-scale business projects, will continue to be hunting grounds in this regard. Turning to South America, Group has successfully secured and commenced public LED street lighting projects in Mexico during the year under review with substantial endeavour.

The Group has also captured the opportunity in implementing a long-term commercial lighting project in Germany for panel lighting. Not only does the project provide a prolonged stable revenue in the present, but also receiving recognition with the high standards in the European market also has immense benefits for the Group's brand reputation within the industry. This is expected to back the Group's future growth and thus to boost related percentage of revenue.

	For the year ended 31 December			
LED Lighting Revenue Breakdown	**2017**		2016	
	HK$'000	***%***	*HK$'000*	*%*
Public Lighting	**34,839**	**63.9**	33,271	58.0
Commercial Lighting	**19,692**	**36.1**	24,048	42.0
	54,531	**100.0**	57,319	100.0

High-Tech Electronic Components and Products Sourcing Business

The Group launched a non-core line of business in 2016, engaging in sourcing high-tech electronic components and products as a seasoned industry player, to serve as a supportive buffer in the midst of a business restructuring. During the year under review, revenue from the provision of sourcing services was approximately HK$867,360,000, representing approximately 51.7% of the year's total revenue (2016: 38.0%), with the increase in demand for sourcing service exceeding expectations.

The Group's business restructuring is expected to be completely actualised with time, meanwhile the temporary revenue growth in the sourcing business helps to smoothen the transition period. Exerting no influence on the future development of core business, the Group intends to lower contribution from this part of revenue on the basis that it remains a non-core and non-permanent business.

High-Tech Electronic Components and Products Sourcing Business	For the year ended 31 December **2017** *HK$'000*	*%*	2016 *HK$'000*	*%*
High-Tech Electronic Components and Products Sourcing Business	**867,360**	**100**	501,566	100
	867,360	**100**	501,566	100

Quality Control

The Group has established stringent quality control procedures to ensure the quality of the LED products. From the very beginning of production at the stage of product design, the Group's quality control procedures continue throughout the entire product manufacturing and storage process. Quality control staff are to contribute to products' design process so as to ensure quality excellence starting from the fundamentals. There is a set of established procedures in selecting and approving new suppliers and raw materials, and thorough testing of product samples are carried out before mass production of the LED products.

The Group owns 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

Research and Development ("**R&D**") is in the spirit of the Group since polishing and creating designs are indispensably essential to the high-tech world. To keep a long-term competitive edge in the industry, the Group is constantly striving to drive the development of new LED backlight and LED lighting products forward to cater to rapidly changing markets around the world. During the year under review, the Group introduced unconventional design to the sports field lighting. Contrary to conventional sports field lighting where each light is installed onto the panel at a fixed angle, our new product features an adjustable angle for each light. This allows greater flexibility in covering large outdoor sports fields in response to varying sunlight conditions. Not to mention, the reduced number of lights to be installed to cover a field of the same size will promote cost-effectiveness.

The Group's R&D centre is located in our production plant in Huizhou. The Group engages in various R&D activities, including (i) concurrent development of new product designs with our customers; (ii) improvement of product quality, efficiency and functions of existing products; (iii) in-project calibration and optimization of the production processes and capability of the equipment; (iv) introduction and promotion of the use of new production technologies and new production materials; and (v) assessment of the future prospect and development trend of the LED industry. The Group has achieved a number of technological advancement and breakthroughs throughout the years and, as of 31 December 2017, the Group holds 56 patents registered in the PRC. Looking forward, the Group will continue to enhance its R&D capabilities in order to catch up with the strong demands in both LED backlight and LED lighting products markets.

Awards for Corporate Responsibility

The Group stays ahead in the aspect of corporate responsibility while in pursuit for commercial gains. During the year under review, the Group's subsidiary has received for the third year the Green Office Awards Labelling Scheme ("**GOALS**") Green Office Label by the World Green Organization ("**WGO**"), in recognition of the Group's continued efforts in aiding environmental protection.

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

The Group strives to ensure an all-rounded performance in its corporate social responsibility, the Group had been presented with the Outstanding SME Social Responsibility Award (傑出中小企業社會責任獎) again in 2017, by Hong Kong's Mirror Post in the sixth Annual Outstanding CSR Award Ceremony (第六屆傑出企業社會責任獎典禮).

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

Prospects

Both China's economic status and the global geopolitical situation are improving despite some overall uncertainties, business plans are to be made prudently and cautiously. However, it is expected that as the country's economy increasingly turns to domestic consumption, the expanding breadth and rising level of disposable income across all tiers of cities will instill momentum into a new phase. Citing The 2018 Blue book of China's Economy (《經濟藍皮書》) by the Chinese Academy of Social Sciences (中國社會科學院), thriving property markets, consumption upgrade, healthy employment and income increment all attest to a strong and resilient structure which is supportive of long-haul sustainable growth. Domestic new high-tech manufacturers also continue to enjoy subsidies and supportive policies in times of transition.

China's automobile LED market, in which on-board displays has one of the most robust growth potential, was valued at US$2.8 billion of output in 2017 by LEDinside and forecast to grow 12.45% in 2018. Automobile LED consumer preference are predicted to call for irregular shapes and curved frames on top of the common trends of larger displays, wider viewing angle and enhanced brightness. Technological advancement in autonomous vehicles will bring forth more room for sustainable development in the automobile LED market in the long run, especially that for passenger entertainment. These trends in the long run will be indicative of a global standard for new prototypes and innovation. The Group is always staying agile to get ahold of opportunities.

Progress made in the public and commercial lighting segments of the Group has rewarded the worthwhile preparation. The panel lighting products from Germany will help us set a firm footing in the relevant market, broadening the Group's portfolio and market grip, while the panel lighting project in Germany will generate long-term revenue. Since the start of the relationship with the Mexican government in 2012, we have earned their trust to take on their street lights projects. It is believed that the Group's reputation is going to be associated with high-tier products when it perseveres with devotion to quality control and innovation on the journey.

With the promotion of "The Belt and Road" initiatives, China's industrial economy is believed to move forward with the changing market conditions in the near future. Along with the unpredictable geopolitical issues, seeking global business opportunities will always be the high priority for the Group in this complex business environment.

Having over three decades of industry experience, the Group's promise of excellence will prevail as all sorts of opportunities arise. Wai Chi Holdings Company Limited remains optimistic in furthering its market exploration and strengthening its market position by working towards better and innovative LED backlight and LED lighting products.

Financial Review

Revenue

During the year under review, the sources of revenue for the Group were the sales of LED backlight, the sales of LED lighting products and the business of high-tech electronic components and products sourcing. For the year ended 31 December 2017, the sales of the Group's LED backlight products were approximately HK$756,075,000, a slight decrease by 0.9% from approximately HK$762,716,000 in 2016, which was mainly attributable to the temporary effect of cessation of sales of smartphone backlight products. The sales of the Group's LED lighting products were approximately HK$54,531,000, a decrease by 4.9% from approximately HK$57,319,000 in 2016. The fall was mainly attributable to the decreased spending from commercial customers on related LED lighting projects.

The non-core segment of high-tech electronic components and products sourcing recorded sales at approximately HK$867,360,000 (2016: HK$501,566,000). The Group identified the opportunity in sourcing high-tech electronic components and products at the advantage of being greatly experienced in the industry. This additional activity was strategized to be a means of profit optimization considering the cessation of sales of smartphone LED backlight products in the second half of 2016. Positioned and to be maintained as a non-core business, its contribution will be heedfully curtailed to a reasonable level.

	For the year ended 31 December			
	2017		2016	
Total Revenue	***HK$'000***	*%*	*HK$'000*	*%*
LED Backlight	**756,075**	**45.1**	762,716	57.7
LED Lighting	**54,531**	**3.2**	57,319	4.3
High-Tech Electronic Components and Products Sourcing Business	**867,360**	**51.7**	501,566	38.0
	1,677,966	**100.0**	1,321,601	100.0

Gross Profit and Gross Profit Margin

For the year ended 31 December 2017, gross profit from the sales of LED backlight and LED lighting products was HK$211,494,000, representing increase of 34.9% from approximately HK$156,770,000 in 2016, mainly due to the increase in revenue, from the automobile LED display segment with a higher gross profit margin. Gross profit margin for these two segments increased by 8.7 percentage points from 26.2% in 2016 to 34.9% in the year under review. Gross profit and gross profit margin from high-tech electronic components and products sourcing were HK$7,343,000 and 0.8% (2016: HK$4,495,000 and 0.9%) respectively.

For the year ended 31 December 2017, the Group's overall gross profit was approximately HK$218,837,000, increased by 35.7% from approximately HK$161,265,000 in 2016. Gross profit margin was 13.0%, increased by 0.8 percentage points from 12.2% in 2016 due to shifted business focus to high-margin products.

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 2017, the Group's selling and distribution expenses was approximately HK$23,943,000, an increase of 1.3% compared to approximately HK$23,625,000 of the year 2016, which was in line with the increased revenue.

Administrative Expenses

Administrative expenses refer to the general expenses incurred in offices and factories. The Group focuses on effective management, by means of resources consolidation in the Shenzhen and Huizhou factories. For the year ended 31 December 2017, the Group's administrative expenses was approximately HK$87,638,000, which increased by 16.5% compared to approximately HK$75,227,000, of the year 2016. The increase was mainly attributable to the expand of business scale.

Other Income and Other Gains

During the year under review, other income and gains was approximately HK$16,310,000, a decrease of 31.8% in comparison with approximately HK$23,901,000 of the year 2016 mainly due to the government grants recognised as income during the year have been decreased.

Taxation

Taxation comprised current tax and movements in deferred tax assets and liabilities. Two of the Group's subsidiaries, Wai Chi Opto Technology (Shenzhen) Limited and Huizhou Wai Chi Electronics Company Limited, are qualified as a "High-Tech Enterprise" in the PRC and granted certain tax benefit, including a preferential enterprise income tax rate of 15% instead of the statutory rate of 25%. During the year under review, the Group's tax expenses amounted to approximately HK$6,002,000 (2016: HK$383,000), which was in line with the increased profit.

Inventories

As at 31 December 2017, the Group's inventory was approximately HK$207,631,000, increased by 8.2% as compared to approximately HK$191,838,000 at 31 December 2016. The increase in inventory was attributable to the shift of business focus to high-margin products.

Trade Receivables

As at 31 December 2017, the Group's net trade receivables amounted to approximately HK$392,747,000, which decreased by 10.2% as compared to approximately HK$437,263,000 at 31 December 2016.

Trade Payables

As at 31 December 2017, the Group's trade payables amounted to approximately HK$194,387,000, increased by 26.1% as compared to the approximate HK$154,167,000 of 31 December 2016, which was attributable to increase in purchase of materials.

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

On 6 May 2016, the Company completed a placing of new shares (the "**Placing**"), allotted and issued 16,825,000 new shares of the Company to not less than six individuals who are independent third parties at the price of HK$2.00 per share. Net proceeds from the Placing amounted to approximately HK$31,134,000, which are intended to be used for financing any potential investment opportunities such as mergers and acquisition that may arise from time to time. As at 31 December 2017, the net proceeds from the Placing have not yet been utilized and have been deposited with licensed banks in Hong Kong.

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 capital of the Company as at 3 January 2017.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company's ordinary shares were listed on the Main Board of the Stock Exchange on 18 November 2014. The total net proceeds from the initial public offering amounted to approximately HK$161,542,000. The Group has, up to 31 December 2017, utilized approximately HK$58,007,000 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 2017, 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 2017. The controlling shareholder of the Company, Rexell Technology Company Limited, has purchased 20,386,000 listed shares during the year ended 31 December 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 essential for continual growth and enhancement of shareholders' value. Throughout the years ended 31 December 2017 and 2016, 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 2017, 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 25 May 2018. 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 2017 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, 23 March 2018

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.