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 2019

FINANCIAL HIGHLIGHTS

	2019	2018
	HK$'000	*HK$'000*
Revenue	**2,214,974**	2,249,786
Gross profit	**228,967**	247,263
Gross profit margin	**10.3%**	11.0%
Profit for the year	**37,148**	45,107
Basic and diluted earnings per share	**HK17 cents**	HK21 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 2019, together with comparative figures for the year ended 31 December 2018, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	**2019** ***HK$'000***	2018 *HK$'000*
Revenue	4	**2,214,974**	2,249,786
Cost of sales		**(1,986,007)**	(2,002,523)
Gross profit		**228,967**	247,263
Other income	4	**21,148**	32,232
Selling and distribution expenses		**(25,553)**	(22,487)
Administrative expenses		**(101,597)**	(91,034)
Other gains and losses		**(2,303)**	(12,515)
Research and development expenses		**(50,812)**	(75,719)
Finance costs	6	**(29,681)**	(28,215)
Profit before tax		**40,169**	49,525
Income tax expense	7	**(3,021)**	(4,418)
Profit for the year	8	**37,148**	45,107
		HK$	*HK$*
Earnings per share			
Basic and diluted		**0.17**	0.21

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019	2018
	HK$'000	*HK$'000*
Profit for the year	**37,148**	45,107
Other comprehensive expense that may be reclassified subsequently to profit or loss		
Exchange differences arising on translation of foreign operations	**(20,980)**	(31,594)
Total comprehensive income for the year	**16,168**	13,513

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	**2019** *HK$'000*	2018 *HK$'000*
Non-current assets			
Property, plant and equipment		**245,520**	245,008
Right-of-use assets		**50,776**	–
Prepaid lease payments		**–**	35,062
Deposit paid for acquisition of property, plant and equipment		**5,582**	–
Deferred taxation		**8,455**	8,142
Deposits with bank		**–**	79,891
		310,333	368,103
Current assets			
Inventories	9	**211,584**	188,406
Prepaid lease payments		**–**	874
Trade receivables	10	**454,279**	409,549
Bills receivables	10	**92,069**	102,036
Prepayments, deposits and other receivables	11	**262,668**	191,614
Financial assets at fair value through profit or loss		**–**	152,967
Pledged bank deposits		**176,963**	129,785
Bank balances and cash		**101,816**	24,213
		1,299,379	1,199,444
Current liabilities			
Trade payables	12	**241,923**	184,162
Bills payables	12	**296,147**	252,698
Other payables and accruals	12	**55,812**	44,547
Contract liabilities		**8,518**	80,969
Bank and other borrowings		**288,171**	313,714
Lease liabilities		**4,539**	–
Obligations under finance leases – due within one year		**–**	916
Income tax payables		**9,294**	10,042
		904,404	887,048

	2019	2018
	HK$'000	*HK$'000*
Net current assets	**394,975**	312,396
Total assets less current liabilities	**705,308**	680,499
Non-current liabilities		
Lease liabilities	**10,343**	–
Obligations under finance leases		
– due more than one year	**–**	1,183
Corporate bond	**1,856**	1,816
Government grants	**17,420**	17,947
Deferred taxation	**–**	32
	29,619	20,978
Net assets	**675,689**	659,521
Capital and reserves		
Share capital	**2,168**	2,168
Reserves	**673,521**	657,353
Total equity	**675,689**	659,521

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 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.

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 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

The adoption of HKFRS 16 resulted in the changes in the Group's accounting policies and adjustments to the amounts recognised in the consolidated financial statements as summarised below. The application of other new and amendments to HKFRSs in the current year has had no material impact 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.

2.1 Impacts on adoption of HKFRS 16 Leases

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The Group has applied HKFRS 16 Leases retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019, and has not restated comparatives for the 2018 reporting period as permitted under the specific transitional provisions in the standard. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 17 Leases.

On transition to HKFRS 16, the Group elected to apply the practical expedient to account for the assessment of which arrangements are, or contain, leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)–4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The major impacts of the adoption of HKFRS 16 on the Group's consolidated financial statements are described below.

The Group as lessee

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.5%.

The Group recognises right-of-use assets and measures them at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The following table summarises the impact of transition to HKFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

	Notes	**Carrying amount previously reported at 31 December 2018** *HK$'000*	**Impact on adoption of HKFRS 16** *HK$'000*	**Carrying amount as restated at 1 January 2019** *HK$'000*
Property, plant and equipment	(c)	245,008	(2,185)	242,823
Right-of-use assets	(a),(b),(c)	–	38,606	38,606
Prepaid lease payments	(b)	35,936	(35,936)	–
Obligations under finance leases	(c)	2,099	(2,099)	–
Lease liabilities	(a),(c)	–	2,584	2,584

Notes:

(a) As at 1 January 2019, right-of-use assets were measured at an amount equal to the lease liability of approximately HK$485,000.

(b) Prepaid lease payments of approximately HK$35,936,000 which represent the upfront payments for leasehold lands in the PRC as at 31 December 2018 were reclassified to right-of-use assets.

(c) The obligations under finance leases of HK$2,099,000 as at 31 December 2018 are now included within lease liabilities under HKFRS 16. The carrying amount of the related assets under finance leases amounting to HK$2,185,000 is reclassified to right-of-use assets.

In the consolidated statement of cash flow, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. The total cash flows are unaffected.

Differences between operating lease commitments as at 31 December 2018, the date immediately preceding the date of initial application, discounted using the incremental borrowing rate, and the lease liabilities recognised as at 1 January 2019 are as follows:

	HK$'000
Operating lease commitment disclosed as at 31 December 2018	2,882
Less: Short-term leases and other leases with remaining lease term ended on or before 31 December 2019	(2,353)
	529
Discounted using the incremental borrowing rate at 1 January 2019	485
Add: Finance lease liabilities recognised under HKAS 17 as at 31 December 2018	2,099
Lease liabilities recognised as at 1 January 2019	2,584
Analysed as	
Current portion	1,031
Non-current portion	1,553
	2,584

2.2 Practical expedients applied

On the date of initial application of HKFRS 16, the Group has used the following practical expedients permitted by the standard:

- not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC)–4 to determine whether an arrangement contains a lease,

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases, and

- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

New and amendments to HKFRSs issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs and interpretation that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[1]

1 Effective for annual periods beginning on or after 1 January 2020.

2 Effective for annual periods beginning on or after 1 January 2021.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of the new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

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 Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The consolidated financial statements have been prepared on the historical cost basis except for certain financial 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:

	2019	2018
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
Sales of goods		
LED backlight	**950,106**	847,556
LED lighting	**94,777**	81,995
High-tech electronic components and products	**1,170,091**	1,320,235
	2,214,974	2,249,786

	2019	2018
	HK$'000	*HK$'000*
Disaggregation of revenue by timing of recognition		
Timing of revenue recognition		
At a point in time	**2,214,974**	2,249,786

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

	2019	2018
	HK$'000	*HK$'000*
Other income		
Bank interest income	**8,241**	10,581
Government grants *(Note)*	**8,102**	19,318
Sales of scrapped materials	**1,424**	9
Gain on disposal of property, plant and equipment	**23**	26
Sundry income	**3,358**	2,298
	21,148	32,232

Note: Included in the amount, government grants are immediately recognised as other income during the year ended 31 December 2019 of HK$7,965,000 (2018: HK$6,502,000) 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 2019, amount of HK$137,000 (2018: HK$12,816,000) 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 types 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 2019

	LED backlight *HK$'000*	**LED lighting** *HK$'000*	**Sourcing business** *HK$'000*	**Total** *HK$'000*
REVENUE				
External sales	**950,106**	**94,777**	**1,170,091**	**2,214,974**
Segment profit	**119,132**	**5,447**	**19,034**	**143,613**
Unallocated income				**11,599**
Unallocated expenses				**(85,785)**
Unallocated finance costs				**(29,258)**
Profit before tax				**40,169**

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

Revenue from major products

Analysis by type of products

	2019 ***HK$'000***	2018 *HK$'000*
LED backlight		
– Small dimension	**324,281**	302,990
– Medium dimension	**518,071**	414,713
– Large dimension	**107,754**	129,853
Sub-total	**950,106**	847,556
LED lighting		
– Indoor lighting	**79,006**	56,535
– Outdoor lighting	**15,771**	25,460
Sub-total	**94,777**	81,995
Sourcing business	**1,170,091**	1,320,235
Total	**2,214,974**	2,249,786

Analysis by application of products

	2019	2018
	HK$'000	*HK$'000*
LED backlight		
– Automobile displays	**639,290**	489,285
– Equipment displays	**204,038**	229,117
– Televisions	**106,778**	129,154
Sub-total	**950,106**	847,556
LED lighting		
– Public lighting	**15,770**	25,755
– Commercial lighting	**79,007**	56,240
Sub-total	**94,777**	81,995
Sourcing business	**1,170,091**	1,320,235
Total	**2,214,974**	2,249,786

6. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
Interest expenses on:		
– Bank and other borrowings	**29,058**	27,949
– Corporate bond	**200**	200
– Lease liabilities	**423**	–
– Finance leases	**–**	66
	29,681	28,215

7. INCOME TAX EXPENSE

	2019	2018
	HK\$'000	*HK\$'000*
Current income tax		
PRC Enterprise Income Tax		
– Current year	**7,246**	10,862
– Over-provision in prior years	**(3,694)**	(4,534)
	3,552	6,328
Deferred taxation	**(531)**	(1,910)
Total income tax expense for the year	**3,021**	4,418

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 2019 and 2018.

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 2019 (2018: 25%).

Pursuant to the relevant laws and regulations 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.

* *The English name is for identification purpose only*

8. PROFIT FOR THE YEAR

	2019	2018
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments	**5,879**	6,050
Salaries and allowances (excluding directors)	**192,629**	171,973
Retirement benefit scheme contributions (excluding directors)	**16,982**	11,634
Total staff costs	**215,490**	189,657
Auditor's remuneration	**1,045**	1,015
Amortisation of prepaid lease payments	**–**	912
Net foreign exchange losses	**503**	514
Cost of inventories recognised as expenses (included in cost of sales) *(Note a)*	**1,986,007**	2,002,523
Provision of inventories (included in other gains and losses) *(Note b)*	**45**	16,765
Reversal of provision of inventories (included in other gains and losses) *(Note c)*	**(865)**	(2,410)
Depreciation of property, plant and equipment	**43,207**	41,863
Depreciation of right-of-use-assets	**2,593**	–
Impairment loss (reversal of impairment loss) recognised in respect of trade and other receivables, net (included in other gains and losses)	**3,123**	(1,840)
Loss on disposal of property, plant and equipment	**–**	237
Loss on write-off of property, plant and equipment	**286**	98
Lease expenses for short-term leases	**6,845**	–
Minimum lease payments paid under operating lease on premises	**–**	7,408

Notes:

(a) Cost of inventories recognised as an expense included depreciation of property, plant and equipment and staff costs of HK$37,130,000 (2018: HK$34,862,000) and HK$132,910,000 (2018: HK$119,010,000) respectively. The amounts were also included in the respective amounts disclosed above.

(b) During the year ended 31 December 2019, a provision of HK$45,000 (2018: HK$16,765,000) was made for write-down of obsolete inventories that are no longer suitable for use in production or saleable in the market.

(c) During the year ended 31 December 2019, a reversal of provision of HK$865,000 (2018: HK$2,410,000) was made due to the sellout of inventories written off in previous year.

9. INVENTORIES

	2019	2018
	HK$'000	*HK$'000*
Raw materials	**18,065**	21,356
Work-in-progress	**90,719**	64,264
Finished goods	**102,800**	102,786
	211,584	188,406

10. TRADE AND BILLS RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Receivables at amortised cost comprise:		
Trade receivables	**484,539**	439,204
Less: allowance for impairment of trade receivables	**(30,260)**	(29,655)
	454,279	409,549
Bills receivables	**92,069**	102,036
	546,348	511,585

As at 31 December 2019, the gross amount of trade receivable arising from contracts with customers amounted to HK$484,539,000 (2018: HK$439,204,000).

The Group allows an average credit period of 15 to 180 days (2018: 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.

	2019	2018
	HK$'000	*HK$'000*
0 to 90 days	**427,829**	395,080
91 to 180 days	**19,893**	11,007
181 to 365 days	**3,125**	3,462
Over 365 days	**3,432**	–
	454,279	409,549

All the bills receivables are aged within 365 days.

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Deposits and other receivables	**43,627**	34,388
Less: allowance for impairment of other receivables	**(2,184)**	(1,532)
	41,443	32,856
Value added tax receivables	**2,754**	12,009
Prepayments for:		
– Sourcing business	**211,471**	137,082
– Others	**7,000**	9,667
	262,668	191,614

12. TRADE, BILLS AND OTHER PAYABLES AND ACCRUALS

	2019	2018
	HK$'000	*HK$'000*
Trade payables *(Note a)*	**241,923**	184,162
Bills payables *(Note a)*	**296,147**	252,698
	538,070	436,860
Construction cost payables	**–**	495
Other payables	**29,122**	2,404
Accrued expenses	**21,159**	16,969
Value added tax payables	**5,531**	24,679
	55,812	44,547
	593,882	481,407

Note:

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

	2019	2018
	HK$'000	*HK$'000*
0 to 90 days	**190,615**	147,907
91 to 180 days	**44,689**	27,818
181 to 365 days	**1,074**	2,946
Over 365 days	**5,545**	5,491
	241,923	184,162

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.

13. EARNINGS PER SHARE

	2019	2018
	HK$'000	*HK$'000*
Earnings for the purpose of basic and diluted earnings per share	**37,148**	45,107

	2019	2018
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)	**0.17**	0.21

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 2019 and 2018.

14. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2019, nor has any dividend been proposed since the end of the reporting period (2018: Nil).

15. EVENT AFTER THE REPORTING PERIOD

Since January 2020, the outbreak of the 2019 Novel Coronavirus Disease ("**COVID-19**") in the PRC and the subsequent quarantine measures imposed by the PRC government have had a negative impact on the operations of the Group, as most of the Group's business are located in the PRC. The Group had had to delay its operations due to the mandatory government quarantine measures. To ensure prevention of COVID-19 infection, the Group has implemented strict internal control measures to carry epidemic prevention work into effect.

The Directors of the Company have closely monitored the development of the outbreak of COVID-19 and kept regular communication with its customers and suppliers to understand whether there would be any significant impact on the Group's operation.

Based on the currently available information, the Directors of the Company consider that the COVID-19 outbreak will not have any material impact on the financial position of the Group. However, given the inherent unpredictable nature and rapid development of COVID-19 into a pandemic across the globe, the Group's business might be materially affected and the Directors of the Company will closely monitor the overall situation and development of events in this regard.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

Global economy was faced with bumps as it entered 2019 in the midst of China-U.S. trade conflicts. Tariffs had taken a toll on manufacturing sectors in the world's two largest economies as Chinese export prices were forced to soar, eventually weighing down the overall world GDP to 3.0% – the lowest since 2010.

China's LED industry was certainly under pressure as pessimistic consumer sentiments were directly reflected in the sales of many technological products. For instance, the automobile sector as a globally interconnected industry illustrated the downtrend effects of the new carbon emission tests and end of tax breaks for manufacturers in 2018. The atmosphere persisted in 2019 in combination with the series of tariffs impacting car-related sectors. Small-scale manufacturers of steel and plastic car parts, electronics etc. suffered severely.

Business Review

For the year 2019, the Group's operation has remained steady in general where it continued to keep up with market trends, adapt to technological advances in consumer goods and maintained quality output of specialty products. In terms of its sourcing business, it ventured out to include a specific type of semiconductor, small-storage memory chips, as it is believed that its potential demand will align with the upcoming prevalence of IoT equipment and devices.

The total revenue for the year ended 31 December 2019 was approximately HK$2,214,974,000, representing a mild decrease of 1.6% as compared to approximately HK$2,249,786,000 for the year ended 31 December 2018. Revenue from the sales of LED backlight products was approximately HK$950,106,000 (2018: approximately HK$847,556,000), representing an increase of 12.1%. Such increase is mainly contributed by the automotive backlight segment with a 30.7% increase in sales. Revenue from the sales of LED lighting products was approximately HK$94,777,000 (2018: approximately HK$81,995,000), representing an increase of 15.6%, which is mainly contributed by the commercial lighting segment with a 40.5% increase in sales.

The Group continued with its enterprise resource planning ("**ERP**") system to implement stringent cost control by timely monitoring its operation process to promote information exchange between functions, 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 enhancing 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 ended 31 December 2019, revenue derived from LED backlight products in automobile on-board displays, television displays and industrial equipment displays were approximately HK$639,290,000, HK$106,778,000 and HK$204,038,000 respectively.

	For the year ended 31 December			
LED Backlight	**2019**		2018	
Revenue Breakdown	***HK$'000***	**%**	*HK$'000*	%
Automobile Displays	**639,290**	**67.3**	489,285	57.7
Televisions	**106,778**	**11.2**	129,154	15.2
Equipment Displays	**204,038**	**21.5**	229,117	27.1
	950,106	**100.0**	847,556	100.0

Automobile on-board displays represented 67.3% of the Group's LED backlight business and 28.9% of its total revenue during the year ended 31 December 2019. It experienced a 30.7% lift from the year ended 31 December 2018.

2019 was a time of transition for the automobile industry as much as a year when consumers increasingly shift to opt for vehicles with the next-level technology and emission standard compliance. According to the industry research firm Sigmaintell Consulting Co., Ltd., the output volume of automobile on-board displays in the first half of 2019 dropped by 3.4% to approximately 79 million pieces. However, as one of the leading backlight producers of automobile on-board displays, the Group stayed atop of the trend of enlarged sizes and varied forms of information panels.

Revenues from backlight products for television displays and equipment displays saw decreases of approximately 17.3% and 11.0% as the Group focused on the production of backlight products for automobile displays.

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 ended 31 December 2019, revenues from public lighting and commercial lighting were approximately HK$15,770,000 and HK$79,007,000 respectively, observing a decrease in the former of approximately 38.8% and an increase in the latter of approximately 40.5%.

	For the year ended 31 December			
	2019		2018	
LED Lighting Revenue Breakdown	***HK$'000***	*%*	*HK$'000*	*%*
Public Lighting	**15,770**	**16.6**	25,755	31.4
Commercial Lighting	**79,007**	**83.4**	56,240	68.6
	94,777	**100.0**	81,995	100.0

For the year ended 31 December 2019, the Group continued its focus on overseas lighting projects with Europe being its largest market. The ongoing public LED street lighting projects in Mexico continued to generate revenue for the Group. It also went on serving some loyal domestic clients in China. Possessing a strong foothold in the overseas market, the Group is confident in attracting more potential clients in the future.

High-tech Electronic Components and Products Sourcing Business

The Group is engaged in the sourcing of high-tech electronic components and products. During the year ended 31 December 2019, revenue from the provision of sourcing services was approximately HK$1,170,091,000 (2018: HK$1,320,235,000), representing a decrease of approximately 11.4%, which was mainly due to the Group intentionally allocating resources to the core business to cope with the Group's development. The Group added small-storage memory chips to this segment to meet demand for IoT equipment and devices.

Quality Control

At the Company, the high level of quality control has proven to garner customer loyalty. From the very beginning 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 the product design process so as to ensure the products are in excellent quality from the very beginning. 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

The Group recognises the immense value of R&D capabilities and has become an agile industry player for its R&D efforts. As today's consumers demand not only quality but diversity in many tech-related products, niche markets for components of non-mainstream products can offer profitable opportunities for manufacturers with well-informed and resourceful R&D departments. By flexibly targeting market trends and technological advances, the Group strives to always be ready to identify and capture optimal business deals.

The Group's R&D centre is located at 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 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 over the years and, as of 31 December 2019, the Group held 151 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.

Awards for Corporate Responsibility

During the year ended 31 December 2019, 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 fourth 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.

Prospects

At the beginning of 2020, China-U.S. trade relations seem to have taken a more positive turn as deals to alleviate losses were proposed by both countries in January. Nonetheless, the world's attention quickly moved to the coronavirus outbreak in China, rekindle any negative sentiments which could have been eased at the end of 2019. The Group believes that 2020 will be once again a challenging year for many industries around the world and may only show signs of rebound in the last months.

The Chinese vehicle market, the largest in the world, had a drop of 4.0% in vehicle output in 2018 as it reacted to new carbon emission standards and expiration of industry tax cuts. After some industry adjustment in 2019, it is anticipated that the number of displays used in car interiors continued to grow as digitalisation of formerly physical interfaces gain popularity. The Group will leverage on its manufacturing technologies, human capital and R&D capabilities to produce backlight for automobile on-board displays to gain market share.

Regarding the television LED backlight sector, manufacturing costs of Mini LED displays have lowered as the technology matures. Such trend will prevail in 2020 alongside the falling retail prices of OLED televisions, leaving the two as strong competitors against traditional LED TVs. The Group will be closely montioring market information and reappraise its strategies as needed.

The Group has noticed the widening demand for small-storage memory chips in IoT products. With access to a reliable supplier of raw material, the Company has been carefully evaluating M&A plans of existing production lines with a view to becoming a supplier of a niche and less competitive market. This is also expected to diversify the Group's income streams and possibly compensate for weaker performance in other sectors.

The Company will stay alert and resilient during times of global uncertainties. On the other hand, it is also determined to grasp favourable opportunities by adaptively utilising available resources and technologies.

Financial Review

Revenue

During the year ended 31 December 2019, 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. The sales of the Group's LED backlight products were approximately HK$950,106,000, representing an increase of approximately 12.1% from 2018, which was mainly attributable to the significant increase of sales of automotive displays LED backlight products. The sales of the Group's LED lighting products were approximately HK$94,777,000, representing an increase of approximately 15.6% from 2018. The increase was mainly attributable to the continual increase of sales in the European market. The revenue from the segment of high-tech electronic components and products sourcing recorded sales of approximately HK$1,170,091,000 (2018: HK$1,320,235,000).

	For the year ended 31 December			
	2019		2018	
Total Revenue	***HK$'000***	*%*	*HK$'000*	*%*
LED Backlight	**950,106**	**42.9**	847,556	37.7
LED Lighting	**94,777**	**4.3**	81,995	3.6
High-tech Electronic Components and Products Sourcing	**1,170,091**	**52.8**	1,320,235	58.7
	2,214,974	**100.0**	2,249,786	100.0

Gross Profit and Gross Profit Margin

For the year ended 31 December 2019, gross profit from the sales of LED backlight and LED lighting products was approximately HK$209,934,000, representing a decrease of 9.2% from approximately HK$231,225,000 in 2018. Gross profit margin for these two segments decreased by 4.8 percentage points from 24.9% in 2018 to 20.1% in 2019. Gross profit and gross profit margin from high-tech electronic components and products sourcing were HK$19,033,000 and 1.63% (2018: HK$16,038,000 and 1.21%) respectively. For the year ended 31 December 2019, the Group's overall gross profit was approximately HK$228,967,000, representing a decrease of 7.4% from approximately HK$247,263,000 in 2018. Overall gross profit margin was 10.3% in 2019, representing a decrease of 0.7 percentage points from 11.0% in 2018.

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 2019, the Group's selling and distribution expenses was approximately HK$25,553,000, representing increase of 13.6% compared to approximately HK$22,487,000 for the year 2018, which was in line with the Group's revenue from sales of LED backlight and LED lighting products.

Administrative Expenses

Administrative expenses refer to the general expenses incurred in offices and factories. The Group focuses on effective management by means of resource consolidation in the Shenzhen and Huizhou factories. For the year ended 31 December 2019, the Group's administrative expenses was approximately HK$101,597,000, which increased by 11.6% compared to approximately HK$91,034,000 for the year 2018. The increase was mainly attributable to the expansion in business scale and increase in labour cost.

Other Income

During the year ended 31 December 2019, other income was approximately HK$21,148,000, representing a decrease of 34.4% in comparison with approximately HK$32,232,000 for the year 2018.

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 "High-Tech Enterprises" 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 ended 31 December 2019, the Group's tax expenses amounted to approximately HK$3,021,000 (2018: HK$4,418,000).

Inventories

As at 31 December 2019, the Group's inventories was approximately HK$211,584,000, representing an increase of 12.3% as compared to approximately HK$188,406,000 as at 31 December 2018. The increase in inventory was attributable to inventory of memory chips maintained for the sourcing business.

* *The English name is for identification purpose only*

Trade Receivables

As at 31 December 2019, the Group's net trade receivables amounted to approximately HK$454,279,000, which increased by 10.9% as compared to approximately HK$409,549,000 as at 31 December 2018. This was attributable to the increase in sales of LED backlight and LED lighting products.

Trade Payables

As at 31 December 2019, the Group's trade payables amounted to approximately HK$241,923,000, which increased by 31.4% as compared to approximately HK$184,162,000 as at 31 December 2018. This was attributable to the increase in purchase of raw materials for LED backlight and LED lighting products.

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 2019, the net proceeds from the Placing have not yet been utilised and have been deposited with licensed banks in Hong Kong.

The Company has explored various potential merger and acquisition projects and their feasibility over the past few years. These include preliminary discussions about the arrangements for the potential merger and acquisition with the Group's suppliers and customers in various business sectors.

However, after discussion and deliberation by the Company's management team, it was considered that those projects would neither be compatible with nor facilitate the Company's future development and business growth. Hence, the Company had not utilized the proceeds from the Placing on such projects.

The Company will continue to seek opportunities for merger and acquisition that may arise from time to time and expects to use the proceeds from the Placing for merger and acquisition in 2020.

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 2019.

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 2019 and 2018, 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 2019, 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 22 May 2020. 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 2019 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, 26 March 2020

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 and the independent non-executive directors are Mr. Au Yeung Tin Wah, Mr. Chen Kwok Wang and Mr. Ho Chi Wai.