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Wai Chi Holdings Company Limited
偉志控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1305)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

	2018	2017
	HK$'000	*HK$'000*
Revenue	**2,249,786**	1,677,966
Gross profit	**247,263**	218,837
Gross profit margin	**11.0%**	13.0%
Profit for the year	**45,107**	22,330
Basic and diluted earnings per share	**HK$21 cents**	HK$10 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 2018, together with comparative figures for the year ended 31 December 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	**2018** ***HK$'000***	2017 *HK$'000*
Revenue	4	**2,249,786**	1,677,966
Cost of sales		**(2,002,523)**	(1,459,129)
Gross profit		**247,263**	218,837
Other income	4	**32,232**	12,514
Selling and distribution expenses		**(22,487)**	(23,943)
Administrative expenses		**(91,034)**	(87,638)
Other gains and losses		**(12,515)**	(14,919)
Research and development expenses		**(75,719)**	(51,873)
Finance costs	6	**(28,215)**	(24,646)
Profit before tax		**49,525**	28,332
Income tax expense	7	**(4,418)**	(6,002)
Profit for the year	8	**45,107**	22,330
		HK$	*HK$*
Earnings per share			
Basic and diluted		**0.21**	0.10

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
Profit for the year	**45,107**	22,330
Other comprehensive (expense) income that may be reclassified subsequently to profit or loss		
Exchange differences arising on translation of foreign operations	**(31,594)**	41,702
Total comprehensive income for the year	**13,513**	64,032

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**245,008**	245,238
Prepaid lease payments		**35,062**	37,665
Deferred taxation		**8,142**	6,586
Deposits with bank		**79,891**	–
		368,103	289,489
Current assets			
Inventories	9	**188,406**	207,631
Prepaid lease payments		**874**	915
Trade receivables	10	**409,549**	392,747
Bills receivables	10	**102,036**	26,922
Prepayments, deposits and other receivables	11	**191,614**	400,157
Available-for-sale investment		**–**	23,926
Financial assets at fair value through profit or loss		**152,967**	–
Pledged bank deposits		**129,785**	144,353
Deposits with bank		**–**	186,623
Bank balances and cash		**24,213**	111,722
		1,199,444	1,494,996
Current liabilities			
Trade payables	12	**184,162**	194,387
Bills payables	12	**252,698**	327,304
Other payables and accruals	12	**44,547**	262,992
Contract liabilities		**80,969**	–
Bank borrowings		**313,714**	321,441
Obligations under finance leases – due within one year		**916**	974
Income tax payables		**10,042**	9,706
		887,048	1,116,804
Net current assets		**312,396**	378,192

	2018	2017
	HK$'000	*HK$'000*
Total assets less current liabilities	**680,499**	667,681
Non-current liabilities		
Obligations under finance leases		
– due more than one year	**1,183**	90
Corporate bond	**1,816**	1,776
Government grants	**17,947**	19,793
Deferred taxation	**32**	14
	20,978	21,673
Net assets	**659,521**	646,008
Capital and reserves		
Share capital	**2,168**	2,168
Reserves	**657,353**	643,840
Total equity	**659,521**	646,008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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

In the current year, the Group has applied, for its first time, the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers have been summarised below. The application of other new and amendments to HKFRSs in the current year has had no material effect on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 superseded HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised. The Group has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained profits and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue.

The transition to HKFRS 15 had no significant impact on the retained profits at 1 January 2018.

The amount of adjustment for each financial statement line item of the consolidated statement of financial position at 1 January 2018 affected by the application of HKFRS 15 is illustrated below. Line items that were not affected by the changes have not been included.

	Note	**Carrying amount previously reported as at 31 December 2017**	**Impact on adoption of HKFRS 15 – Reclassification**	**Carrying amounts under HKFRS 15 as at 1 January 2018**
		HK$'000	*HK$'000*	*HK$'000*
Current liabilities				
Other payables and accruals	(a)	262,992	(207,179)	55,813
Contract liabilities	(a)	–	207,179	207,179

(a) At the date of initial application, an amount of HK$207,179,000 related to advance consideration received from customers was included in trade, bills and other payables and accruals. The balance was reclassified to contract liabilities upon application of HKFRS 15 as it represented the Group's performance obligation to transfer goods in the future.

Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018

The following table summarises the impact of applying HKFRS 15 on the Group's consolidated statement of financial position at 31 December 2018, by comparing the amounts reported under HKAS 18 that were in effect before the change. Line items that were not affected by the adjustments have not been included. The adoption of HKFRS 15 did not have material impact on the Group's consolidated statement of profit or loss, operating, investing and financing cash flows.

Impact on the consolidated statement of financial position as at 31 December 2018

	As reported	**Impact of adopting HKFRS 15**	**Amounts excluding impact of adopting HKFRS 15**
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Other payables and accruals	44,547	80,969	125,516
Contract liabilities	80,969	(80,969)	–

HKFRS 9 Financial instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has applied HKFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under HKFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained profits as at 1 January 2018.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial instruments upon adoption of HKFRS 9 on 1 January 2018.

	Note	**Carrying amount at 31 December 2017 (HKAS 39)** *HK$'000*	**Adoption of HKFRS 9 – Reclassification** *HK$'000*	**Carrying amount at 1 January 2018 (HKFRS 9)** *HK$'000*
Available-for-sale investment				
Unlisted funds	(a)	23,926	(23,926)	–
Financial assets at fair value through profit or loss				
Unlisted funds	(a)	–	23,926	23,926

(a) Unlisted funds investments previously classified as AFS investment carried at fair value:

These investments amounting to HK$23,926,000 do not meet the criteria to be classified either as at fair value through other comprehensive income or at amortised cost under HKFRS 9 and were reclassified to financial assets at FVTPL upon its initial application of HKFRS 9. The Group measures it at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised in profit or loss. There was no difference between the previous carrying amount and the fair value relating to these investments which were required to adjust to retained profits as at 1 January 2018 upon initial application of HKFRS 9.

Except for the above, all the other financial assets and financial liabilities within the scope of HKFRS 9 are continued to be classified and measured on the same basis as they were under HKAS 39.

Loss allowance for expected credit losses ("ECL")

The adoption of HKFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss model with a forward-looking ECL approach. As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of HKFRS 9.

It is concluded that, as at 1 January 2018, no additional credit loss allowance has been recognised against retained profits as the estimated allowance under the ECL model were not significantly different from the impairment losses previously recognised under HKAS 39.

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 except for certain fund instruments, which are measured at fair value at the end of each reporting period.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

4. REVENUE AND OTHER INCOME

Revenue represents revenue arising on sales of goods for the year. An analysis of the Group's revenue for the year is as follows:

	2018	2017*
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15 for the year ended December 2018		
Disaggregated by major products		
Sales of goods		
LED backlight	**847,556**	756,075
LED lighting	**81,995**	54,531
High-tech electronic components and products	**1,320,235**	867,360
	2,249,786	1,677,966

	2018
	HK$'000
Disaggregation of revenue by timing of recognition	
Timing of revenue recognition	
At a point in time	**2,249,786**

* *The amounts for the year ended 31 December 2017 were recognised under HKAS 18.*

An analysis of the Group's other income for the year is as follows:

	2018	2017
	HK$'000	*HK$'000*
Other income		
Bank interest income	**10,581**	7,224
Government grants *(Note)*	**19,318**	3,803
Sales of scrapped materials	**9**	9
Sundry income	**2,324**	1,478
	32,232	12,514

Note: Included in the amount of government grants immediately recognised as other income during the year ended 31 December 2018 of HK$6,502,000 (2017: HK$3,388,000) which were received from the PRC government in respect of certain research projects and under export incentive scheme, the relevant granting criteria for which have been fulfilled. For the year ended 31 December 2018, amount of HK$12,816,000 (2017: HK$415,000) 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 (the "**CODM**") for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. In addition, for both LED backlight and LED lighting operations and sourcing business of high-tech electronic components and products, the information reported to the CODM is further broken down into different type of products and application of products. No operating segments identified by the CODM 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 2018

	LED backlight *HK$'000*	**LED lighting** *HK$'000*	**Sourcing business** *HK$'000*	**Total** *HK$'000*
REVENUE				
External sales	**847,556**	**81,995**	**1,320,235**	**2,249,786**
Segment profit	**114,317**	**12,058**	**16,038**	**142,413**
Unallocated income				**12,905**
Unallocated expenses				**(77,578)**
Finance costs				**(28,215)**
Profit before tax				**49,525**

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

Revenue from major products

Analysis by type of products

	2018	2017
	HK$'000	*HK$'000*
LED backlight		
– Small dimension	**302,990**	331,363
– Medium dimension	**414,713**	295,997
– Large dimension	**129,853**	128,715
Sub-total	**847,556**	756,075
LED lighting		
– Indoor lighting	**56,535**	19,395
– Outdoor lighting	**25,460**	35,136
Sub-total	**81,995**	54,531
Sourcing business	**1,320,235**	867,360
Total	**2,249,786**	1,677,966

Analysis by application of products

	2018	2017
	HK$'000	*HK$'000*
LED backlight		
– Automobile displays	**489,285**	357,110
– Equipment displays	**229,117**	270,145
– Televisions	**129,154**	128,820
Sub-total	**847,556**	756,075
LED lighting		
– Public lighting	**25,755**	34,839
– Commercial lighting	**56,240**	19,692
Sub-total	**81,995**	54,531
Sourcing business	**1,320,235**	867,360
Total	**2,249,786**	1,677,966

6. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest expenses on:		
– Bank borrowings	**27,949**	24,271
– Corporate bond	**200**	200
– Finance leases	**66**	175
	28,215	24,646

7. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Current income tax		
PRC Enterprise Income Tax		
– Current year	**10,862**	9,447
– Over-provision in prior years	**(4,534)**	(2,390)
	6,328	7,057
Deferred taxation	**(1,910)**	(1,055)
Total income tax expense for the year	**4,418**	6,002

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 2018 and 2017.

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 2018 (2017: 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 identification purpose only*

8. PROFIT FOR THE YEAR

	2018	2017
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments	**6,050**	6,174
Salaries and allowances (excluding directors' emoluments)	**171,973**	148,225
Retirement benefit scheme contributions (excluding directors)	**11,634**	10,835
Total staff costs	**189,657**	165,234
Auditor's remuneration	**1,015**	975
Amortisation of prepaid lease payments	**912**	889
Net foreign exchange losses	**514**	8,205
Cost of inventories recognised as expenses (included in cost of sales) *(Note a)*	**2,002,523**	1,459,129
Write-down of inventories *(Note b)*	**14,355**	4,719
Depreciation of property, plant and equipment	**41,863**	37,658
Impairment loss on trade and other receivables	**–**	10,200
Reversal of impairment loss recognised in respect of trade and other receivables	**(1,840)**	–
Loss on disposal of property, plant and equipment, net	**211**	690
Loss on write-off of property, plant and equipment	**98**	55
Minimum lease payments paid under operating lease on premises	**7,408**	10,155

Notes:

(a) Cost of inventories recognised as an expense included depreciation of property, plant and equipment and staff costs of HK$34,862,000 (2017: HK$31,115,000) and HK$119,010,000 (2017: HK$100,188,000) respectively. The amounts were also included in the respective amounts disclosed above.

(b) During the year ended 31 December 2018, a provision of HK$14,355,000 (2017: HK$4,719,000) was made for write-down of obsolete inventories that are no longer suitable for use in production or saleable in the market.

9. INVENTORIES

	2018	2017
	HK$'000	*HK$'000*
Raw materials	**21,356**	27,025
Work-in-progress	**64,264**	81,091
Finished goods	**102,786**	99,515
	188,406	207,631

10. TRADE AND BILLS RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Receivables at amortised cost comprise:		
Trade receivables	**439,204**	427,722
Less: allowance for impairment of trade receivables	**(29,655)**	(34,975)
	409,549	392,747
Bills receivables	**102,036**	26,922
	511,585	419,669

As at 31 December 2018, the gross amount of trade receivable arising from contracts with customers amounted to HK$439,204,000 (1 January 2018: HK$427,722,000).

The Group allows an average credit period of 15 to 180 days (2017: 15 to 180 days) to its trade customers. The following is an aged analysis of trade receivables net of allowance for impairment of trade receivables presented based on the invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period.

	2018	2017
	HK$'000	*HK$'000*
0 to 90 days	**395,080**	375,159
91 to 180 days	**11,007**	4,387
181 to 365 days	**3,462**	723
Over 365 days	**–**	12,478
	409,549	392,747

All the bills receivables are aged within 365 days.

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Deposits and other receivables	**34,388**	39,680
Less: allowance for impairment of other receivables	**(1,532)**	(794)
	32,856	38,886
Value added tax receivables	**12,009**	5,094
Prepayments for:		
– Sourcing business	**137,082**	344,112
– Others	**9,667**	12,065
	191,614	400,157

12. TRADE, BILLS AND OTHER PAYABLES AND ACCRUALS

	2018	2017
	HK$'000	*HK$'000*
Trade payables *(Note a)*	**184,162**	194,387
Bills payables *(Note a)*	**252,698**	327,304
	436,860	521,691
Receipt in advance for: *(Note b)*		
– Sourcing business	**–**	204,017
– Others	**–**	3,162
Construction cost payables	**495**	758
Other payables	**2,404**	18,031
Accrued expenses	**16,969**	16,020
Value added tax payables	**24,679**	9,041
Government grants	**–**	11,963
	44,547	262,992
	481,407	784,683

Notes:

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

	2018	2017
	HK$'000	*HK$'000*
0 to 90 days	**147,907**	143,412
91 to 180 days	**27,818**	41,173
181 to 365 days	**2,946**	3,075
Over 365 days	**5,491**	6,727
	184,162	194,387

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 are aged within 365 days.

b) Receipt in advance represented advance payments from customers pursuant to the respective sales contracts and such amount is classified as contract liabilities upon adoption of HKFRS 15.

13. EARNINGS PER SHARE

	2018	2017
	HK$'000	*HK$'000*
Earnings for the purpose of basic and diluted earnings per share	**45,107**	22,330

	2018	2017
Number of ordinary shares for the purpose of basic and diluted earnings per share	**216,825,000**	216,825,000
Basic and diluted earnings per share (HK$ per share)	**0.21**	0.10

The diluted 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 2018 and 2017.

14. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period (2017: Nil).

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

Despite the economic situation appears more optimistic in the beginning of the year, the global economy experienced a series of international conflicts in 2018, which brought forth a downturn in growth. Since March 2018, the trade war between China and the United States has gradually taken a toll on various manufacturing and trading sectors in both nations. China recorded GDP of RMB90,030,900 million and a growth rate of 6.6% in 2018, maintaining recent years' steady growth as its economy makes a shift to quality-focused output and consumption.

China's LED industry is posing challenges to those industries with outdated and small production capacity, while those industries with well-rounded production capacity can capture newly arisen demand. Policies and subsidies continue to encourage new high-tech manufacturers in catching up with international standards.

Business Review

In 2018, the Group carried on with its strategy of targeting higher-margin products. Despite slowdown in automobile sales in the domestic market, there will still be growing demand for consumer vehicles as the country's disposable income continues to climb. On top of this, automobile onboard displays are seen to be increasing in size and quantity as automobile designs step up on functionality and user experience. In the meantime, the TV LED backlight sector reflected a stable demand, since part of the product market at present still relies on LED backlight instead of the costly OLED counterpart.

Proactively promoting the brand and showcasing the Group's capabilities to overseas markets are along the trajectory to standing out in such a competitive environment. The Group participated in "electronica 2018", the world's leading electronics trade fair in Munich, Germany. Products showcased ranged from ultra-bright backlight applicable in automobiles to curved-screen displays.

The total revenue for the year under review was approximately HK$2,249,786,000, increased by 34.1% as compared to that of approximately HK$1,677,966,000 in 2017. The revenue from the sales of LED backlight products was approximately HK$847,556,000 (2017: approximately HK$756,075,000), representing an increase by 12.1% as compared to that of 2017. The rise in the sales of LED backlight products can be explained by a higher turnover from the automotive backlight segment during the year under review. The revenue from the sales of LED lighting products was approximately HK$81,995,000 (2017: approximately HK$54,531,000), representing an increase of 50.4% as compared to that of 2017, which can be explained by a higher turnover by increased number of specialty lighting projects from overseas clients during the year under review.

The Group continued with its enterprise resource planning ("**ERP**") system to implement stringent cost control by timely monitoring of its operation process to promote information exchange between functional departments, storing and managing operational data. The ERP system has been especially effective in moderating 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$489,285,000, HK$129,154,000 and HK$229,117,000 respectively.

Automobile on-board displays made major contribution to the Group's LED backlight business during the year under review and had an 37.0% increase from the previous year. China remained the largest automobile market in the world even though there was a drop in sales in the second half of 2018. Increasing demand for mid to highend automobiles in turn generate growing demand for automobile on-board displays. The quality and size of displays featured in vehicles such as central information displays, GPS, infotainment and dashboards have increased, enhancing relevant functionality and user experience. As one of the leading manufacturers of automobile onboard displays in China, the Group believes that it is well-equipped with manufacturing technologies, human capital and Research and Development ("**R&D**") capabilities to produce innovative models. It has also secured clients from Taiwan in the year under review, laying the groundwork for reducing the impact from the Chinese market's possible slowdown.

The revenue for backlight products for television displays remained stable and had shown mild increase in the year under review. The Group remains prudently optimistic about the TV displays backlight market in the recent future and will be closely monitoring the market trend to review sales strategies.

Equipment displays backlight products recorded a decrease in revenue in the year under review, which is a result of the Group's deliberate strategic efforts to reduce the portion of low profit margin segment.

	For the year ended 31 December			
	2018		2017	
LED Backlight Revenue Breakdown	***HK$'000***	*%*	*HK$'000*	*%*
Automobile Displays	**489,285**	**57.7**	357,110	47.2
Televisions	**129,154**	**15.2**	128,820	17.0
Equipment Displays	**229,117**	**27.1**	270,145	35.8
	847,556	**100.0**	756,075	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$25,755,000 and HK$56,240,000 respectively, representing a decrease in the former of 26.1% and an increase in the latter of 185.6% (2017: HK$34,839,000 and HK$19,692,000).

The Group has been focusing on overseas lighting projects for the year under review, conducting market research on project opportunities and cultivating relationship with target clients. The Group's reputation is gradually spreading widely throughout the overseas markets as a result of its efforts in the past few years. After securing a long-term commercial lighting project in Germany for panel lighting in the previous year, the Group has acquired 2 core clients in Europe and has been granted certification to manufacture for a prominent retailer in the United States. Meanwhile, it has continued engagement in the existing public LED street lighting projects in Mexico.

Turning to the Chinese market, the Group was qualified as a railway supplier for railway light during the year under review and is actively engaged in R&D for such purpose.

	For the year ended 31 December			
	2018		2017	
LED Lighting Revenue Breakdown	***HK$'000***	***%***	*HK$'000*	*%*
Public Lighting	**25,755**	**31.4**	34,839	63.9
Commercial Lighting	**56,240**	**68.6**	19,692	36.1
	81,995	**100.0**	54,531	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$1,320,235,000, representing approximately 58.7% of the year's total revenue (2017: 51.7%), with the increase in demand for sourcing.

The Group's business restructuring is expected to be completed on time, meanwhile the revenue growth in the sourcing business helps to give the Group a stable passage in the transition period. In order to minimize its influence on the future development of core business segments, the Group intends to reduce the contribution from this part of revenue on the basis that it remains a non-core and nonpermanent business.

	For the year ended 31 December			
High-Tech Electronic Components and Products Sourcing Business	**2018** *HK$'000*	*%*	2017 *HK$'000*	*%*
High-Tech Electronic Components and Products Sourcing Business	**1,320,235**	**100**	867,360	100
	1,320,235	**100**	867,360	100

Quality Control

The Group has established stringent quality control procedures to ensure the quality of the LED products. From the very beginning stage of product design to mass production, the Group's quality control procedures continue throughout the entire product manufacturing and storage process. The quality control staff participated in the whole process of product's design to ensure the products are in excellent quality from the very beginning. There is a set of established and sound 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 an important assurance of the product quality and reliability.

Research and Development

Given that the technology had never been developed at such swift pace, the pursuit of agility and adaptability are of paramount importance for the Group. The Group's R&D capabilities not only boost its market status as a seasoned manufacturer, but also attract clients and projects which require specialty products. This empowers flexibility in pivoting its business directions in the background of fast-moving technologies.

The Group's R&D centre is located at our production plant in Huizhou. The Group is engaged 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 technologies and materials in the production process; 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 2018, the Group holds 93 patents registered in the PRC. Looking forward, the Group will continue to enhance its R&D capabilities and prepare itself for the up-and-coming opportunities 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 of commercial gains. During the year, Wai Chi Opto Technology Limited, a subsidiary of the Group, has received the Green Office Label awarded under the Green Office Awards Labelling Scheme ("**GOALS**") organised by the World Green Organization ("**WGO**") for the third year, 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 fulfill its corporate social responsibility comprehensively. The Group continued to devote efforts in upholding its social responsibilities to all stakeholders of the business by adhering to and reviewing relevant internal and external policies. In the year under review, the Group's efforts were once again recognised by the Outstanding SME Social Responsibility Award (傑出中小企業社會責任獎) at Hong Kong's Mirror Post in the Seventh Annual Outstanding CSR Award Ceremony (第七屆傑出企業社會責任獎典禮).

Mirror Post, a longstanding monthly magazine in Hong Kong, organised 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 respect to 7 criteria including shareholders' responsibilities, 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

To this date, worldwide trade tensions cast a shadow over all tariffridden countries and 2018 came to close in a state of uncertainty. For manufacturers, market conditions and production demand are anticipated to remain unstable. Still, in the 2019 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), it is expected that new trade opportunities will enter the frame as institutional policies to encourage exports, progression of "The Belt and Road" initiatives and export restructuring exert their positive effects.

Since the U.S.-China trade war kicked off, tariffs announced by the United States in 2018 has inevitably influenced the Group's exports. Falling into the high-tech field which is backed by institutional support, output from the Group is, however, eligible for tax returns and the aforesaid financial impact is thus alleviated.

According to the information of LEDinside, it is forecasted that the total market value of automotive LED in the Chinese market will be over US$ 1 billion in 2019 with over 20% year-on-year growth. In addition to the popular passenger entertainment features, it is also anticipated that with the rise of new energy vehicles and higher degree of driving assistance, the need for detailed information onboard about fuel, navigation and rear view etc. will surge. The Group holds an optimistic view on the automobile displays LED backlight segment and is prepared in terms of R&D and manufacturing capacities.

The LED lighting segment will persist to entail an overseas focus. In spite of some adverse factors from U.S.-China trade relations, the Group has laid the groundwork in securing projects and clients in the European and Mexican markets besides the United States. Projects for the newly-acquired European clients are well underway and projects for the prominent American retailer are expected to commence in 2019. The Group is confident in its extant principle of prudence and agility to jump over the hurdles ahead.

As a veteran industry player of over 30 years of experience, the Group is apt in strategising for the market's ups and downs. The Group's steadfast status as an integrated industry leader will keep optimising it's designs, production and sales to achieve excellence.

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 2018, the sales of the Group's LED backlight products were approximately HK$847,556,000, representing an increase by 12.1% from approximately HK$756,075,000 in 2017, which was mainly attributable to the significant increase in sales of automotive backlight products. The sales of the Group's LED lighting products were approximately HK$81,995,000, representing an increase by 50.4% from approximately HK$54,531,000 in 2017. The increase was mainly attributable to the significant increase in sales of commercial lighting products in sales overseas.

The non-core segment of high-tech electronic components and products sourcing recorded sales at approximately HK$1,320,235,000 (2017: HK$867,360,000). Leveraging on its extensive experience in the industry both domestically and internationally, the Group identified the opportunity in sourcing high-tech electronic components and products to add a stream of income which can then fund the Group's R&D processes needed for its transition to high-end segments. In order to position and maintain it as a non-core business, its contribution will be prudently curtailed to a reasonable level.

	For the year ended 31 December			
	2018		2017	
Total Revenue	***HK$'000***	*%*	*HK$'000*	*%*
LED Backlight	**847,556**	**37.7**	756,075	45.1
LED Lighting	**81,995**	**3.6**	54,531	3.2
High-Tech Electronic Components and Products Sourcing	**1,320,235**	**58.7**	867,360	51.7
	2,249,786	**100.0**	1,677,966	100.0

Gross Profit and Gross Profit Margin

For the year ended 31 December 2018, gross profit from the sales of LED backlight and LED lighting products was HK$231,225,000, representing an increase of 9.3% from approximately HK$211,494,000 in 2017, mainly due to the increase in revenue, especially from the automobile LED display segment and the commercial lighting segment, with higher gross profit margins. Gross profit margin for these two segments decreased by 1.2 percentage points from 26.1% in 2017 to 24.9% in the year under review. Gross profit and gross profit margin from high-tech electronic components and products sourcing were HK$16,038,000 and 1.21% (2017: HK$7,343,000 and 0.8%) respectively. For the year ended 31 December 2018, the Group's overall gross profit was approximately HK$247,263,000, representing an increase of 13.0% from approximately HK$218,837,000 in 2017, due to an increase in gross profit from automotive backlight segment, commercial lighting segment and high-tech electronic components and products sourcing. Overall gross profit margin was 11.0%, decreased by 2 percentage points from 13.0% in 2017 as the business is still in the course of transforming 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 2018, the Group's selling and distribution expenses was approximately HK$22,487,000, representing a decrease of 6.1% compared to approximately HK$23,943,000 of the year 2017, which was mainly attributable to the Group's effective cost control measures.

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 2018, the Group's administrative expenses was approximately HK$91,034,000, which increased by 3.9% compared to approximately HK$87,638,000, of the year 2017. The increase was mainly attributable to the expansion in business scale.

Other Income

During the year under review, other income was approximately HK$32,232,000, representing an increase of 157.6% in comparison with approximately HK$12,514,000 for the year 2017 mainly due to the recognition of government grant amounting to approximately HKD11,800,000 during the year, in relation to a LED lighting product, which was invented by the Chairman, Mr. Yiu, and granted a patent in China, features a number of advantages including lower energy consumption, outstanding spectrum control, longer lifespan, and better environmental protection.

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 benefits, 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$4,418,000 (2017: HK$6,002,000), the decrease was because of an over provision of income tax for a PRC subsidiary amounting to approximately HK$4,534,000 in the previous year.

Inventories

As at 31 December 2018, the Group's inventory was approximately HK$188,406,000, representing a decrease of 9.3% as compared to approximately HK$207,631,000 at 31 December 2017. The decrease in inventory was attributable to result of implementation of inventory level control policy.

Trade Receivables

As at 31 December 2018, the Group's net trade receivables amounted to approximately HK$409,549,000, which increased by 4.3% as compared to approximately HK$392,747,000 at 31 December 2017.

Trade Payables

As at 31 December 2018, the Group's trade payables amounted to approximately HK$184,162,000, representing a decrease of 5.3% as compared to the approximately HK$194,387,000 as at 31 December 2017, which was attributable to decrease 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 merger and acquisition that may arise from time to time. As at 31 December 2018, the net proceeds from the Placing have not yet been utilised and have been deposited with licensed banks in Hong Kong.

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 2018.

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 2018 and 2017, 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 2018, the accounting principles and practices adopted and discussed auditing, internal controls and financial reporting matters.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company will be held on 24 May 2019. 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 2018 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, 22 March 2019

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.