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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1305)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June	
	2019	2018
	Unaudited HK\$'000	Unaudited HK\$'000
Revenue	909,954	1,445,080
Gross profit	94,155	108,407
Gross profit margin	10.3%	7.5%
Profit for the period	11,046	16,929
Basic and diluted earnings per share	HK5.09 cents	HK7.81 cents

INTERIM RESULTS

The Board of Directors (the “Board”) of Wai Chi Holdings Company Limited (the “Company”) is pleased to announce the unaudited interim condensed consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2019 (the “Period”), together with the unaudited comparative figures for the same period of 2018 and the unaudited interim condensed consolidated statement of financial position of the Group as at 30 June 2019 together with audited comparative figures as at 31 December 2018.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS*For the six months ended 30 June 2019*

		Six months ended 30 June	
		2019	2018
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	5	909,954	1,445,080
Cost of sales		(815,799)	(1,336,673)
Gross profit		94,155	108,407
Other income	5	9,018	7,222
Selling and distribution expenses		(12,229)	(11,835)
Administrative expenses		(48,395)	(45,942)
Other gains and losses		3,351	11,015
Research and development expenses		(20,221)	(34,091)
Finance costs	7	(12,347)	(14,289)
Profit before tax		13,332	20,487
Income tax expense	8	(2,286)	(3,558)
Profit for the period	9	11,046	16,929
Earnings per share			
Basic and diluted (<i>HK cents</i>)		5.09	7.81

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period	11,046	16,929
Other comprehensive income that may be reclassified subsequently to profit or loss		
Exchange differences arising on translation of foreign operations	<u>6,337</u>	<u>1,313</u>
Total comprehensive income for the period	<u>17,383</u>	<u>18,242</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
	Notes		
Non-current assets			
Property, plant and equipment		255,526	245,008
Prepaid lease payments		–	35,062
Right-of-use assets		37,638	–
Deferred taxation		8,257	8,142
Deposits with bank		–	79,891
		<u>301,421</u>	<u>368,103</u>
Current assets			
Inventories		192,001	188,406
Prepaid lease payments		–	874
Trade receivables	12	386,134	409,549
Bills receivables	12	173,913	102,036
Prepayment, deposits and other receivables		273,374	191,614
Financial assets at fair value through profit or loss		–	152,967
Pledged bank deposits		278,489	129,785
Deposits with bank		81,019	–
Bank balances and cash		102,724	24,213
		<u>1,487,654</u>	<u>1,199,444</u>
Current liabilities			
Trade payables	13	206,757	184,162
Bills payables	13	453,548	252,698
Other payables and accruals	13	28,753	44,547
Contract liabilities		100,294	80,969
Bank borrowings		286,123	313,714
Obligations under finance leases – due within one year		–	916
Lease liabilities		3,090	–
Income tax payables		10,094	10,042
		<u>1,088,659</u>	<u>887,048</u>
Net current assets		<u>398,995</u>	<u>312,396</u>
Total assets less current liabilities		<u>700,416</u>	<u>680,499</u>

	30 June 2019 <i>HK\$'000</i> (Unaudited)	31 December 2018 <i>HK\$'000</i> (Audited)
Non-current liabilities		
Obligations under financial leases		
– due more than one year	–	1,183
Corporate bond	1,915	1,816
Government grants	18,200	17,947
Lease liabilities	3,365	–
Deferred taxation	32	32
	<u>23,512</u>	<u>20,978</u>
Net assets	<u>676,904</u>	<u>659,521</u>
Capital and reserves		
Share capital	2,168	2,168
Reserves	<u>674,736</u>	<u>657,353</u>
Total equity	<u>676,904</u>	<u>659,521</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

1. GENERAL

Wai Chi Holdings Company Limited (the “Company”) is 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, LED lighting products and high-tech electronic components and products.

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

2. BASIS OF PREPARATION

The condensed consolidated interim financial information of the Group for the six months ended 30 June 2019 has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value at the end of each reporting period.

The accounting policies used in the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018 except as described below.

In the current interim period, the Group has applied, for the first time, the following new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA which are effective for the Group’s financial year beginning 1 January 2019.

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 HKRSs 2015 – 2017 Cycle

The adoption of HKFRS 16 resulted in changes in the Group's accounting policies and adjustments to the amounts recognised in the condensed consolidated interim financial information. The new accounting policies are set out in note 4 below. The application of other new and amendments to HKFRSs in the current interim period has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated interim financial information.

3.1 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. Details of these new accounting policies are described in note 4. 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 condensed consolidated interim financial information 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.

		As at 31 December 2018	Impact on adoption of HKFRS 16	As at 1 January 2019
	<i>Notes</i>	<i>HK\$'000</i> (Audited)	<i>HK\$'000</i>	<i>HK\$'000</i> (Unaudited)
Property, plant and equipment	(c)	245,008	(2,979)	242,029
Right-of-use assets	(a),(b)	–	39,390	39,390
Prepaid lease payments	(b)	35,936	(35,936)	–
Obligations under finance leases	(c)	2,099	(2,099)	–
Lease liabilities	(a),(c)	–	2,574	2,574

Notes:

- (a) As at 1 January 2019, right-of-use assets were measured at an amount equal to the lease liability of approximately HK\$475,000.
- (b) Prepaid lease payments of approximately RMB35,936,000 which represent the upfront payments for leasehold lands in the PRC of approximately HK\$35,936,000 as at 31 December 2018 were adjusted 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\$2,979,000 is reclassified to right-of-use assets.

3.2 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,
- reliance on previous assessments on whether leases are onerous by applying HKAS 37 as an alternative to performing an impairment review,
- 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.

4. CHANGE IN ACCOUNTING POLICIES

Leases

Definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments).

The lease liability is presented as a separate line in the condensed consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- the lease payments vary due to the changes in an index or rate or changes in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments and using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments and using a revised discount rate.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the “Property, plant and equipment” policy as stated in the Group’s annual consolidated financial statements for the year ended 31 December 2018.

Lease modification

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

5. REVENUE AND OTHER INCOME

Disaggregation by major products

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Revenue from contracts with customers	(Unaudited)	(Unaudited)
Sales of goods		
LED backlight	419,607	377,886
LED lighting	48,972	48,336
High-tech electronic components and products	441,375	1,018,858
	<u>909,954</u>	<u>1,445,080</u>

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Disaggregation of revenue by timing of recognition		
Timing of revenue recognition		
At a point in time	<u>909,954</u>	<u>1,445,080</u>
Other income		
Bank interest income	2,543	1,913
Net exchange gains	204	–
Government grants (<i>note</i>)	5,518	4,563
Net gain on disposal of property, plant and equipment	35	–
Sales of scrapped materials	19	5
Sundry income	699	741
	<u>9,018</u>	<u>7,222</u>

Note: Revenue from contracts with customers included the amount of government grants immediately recognised as other income during each of the periods ended 30 June 2019 and 2018 of approximately HK\$5,518,000 (unaudited) and HK\$4,563,000 (unaudited) respectively which were received from the PRC government in respect of certain research projects and under export encouragement scheme, the relevant granting criteria for which have been fulfilled.

6. SEGMENT INFORMATION

Information which was 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 the 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. The directors of the Company have chosen to organise the Group around differences in 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 – Manufacturing and trading of LED backlight products in different sizes and applications
2. LED lighting – Manufacturing and trading of LED lighting products for public and commercial use
3. Sourcing business – Provision of high-tech electronic components and products sourcing business

Segment revenues and results

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

For the six months ended 30 June 2019 (unaudited)

	LED backlight HK\$'000	LED lighting HK\$'000	Sourcing business HK\$'000	Total HK\$'000
REVENUE				
External sales	419,607	48,972	441,375	909,954
Segment profit	50,294	5,520	8,255	64,069
Unallocated income				3,446
Unallocated expenses				(41,836)
Finance costs				(12,347)
Profit before tax				13,332

For the six months ended 30 June 2018 (unaudited)

	LED backlight <i>HK\$'000</i>	LED lighting <i>HK\$'000</i>	Sourcing business <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE				
External sales	<u>377,886</u>	<u>48,336</u>	<u>1,018,858</u>	<u>1,445,080</u>
Segment profit	<u>57,829</u>	<u>6,211</u>	<u>11,671</u>	75,711
Unallocated income				2,654
Unallocated expenses				(43,589)
Finance costs				<u>(14,289)</u>
Profit before tax				<u>20,487</u>

Segment assets and liabilities

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

Segment assets

	30 June 2019 <i>HK\$'000</i> (Unaudited)	31 December 2018 <i>HK\$'000</i> (Audited)
LED backlight	990,411	854,972
LED lighting	66,855	72,096
Sourcing business	<u>325,395</u>	<u>190,949</u>
Total segment assets	1,382,661	1,118,017
Unallocated assets	<u>406,414</u>	<u>449,530</u>
Consolidated total assets	<u>1,789,075</u>	<u>1,567,547</u>

Segment liabilities

	30 June 2019 <i>HK\$'000</i> (Unaudited)	31 December 2018 <i>HK\$'000</i> (Audited)
LED backlight	570,451	444,932
LED lighting	79,369	56,877
Sourcing business	<u>156,651</u>	<u>76,865</u>
Total segment liabilities	806,471	578,674
Unallocated liabilities	<u>305,700</u>	<u>329,352</u>
Consolidated total liabilities	<u>1,112,171</u>	<u>908,026</u>

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

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

Revenue from major products

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

Analysis by type of products

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
LED backlight		
– Small dimension	134,530	131,578
– Medium dimension	237,693	190,324
– Large dimension	47,384	55,984
Sub-total	419,607	377,886
LED lighting		
– Indoor lighting	26,770	32,342
– Outdoor lighting	22,202	15,994
Sub-total	48,972	48,336
Sourcing business	441,375	1,018,858
Total	909,954	1,445,080

Analysis by application of products

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
LED backlight		
– Automobile on-board displays	281,388	222,558
– Equipment displays	89,949	98,869
– Televisions displays	48,270	56,459
Sub-total	419,607	377,886
LED lighting		
– Public lighting	22,202	15,994
– Commercial lighting	26,770	32,342
Sub-total	48,972	48,336
Sourcing business	441,375	1,018,858
Total	909,954	1,445,080

7. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expenses on:		
– bank borrowings	12,207	14,172
– finance leases	–	18
– corporate bonds	99	99
– lease liabilities	41	–
	12,347	14,289

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PRC Enterprise Income tax		
– Current period	2,286	4,187
– Over-provision in prior year	–	(629)
Total income tax expense for the period	2,286	3,558

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

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 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 six months ended 30 June 2019 and 2018.

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 the six months ended 30 June 2019 and 2018.

* The English name is for identification purpose only

9. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2019	2018
	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Salaries and allowances (excluding directors’ emoluments)	97,124	82,561
Retirement benefit scheme contributions (excluding directors)	10,692	9,222
Total staff costs	107,816	91,783
Amortisation of prepaid lease payments	–	866
Amounts of inventories recognised as expenses	815,799	1,336,673
Depreciation of property, plant and equipment	19,389	17,745
Depreciation of right-of-use assets	1,982	–
Net (gain) loss on disposal of property, plant and equipment	(35)	85
Reversal of impairment loss on inventories (included in other gains and losses)	(1,134)	–
Impairment loss on inventories (included in other gains and losses)	–	4,751
Reversal of impairment loss on trade and other receivables (included in other gains and losses)	(2,217)	–
Operating lease payment on premises	–	2,961

10. DIVIDENDS

	Six months ended 30 June	
	2019	2018
	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)
Interim dividend declared and paid after the interim period of HK\$nil cent per share (2018: HK\$nil cent per share)	–	–

11. EARNINGS PER SHARE

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share	<u>11,046</u>	<u>16,929</u>
Number of shares held		
Number of ordinary shares for the purpose of basic and diluted earnings per share (<i>Note</i>)	<u>216,825,000</u>	<u>216,825,000</u>
Basic and diluted earnings per share (HK cents per share)	<u>5.09</u>	<u>7.81</u>

Note: The diluted earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares outstanding during the six months ended 30 June 2019 and 2018.

12. TRADE AND BILLS RECEIVABLES

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Receivables at amortised cost comprise:		
Trade receivables	413,669	439,204
Less: Allowance for impairment of trade receivables	<u>(27,535)</u>	<u>(29,655)</u>
	386,134	409,549
Bills receivables	<u>173,913</u>	<u>102,036</u>
	<u>560,047</u>	<u>511,585</u>

As at 30 June 2019, the gross amount of trade receivables arising from contracts with customers amounted to HK\$413,669,000 (31 December 2018: HK\$439,204,000).

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

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.

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
0 to 90 days	371,345	395,080
91 to 180 days	8,213	11,007
181 to 365 days	5,639	3,462
Over 1 year	937	–
	386,134	409,549

All the bills receivables are aged within 365 days.

13. TRADE, BILLS AND OTHER PAYABLES AND ACCRUALS

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Trade payables (<i>Note a</i>)	206,757	184,162
Bills payables (<i>Note a</i>)	453,548	252,698
	660,305	436,860
Construction cost payables	–	495
Other payables	9,587	2,404
Accrued expenses	17,260	16,969
Value added tax payables	1,906	24,679
	28,753	44,547
	689,058	481,407

Note:

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

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
0 to 90 days	173,439	147,907
91 to 180 days	24,645	27,818
181 to 365 days	2,186	2,946
Over 365 days	6,487	5,491
	206,757	184,162

The average credit period on the 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.

All the bills payables are aged within 365 days.

14. COMPARATIVE FIGURES

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

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

Subsequent to the unsettling international tensions at the end of 2018, the first half of 2019 began with a global atmosphere of discretion. After a series of back-and-forth China-U.S. tariff orders in 2018, the U.S. maintained 10% tariffs on US\$200 billion of Chinese goods until May 2019, whereas China maintained 5% to 10% tariffs on US\$60 billion of U.S. goods. At mid-year of 2019, talks have been resumed with more actions from both sides expected. Homing in on domestic demand, signs indicating weakening consumption in China are observed as import value and contribution of consumer spending to GDP growth slow down in the second quarter.

For China's LED industry, manufacturers may or may not have seen significant impact on sales orders but are believed to face increasing pressure as secondary impact of U.S. tariffs broaden to other industries. As one of the most representative consumption markers in China, automotive sales appeared to be on a downward trend since the second half of 2018. Sales of LED products supported by the automotive sector therefore project an unfavourable picture.

BUSINESS REVIEW

In the first half of 2019, the Group, as with many manufacturers in China, has been on the receiving end of threats from the China-U.S. trade war. The Group has continued with the focus on specialty products for the six months ended 30 June 2019 ("period under review"), as well as observing sales trends and market information for LED backlight products which have direct relationships with consumer products e.g. automobiles and television displays.

The total revenue for the period under review was approximately HK\$909,954,000, representing a decrease of 37.0% as compared to approximately HK\$1,445,080,000 for the corresponding period in 2018 ("corresponding period"). The revenue from the sales of LED backlight products was approximately HK\$419,607,000 (corresponding period: approximately HK\$377,886,000), representing an increase of 11.0%. The rise in the sales of LED backlight products can be explained by the continued growth of sales for automobiles backlight products. The revenue from the sales of LED lighting products was approximately HK\$48,972,000 (corresponding period: approximately HK\$48,336,000), representing a mild increase of 1.3% as compared to that of the corresponding period as some long-term projects contributed to stable sales.

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 period under review, revenues derived from LED backlight products in automobile on-board displays, television displays and industrial equipment displays were approximately HK\$281,388,000, HK\$48,270,000 and HK\$89,949,000 respectively.

Automobile on-board displays recorded 26.4% increase in sales for the period under review compared to that of the corresponding period. It continued previous year's trend to be the largest contribution to the Group's LED backlight business during the period under review, representing approximately 67.0% of total LED backlight products sales (corresponding period: approximately 58.9%). As more and more hybrid-energy or new energy vehicles went on the market, demand leads to an increase in the quantity and size of automobile on-board displays. They also serve many more functions than those in older vehicles, such as central information displays, GPS, infotainment and dashboards. Thus far, the Group has gained a leading position in the domestic market supply. Still, it will take a more prudential stance moving forward taking into account the current macroeconomic factors.

Apart from the decline in China's automotive sales mentioned above, the domestic television display market had a drop in retail prices of OLED displays. Having seen a drop of 14.5% in LED backlight products for television displays for the period under review, the Group will be closely monitoring market trends to review sales strategies as necessary.

Equipment displays backlight products recorded a decrease of 9% in revenue for the period under review, which is due to the Group's deliberate strategic efforts to reduce the portion of low margin products.

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 period under review, revenues from public lighting and commercial lighting were approximately HK\$22,202,000 and HK\$26,770,000 respectively, representing an increase in the former of 38.8% and a decrease in the latter of 17.2% (corresponding period: HK\$15,994,000 and HK\$32,342,000).

The Group continued to take on overseas lighting projects for the period under review, as well as searching for project opportunities and cultivating client relationships. The Group's reputation is gradually spreading widely throughout the overseas markets as a result of its endeavors in the past few years. The previously commenced public LED street lighting projects in Mexico continued to progress while agreement with a distributor of light products in Europe was reached.

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 period under review, the revenue from the provision of sourcing services was approximately HK\$441,375,000, representing approximately 48.5% of the total revenue of the period under review (corresponding period: 70.5%).

The Group's business restructuring is expected to be completed in time, meanwhile the revenue growth in the sourcing business helps to smoothen the transition period. Exerting no 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 non-permanent business.

QUALITY CONTROL

The Group has established stringent quality control procedures to ensure the quality of the LED products. From the very beginning of production at the stage of product design, the Group's quality control procedures continue throughout the entire product manufacturing and storage process. Quality control staff participated in the whole process of product design 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 an important assurance of the product quality and reliability.

RESEARCH AND DEVELOPMENT

In recent years, the Group has secured opportunities in niche markets around the world using its Research and Development ("R&D") capabilities to cater to specialty product demands. As a seasoned and competitive manufacturer, the Group will continue to stay abreast of technological advances and market trends. With the macroeconomic state in mind, the Group will also try its best to exercise flexibility in minimising potential adversities.

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 30 June 2019, 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.

PROSPECTS

The continuation of China-U.S. trade war leaves all businesses in lingering uncertainties and suppresses market sentiments. In the domestic automotive market, a rebound in sales was present due to stimulated vehicle sales of existing models following the early implementation of “The Sixth Phase of National Light Vehicle Emission Standards” (第六階段國家輕型汽車大氣污染物排放標準). With the country moving onto new energy vehicles at a faster pace, it is, however, still anticipated that sales will decline for the second half year in 2019 due to delayed purchases caused by trade tensions and lack of purchasing power of lower-end customers.

In the first half of 2019, retail prices of OLED televisions have been lowered to gain competitiveness against traditional LED TVs. As such, the Group expects that in the near future, its TV LED backlight sector may experience pressure alongside the slowdown in consumer spending. In spite of the above, the Group believes that its leading position in this segment and strong client relationships will serve as a supportive buffer against future volatility.

Furthermore, the Group is prepared to execute new strategies in the face of various unfavourable factors to increase profit margin such as focusing on larger-sized displays with lower labour cost. In addition, in order to achieve greater liquidity and hereby financial flexibility for necessary adjustment, it aims to reduce debt levels and keep a moderate level of bank balances and cash, which is a common practice among mainland manufacturers. For lighting projects both in China and overseas, the Group will actively bid for tenders as it deems appropriate.

In terms of non-core business, construction of the Group’s logistic warehouse in Yichang, Hubei Province has undergone substantial progress during the period under review. It is expected to be an additional source of income through leasing the warehouse to businesses in the region as the city lacks such kind of facilities.

The Group recognises the importance of vigilance as a business amidst uncertainties. Meanwhile, it is determined to operate with a sharp alertness in identifying profitable opportunities and diligently wade through obstacles.

FINANCIAL REVIEW

Revenue

The three revenue streams of the Group are the sales of LED backlight, the sales of LED lighting products and the business of high-tech electronic components and products sourcing. For the period under review, the sales of the Group’s LED backlight products amounted to approximately HK\$419,607,000, representing an increase of 11.0% from approximately HK\$377,886,000 in the corresponding period. This was due to the increase of sales of automobile backlight products. The sales of LED lighting products for the period under review increased slightly by 1.3% to approximately HK\$48,972,000 from approximately HK\$48,336,000 in the corresponding period, as some long-term projects contributed to stable sales.

The non-core segment of high-tech electronic components and products sourcing recorded sales of approximately HK\$441,375,000, representing a decrease of approximately 56.7% from approximately HK\$1,018,858,000 for the corresponding period. The non-core segment served its purpose during the Group's earlier phase of transition and is expected to be diminished as intended.

Gross Profit and Gross Profit Margin

For the period under review, gross profit from the sales of LED backlight and LED lighting products was HK\$85,900,000, representing a decrease of 11.2% from approximately HK\$96,736,000 for the corresponding period, which is in line with the decrease in revenue. Gross profit margin for these two segments decreased by 4.4 percentage points from 22.7% in the corresponding period to 18.3% in the period under review. Gross profit and gross profit margin from high-tech electronic components and products sourcing were HK\$8,255,000 and 1.87% (corresponding period: HK\$11,671,000 and 1.15%) respectively. For the period under review, the Group's overall gross profit was approximately HK\$94,155,000, decreased by 13.2% from approximately HK\$108,407,000 in the corresponding period, due to the significant decrease in profit from the segments of equipment display backlights, television displays backlight and non-core sourcing business. Overall gross profit margin was 10.3%, increased by 2.8 percentage points from 7.5% in the corresponding period as the business is in the course of shifting more revenue 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 period under review, the Group's selling and distribution expenses was approximately HK\$12,229,000, representing an increase of 3.3% compared to approximately HK\$11,835,000 of the corresponding period.

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 period under review, the Group's administrative expenses was approximately HK\$68,616,000, which decreased by 14.2% compared to approximately HK\$80,033,000 of the corresponding period.

Other Income

During the period under review, other income was approximately HK\$9,018,000, representing an increase of 24.8% in comparison with approximately HK\$7,222,000 of the corresponding period mainly due to the increase of government grants.

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 period under review, the Group's tax expenses amounted to approximately HK\$2,286,000 (corresponding period: HK\$3,558,000), which was because of the decrease in sales volume.

Inventories

As at 30 June 2019, the Group's inventory was approximately HK\$192,001,000, which increased by 1.9% as compared to approximately HK\$188,406,000 as at 31 December 2018.

Trade Receivables

As at 30 June 2019, the Group's net trade receivables amounted to approximately HK\$386,134,000 which decreased by 5.7% as compared to approximately HK\$409,549,000 as at 31 December 2018.

Trade Payables

As at 30 June 2019, the Group's trade payables amounted to approximately HK\$206,757,000, which increased by 12.3% as compared to approximately HK\$184,162,000 as at 31 December 2018.

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 acquisition that may arise from time to time. As at 30 June 2019, 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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period under review.

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 the continual growth and enhancement of shareholders' value. Throughout the period under review, the Company has applied the principles of and complied with the code provisions stipulated in the Corporate Governance Code and Corporate Governance Report (the "Code") as set out in Appendix 14 to the Listing Rules. The Company periodically reviews its corporate governance practices with reference to the latest development of corporate governance.

All other information on the Code has been disclosed in the corporate governance report contained in the 2018 annual report of the Company issued in March 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The Audit Committee has reviewed the unaudited interim financial report for the six months ended 30 June 2019. On 23 August 2019, the Audit Committee met with the management to review the unaudited interim financial statements with the attendance of the external auditor and to consider the significant accounting policies.

PUBLICATION OF INTERIM REPORT

The 2019 interim report of the Company containing all applicable information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the Company's website at www.waichiholdings.com and the Stock Exchange's website at www.hkexnews.hk in due course.

APPRECIATION

Finally, the Board would like to thank all shareholders of the Company who have placed strong confidence in our Group's management. We would also like to thank all our business partners and bank enterprises who have supported and stood beside us at all times.

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

Hong Kong, 23 August 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; and the independent non-executive Directors are Mr. Au Yeung Tin Wah, Mr. Chen Kwok Wang and Mr. Ho Chi Wai.