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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 2020

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Revenue	609,064	909,954
Gross profit	82,579	94,155
Gross profit margin	13.6%	10.3%
Profit for the period	6,614	11,046
Basic and diluted earnings per share	HK3.05 cents	HK5.09 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 2020 (the “**Period**”), together with the unaudited comparative figures for the same period of 2019 and the unaudited interim condensed consolidated statement of financial position of the Group as at 30 June 2020 together with audited comparative figures as at 31 December 2019.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4	609,064	909,954
Cost of sales		<u>(526,485)</u>	<u>(815,799)</u>
Gross profit		82,579	94,155
Other income	4	20,723	9,018
Selling and distribution expenses		(11,239)	(12,229)
Administrative expenses		(40,921)	(48,395)
Other gains and losses		(4,626)	3,351
Research and development expenses		(23,557)	(20,221)
Finance costs	6	<u>(13,078)</u>	<u>(12,347)</u>
Profit before tax		9,881	13,332
Income tax expense	7	<u>(3,267)</u>	<u>(2,286)</u>
Profit for the period	8	<u>6,614</u>	<u>11,046</u>
Earnings per share	10		
Basic and diluted (<i>HK cents</i>)		<u>3.05</u>	<u>5.09</u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period	6,614	11,046
Other comprehensive (expense) income for the period		
Other comprehensive (expense) income that may be reclassified subsequently to profit or loss		
Exchange differences arising on translation of foreign operations	<u>(12,217)</u>	<u>6,337</u>
Total comprehensive (expense) income for the period	<u>(5,603)</u>	<u>17,383</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

		30 June 2020	31 December 2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment		232,495	245,520
Right-of-use assets		47,723	50,776
Deposit paid for acquisition of property, plant and equipment		5,474	5,582
Financial assets at fair value through profit or loss	11	4,680	–
Deferred taxation		8,293	8,455
		298,665	310,333
Current assets			
Inventories		251,687	211,584
Trade receivables	12	470,315	454,279
Bills receivables	12	167,935	92,069
Prepayment, deposits and other receivables		229,750	262,668
Pledged bank deposits		205,096	176,963
Bank balances and cash		15,730	101,816
		1,340,513	1,299,379
Current liabilities			
Trade payables	13	175,561	241,923
Bills payables	13	370,182	296,147
Other payables and accruals	13	48,626	55,812
Contract liabilities		3,911	8,518
Bank and other borrowings		327,246	288,171
Lease liabilities		4,194	4,539
Income tax payables		12,066	9,294
		941,786	904,404
Net current assets		398,727	394,975
Total assets less current liabilities		697,392	705,308

	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Non-current liabilities		
Lease liabilities	8,267	10,343
Corporate bond	1,955	1,856
Government grants	17,084	17,420
	<u>27,306</u>	<u>29,619</u>
Net assets	<u>670,086</u>	<u>675,689</u>
Capital and reserves		
Share capital	2,168	2,168
Reserves	667,918	673,521
Total equity	<u>670,086</u>	<u>675,689</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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, 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 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.

2. BASIS OF PREPARATION

The condensed consolidated interim financial information of the Group for the six months ended 30 June 2020 has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated 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 2019 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 2020.

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Interest Rate Benchmark Reform

The application of the 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.

4. REVENUE AND OTHER INCOME

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
within the scope of HKFRS 15		
Disaggregated by major products		
Sales of goods		
LED backlight	436,977	419,607
LED lighting	38,621	48,972
High-tech electronic components and products	133,466	441,375
	<u>609,064</u>	<u>909,954</u>
Disaggregation of revenue by timing of recognition		
Timing of revenue recognition		
At a point in time	<u>609,064</u>	<u>909,954</u>
Other income		
Bank interest income	9,242	2,543
Net foreign exchange gains	–	204
Government grants (<i>note</i>)	8,231	5,518
Gain on disposal of property, plant and equipment, net	559	35
Sales of scrapped materials	10	19
Sales of masks	1,762	–
Sundry income	919	699
	<u>20,723</u>	<u>9,018</u>

Note: Included in the amount, there are government grants immediately recognised as other income during the six months ended 30 June 2020 of HK\$8,231,000 (unaudited) (six months ended 30 June 2019 (unaudited): HK\$5,518,000) which were received from the government in respect of certain research projects and salaries subsidies, the relevant granting criteria for which have been fulfilled.

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 six months ended 30 June 2020 (unaudited)

	LED backlight HK\$'000	LED lighting HK\$'000	Sourcing business HK\$'000	Total HK\$'000
REVENUE				
External sales	<u>436,977</u>	<u>38,621</u>	<u>133,466</u>	<u>609,064</u>
Segment profit (loss)	<u>28,031</u>	<u>(746)</u>	<u>4,018</u>	<u>31,303</u>
Unallocated income				11,923
Unallocated expenses				(20,692)
Unallocated finance costs				<u>(12,653)</u>
Profit before tax				<u>9,881</u>

For the six months ended 30 June 2019 (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>419,607</u>	<u>48,972</u>	<u>441,375</u>	<u>909,954</u>
Segment profit	<u>50,294</u>	<u>5,520</u>	<u>8,255</u>	64,069
Unallocated income				3,446
Unallocated expenses				(41,836)
Unallocated finance costs				<u>(12,347)</u>
Profit before tax				<u>13,332</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 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
LED backlight	1,028,307	906,991
LED lighting	127,373	72,640
Sourcing business	<u>79,965</u>	<u>291,642</u>
Total segment assets	1,235,645	1,271,273
Unallocated assets	<u>403,533</u>	<u>338,439</u>
Consolidated total assets	<u>1,639,178</u>	<u>1,609,712</u>

Segment liabilities

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
LED backlight	548,317	560,983
LED lighting	77,842	50,241
Sourcing business	894	21,724
Total segment liabilities	627,053	632,948
Unallocated liabilities	342,039	301,075
Consolidated total liabilities	969,092	934,023

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, 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 and other borrowings, corporate bond 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

Analysis by type of products

	Six months ended 30 June 2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
LED backlight		
– Small dimension	140,872	134,530
– Medium dimension	277,953	237,693
– Large dimension	18,152	47,384
Sub-total	436,977	419,607
LED lighting		
– Indoor lighting	37,323	26,770
– Outdoor lighting	1,298	22,202
Sub-total	38,621	48,972
Sourcing business	133,466	441,375
Total	609,064	909,954

Analysis by application of products

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
LED backlight		
– Automobile displays	313,064	281,388
– Equipment displays	103,846	89,949
– Televisions	20,067	48,270
Sub-total	436,977	419,607
LED lighting		
– Public lighting	1,298	22,202
– Commercial lighting	37,323	26,770
Sub-total	38,621	48,972
Sourcing business	133,466	441,375
Total	609,064	909,954

6. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expenses on:		
– Bank and other borrowings	12,554	12,207
– Corporate bond	99	99
– Lease liabilities	425	41
	13,078	12,347

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax		
– Current period	3,267	2,286
Total income tax expense for the period	<u>3,267</u>	<u>2,286</u>

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

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2020 and 2019.

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 2020 and 2019.

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 the six months ended 30 June 2020 and 2019.

* The English name is for identification purpose only

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Salaries and allowances (excluding directors’ emoluments)	95,922	97,124
Retirement benefit scheme contributions (excluding directors)	<u>4,533</u>	<u>10,692</u>
Total staff costs	<u>100,455</u>	<u>107,816</u>
Cost of inventories recognised as expenses (included in cost of sales)	526,485	815,799
Net foreign exchange losses (gains)	910	(204)
Depreciation of property, plant and equipment	19,909	19,389
Depreciation of right-of-use assets	2,199	1,982
Reversal of impairment loss on inventories (included in other gains and losses)	–	(1,134)
Impairment loss (reversal of impairment loss) recognised in respect of trade and other receivables (included in other gains and losses)	<u>4,626</u>	<u>(2,217)</u>

9. DIVIDENDS

No dividend was paid or proposed during the six months ended 30 June 2020, nor has any dividend been proposed since the end of the interim period (six months ended 30 June 2019: nil).

10. EARNINGS PER SHARE

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share	<u>6,614</u>	<u>11,046</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>3.05</u>	<u>5.09</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 2020 and 2019.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Investment in a life insurance policy	<u>4,680</u>	<u>–</u>

In February 2020, the Group's subsidiary, Wai Chi Opto Technology Limited ("Wai Chi Opto"), entered into a life insurance policy with an insurance company to insure Ms. Yiu Kwan Yu, a director of the Company. Under the policy, the beneficiary and the policy holder is Wai Chi Opto and the total insured sum is approximately US\$3,492,000 (equivalent to approximately HK\$27,238,000). The Group was required to pay an one-off premium payment of approximately US\$600,000 (equivalent to approximately HK\$4,680,000). The Group can terminate the policy at any time and receive cash back based on the cash value of the policy at the date of withdrawal ("Cash Value"), which is determined by the premium payment plus accumulated interest earned minus the accumulated insurance charges.

Financial assets and liabilities measured at fair value in the condensed consolidated statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurements, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety based on the lowest level of input that is significant to the fair value measurement. The financial assets and liabilities measured at fair value are grouped into the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 30 June 2020 (unaudited)				
Financial assets at fair value through profit or loss				
– Investment in a life insurance policy	<u>–</u>	<u>4,680</u>	<u>–</u>	<u>4,680</u>

During the six months ended 30 June 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

The fair value of investment in a life insurance policy is determined by reference to the Cash Value as provided by the insurance company.

12. TRADE AND BILLS RECEIVABLES

	30 June 2020	31 December 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Trade receivables	504,595	484,539
Less: allowance for impairment of trade receivables	<u>(34,280)</u>	<u>(30,260)</u>
	470,315	454,279
Bills receivables	<u>167,935</u>	<u>92,069</u>
	<u>638,250</u>	<u>546,348</u>

As at 30 June 2020, the gross amount of trade receivable arising from contracts with customers amounted to HK\$504,595,000 (31 December 2019: HK\$484,539,000).

The Group allows an average credit period of 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.

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
0 to 90 days	431,412	427,829
91 to 180 days	26,101	19,893
181 to 365 days	8,385	3,125
Over 1 year	4,417	3,432
	470,315	454,279

All the bills receivables are aged within 365 days.

13. TRADE, BILLS AND OTHER PAYABLES AND ACCRUALS

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Trade payables	175,561	241,923
Bills payables	370,182	296,147
	545,743	538,070
Other payables	24,867	29,122
Accrued expenses	18,387	21,159
Value added tax payables	5,372	5,531
	48,626	55,812
	594,369	593,882

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

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
0 to 90 days	129,854	190,615
91 to 180 days	37,997	44,689
181 to 365 days	2,636	1,074
Over 365 days	5,074	5,545
	175,561	241,923

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.

All the bills payables are aged within 365 days.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In the midst of the already weakened economy, the outbreak of the novel coronavirus (the “**COVID-19**”) has brought forth unprecedented challenges upon the global economy in the first half of 2020. The scale of the COVID-19 pandemic has had far-reaching impacts on the global macroeconomic environment, from supply chain disruptions caused by the abrupt halt of economic activities in various degrees to pessimistic market sentiments due to growing anxiety and fears for the forward economic outlook in markets.

Triggered by the aforementioned uncertainties and threats, China’s economy suffered the first economic contraction since the 1970s, where its GDP shrank by 6.8% in the first quarter of 2020, according to the National Bureau of Statistics. Yet, as China continues easing lockdown restrictions after the COVID-19 outbreak in the country was under control, business has gradually resumed. Although China’s economy has not yet returned to its full capacity, it has recovered from the first-quarter contraction, with a growth of 3.2% in the second quarter. Such bounce-back sets the hope of continued economic recovery in the second half of 2020.

Factory closure, as part of the lockdown measures to control the COVID-19 outbreak, has disrupted the operation of all manufacturers, including that of the LED products, pushing the business operational costs high. In China and worldwide, many LED lighting projects were halted or delayed due to supply chain constraints and site limitations.

Under the seemingly unrelenting COVID-19 pandemic impacts, the automotive industry that has supported the LED backlight sector due to the wide adoption of LED onboard displays in automobiles, recorded a drop in global sales, which is inevitably affecting the demand for LED backlight products. In general, the LED backlight industry is gradually going downslope when substitute technology such as OLED and Micro LED matures and sells at a more affordable price.

BUSINESS REVIEW

During the period under review, the Group was pressured by the macroeconomic factors, ranging from global economic recession to the pervasive COVID-19 pandemic and a re-ignition in the Sino-US trade dispute. Although the Group’s production was forced to halt at the beginning of the year, under the influence of the imposition of lockdown restrictions in the People’s Republic of China (the “**PRC**”), the Group’s operation soon resumed with the implementation of health and safety precautionary measures, and its core business sectors remained resilient.

The enterprise resource planning (“**ERP**”) system implemented by the Group was especially effective in cost control through timely monitoring of its operation process to promote information exchange between functions, storing and managing operational data. It has enhanced financial and work efficiency with a higher level of process automation during the manufacturing process.

The total revenue for the period under review was approximately HK\$609,064,000, a decrease of 33.1% as compared to approximately HK\$909,954,000 for the corresponding period in 2019. In disregard of the high-tech electronic components and product sourcing business, which was intended to fund the Group's transitional period temporarily, revenue from the core business sectors was HK\$475,598,000, representing an increase of 1.5% as compared to that of the corresponding period in last year. Revenue from the sales of LED backlight products was approximately HK\$436,977,000 (2019: approximately HK\$419,607,000), representing an increase of 4.1%. The rise in the sales of LED backlight products can be explained by the increase of sales of backlight products for automobile onboard displays and equipment displays. Revenue from the sales of LED lighting products was approximately HK\$38,621,000 (2019: approximately HK\$48,972,000), representing a decrease of 21.1%, which was primarily due to the drop in demand from the public sector, as a result of the suspension of the Group's Yichang production plant, as well as the halt of the public LED street lighting project in Mexico after the COVID-19 outbreak.

LED Backlight Business

The three types of the Group's LED backlight products are: 1) automobile onboard displays; 2) television displays; and 3) other industrial equipment displays. For the period under review, revenues derived from LED backlight products in automobile onboard displays, television displays and industrial equipment displays were approximately HK\$313,064,000, HK\$20,067,000 and HK\$103,846,000 respectively.

Automobile onboard displays recorded an 11.3% increase in sales for the period under review. It continued to be the largest contribution to the Group's LED backlight business during the period under review, representing approximately 71.6% of total LED backlight products sales (2019: approximately 67.1%).

As the price of OLED displays dropped in the domestic television market, fewer people opt for the lower-end LCD TVs. Having recorded a drastic revenue drop of 58.4% in LED backlight products for television displays for the period under review, the Group will be closely monitoring the market trends to review sales strategies.

LED Lighting Service Business

The Group's LED lighting business is classified into two 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\$1,298,000 and HK\$37,323,000 respectively, observing a decrease in the former of 94.2% and an increase in the latter of 39.4% (2019: approximately HK\$22,202,000 and HK\$26,770,00).

The decrease in the Group's public lighting business was mainly due to the halt in production at the production plant in Yichang in the Hubei province, as well as the suspension of the public LED street lighting project in Mexico. For the period under review, the Group continued its efforts on commercial lighting business through searching for more project opportunities and cultivating client relationships to attain higher revenue growth from the commercial lighting service business.

High-Tech Electronic Components and Products Sourcing Business

The Group is engaged in the sourcing of high-tech electronic components and products, as a temporary source of income and additional flexibility to diversify the product mix with higher profit margin. During the period under review, revenue from this sector was approximately HK\$133,466,000 (2019: approximately HK\$441,375,000), representing a significant decrease of approximately 69.8%, as a result of resource allocation to focus on the Group's core business segments, and its future growth driver, the expansion into the flash memory chips market, which will be further explained in the "Prospects" section of this report.

QUALITY CONTROL

At the Company, a high level of quality control has proven effective in garnering customer loyalty. The Group has established stringent quality control procedures to ensure the quality of its products. Throughout the manufacturing process, from the very beginning of designing a product through each production stage, until the product is completed and stored, the Group's quality control works hand to staff ensure excellence in every aspect. There is a set of established procedures in selecting and approving new suppliers and raw materials, and thorough testing of product samples is carried out before mass production of the 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 product quality and reliability.

RESEARCH AND DEVELOPMENT

The Group recognises the immense value of Research and Development ("**R&D**") capabilities and has become an agile industry player for its R&D efforts. As today's consumers consider not only quality but also diversity in many tech-related products, market research is vital to understand the needs and preferences of consumers. Moreover, amid the fast-changing consumer market, the R&D department is resourceful in providing support with well-informed research, which enables the Group to identify niche markets that offer profitable opportunities. By flexibly targeting market trends and technological advances, the Group endeavours to be always prepared for emerging possibilities so as to capture optimal business deals.

The Group's R&D centre is located in our production plant in Huizhou. The Group engages in various R&D activities, including (i) concurrent development of new product designs with our customers; (ii) improvement of product quality, efficiency and functions of existing products; (iii) in-project calibration and optimization of the production processes and capability of the equipment; (iv) introduction and promotion of the use of new production technologies and new production materials; and (v) assessment of the future prospect and development trend of the LED industry. The Group has achieved a number of technological advancement and breakthroughs over the years and, as of 30 June 2020, the Group held 155 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 second half of 2020 is expected to come ahead with a wide range of economic uncertainties, partly dependent on the extent of potential impacts aroused by new waves of the COVID-19 outbreaks worldwide. As it is difficult to predict when the COVID-19 pandemic will subside, the Group will continue to remain cautious in its business operation. The Group is also aware of the possibilities of a re-ignition in Sino-US trade tensions that might influence its on-going and upcoming overseas projects and exports in 2020. Nonetheless, the Group believes the bounce-back in China's economy from the second quarter of 2020 is a good sign for the Group to move forward and grasp the re-emerging market opportunities.

Despite the delays brought by the COVID-19 pandemic, network operators are nonetheless moving ahead with 5G deployment, with China being one of the leaders. The 5G networks, more than just a speed upgrade, enable the Internet of Things(IoT) to usher in a new era, where more and more everyday devices employ embedded systems to control the operation of the machine or fulfill designated tasks. This emerging IoT trend has called for a surge in demand for NAND Flash memory chip, which provides an ultra cost-effective high-density non-volatile memory storage solution to support these embedded systems. With the major players in NAND Flash industry focusing on increasing the data capacity of their memory chips, the Group foresees that the niche market of Single-Level Cell (SLC) and Multi-Level Cell (MLC) NAND Flash, where each cell stores only 1 and 2 bits of data respectively, will be especially lucrative subsequent to 5G network adoption, as they provide longer data retention and withstand more program/erase cycles. Despite being on the lower end of the NAND Flash products, SLC and MLC chips generally have ample data capacity for the embedded systems of many devices ranging from Bluetooth speakers, video game consoles, Smart TVs, to droids.

As such, the Group is planning to open up the SLC and MLC NAND Flash testing and packing business, expanding its footprints into the semiconductor memory field. The semiconductor industry is highlighted in China's 14th Five-Year Plan, starting in 2021. Hence, supporting policies and subsidies are anticipated to be available. Yet, access to reliable sources of high-quality wafers brings down the most significant market entrance barrier for the Group. Moreover, the specific types of NAND Flash products the Group chose, namely SLC and MLC, enjoy relatively stable selling prices that are historically always in line with the cost of wafers, dodging some capital risks, making it the ideal products for entering the market.

As for the LED industry, the Group has noticed the trend of upgrading displays to OLED and Micro LED models, as both their retail prices dropped when the technologies mature. These two rivals in the market will put a limit on the development of traditional LCD screens, heavily restraining the demand for LED backlights, especially those for televisions. However, OLED displays' sensitivity to UV lighting and the high-cost of Micro LED screens are letting the more stable and cost-effective Mini LED displays taking the lead in the automobile onboard displays market, especially that of the mid-range vehicles. The Group expects the LED backlights to enjoy still a fair share in the automobile onboard displays market in the near future.

To conclude, in spite of the times of global uncertainties, the Group believes it is well-positioned to survive the upcoming changes and threats since the Board has been researching for years and planning thoroughly for business diversification. The Company will strive to stay resilient so as to maintain its core business performance while exploring the possibilities of a new business field.

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\$436,977,000, an increase of 4.1% from approximately HK\$419,607,000 for the corresponding period in 2019. This was due to the increase of sales of backlight products for automobile onboard displays and equipment displays. The sales of LED lighting products for the period under review decreased by approximately 21.1% to approximately HK\$38,621,000 from approximately HK\$48,972,000 for the corresponding period in 2019, as disruption of public lighting segment occurred during the COVID-19 pandemic.

The non-core segment of high-tech electronic components and products sourcing recorded sales of approximately HK\$133,466,000, a decrease of approximately 69.8% from approximately HK\$441,375,000 for the corresponding period in 2019. The non-core segment served its purpose during the Group's earlier phase of transition and is expected scale down.

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\$78,561,000, representing a decrease of 8.5% from approximately HK\$85,900,000 for the corresponding period in 2019, which is due to the increase in cost of raw material and the cost incurred during the lockdown period of the Group's factory. Gross profit margin for these two segments decreased mildly by 1.8 percentage points from 18.3% in the first half of 2019 to 16.5% in the period under review. Gross profit and gross profit margin from high-tech electronic components and products sourcing were HK\$4,018,000 and 3.01% (2019: approximately HK\$8,255,000 and 1.87%), respectively. For the period under review, the Group's overall gross profit was approximately HK\$82,579,000, decreased by 12.3% from approximately HK\$94,155,000 for the corresponding period in 2019, due to the significant decrease in turnover from the segments of television backlight, public lighting and non-core sourcing business. Overall gross profit margin was 13.6%, increased by 3.3 percentage points from 10.3% for the corresponding period in 2019 as the Group is in the course of shifting its business to high-margin products in order to generate more revenue.

Selling and Distribution Expenses

Labour costs, sales commissions and transportation costs were the Group's major selling and distribution expenses. For the six months ended 30 June 2020, the Group's selling and distribution expenses was approximately HK\$11,239,000, a decrease of 8.1% compared to approximately HK\$12,229,000 of the corresponding period in 2019.

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 six months ended 30 June 2020, the Group's administrative expenses was approximately HK\$40,921,000, which decreased by 15.4% compared to approximately HK\$48,395,000 of the first half of 2019.

Other Income

During the period under review, other income was approximately HK\$20,723,000, representing an increase of 129.8% in comparison with approximately HK\$9,018,000 of the corresponding period in 2019 mainly due to the increase in bank interest income and government grant.

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 (**“Shenzhen Wai Chi”**) 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\$3,267,000 (2019: approximately HK\$2,286,000), which was because of increase of taxable income generated by Shenzhen Wai Chi.

Inventories

As at 30 June 2020, the Group's inventory was approximately HK\$251,687,000, increased by 19.0% as compared to approximately HK\$211,584,000 as at 31 December 2019, mainly attributable to inventory of memory chips maintained for the sourcing business and increase in inventory kept for automobile LED backlight products to meet the increase in demand in the second half of 2020 during the recovery of the economy.

Trade Receivables

As at 30 June 2020, the Group's net trade receivables amounted to approximately HK\$470,315,000 which increased by 3.5% as compared to approximately HK\$454,279,000 as at 31 December 2019.

Trade Payables

As at 30 June 2019, the Group's trade payables amounted to approximately HK\$175,561,000, decreased by 27.4% as compared to the approximately HK\$241,923,000 as at 31 December 2019, which was attributable to certain bills payable was issued to suppliers for the settlement of trade payables before the reporting period ended date.

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 had participated in the semiconductor memory field since the second half of 2019 and plans to expand its footprints into the semiconductor memory field. The Company is seeking opportunities for merger and acquisition for relevant industry and expects to use the proceeds from the Placing for merger and acquisition in the second half of 2020.

Winding Up Petition Against the Company

On 17 July 2020, the Company received a winding up petition (the "**Petition**") filed by Financial Asia Limited (the "**Petitioner**") with the High Court of the Hong Kong Special Administrative Region of the People's Republic of China (the "**High Court**") for the winding up of the Company pursuant to sections 177(1)(d) and 327 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) on the ground that the Company is unable to repay its debts. It was alleged in the Petition that the Company was indebted to the Petitioner in the aggregate sum of HK\$30,000 as at 11 February 2020, being outstanding fees for the alleged services rendered by the Petitioner to the Company under two service agreements dated 2 January 2019 and 14 June 2018 respectively. The Petitioner was a previous service provider of the Company.

The Company had made through Counsel an application (the "**Application**") to the High Court for an interim injunction against the Petition, and the High Court held its Chambers Hearing (the "**Hearing**") on the Application on 24 July 2020. At the Hearing, the Company as respondent gave undertaking through Counsel that as soon as practicable, the Company will serve a summons to strike out the Petition (the "**Strike Out Summons**"), which will be heard together with the issue of costs of the Application. The Petitioner gave undertaking through Solicitors that the Petitioner shall not publish on the Gazette of the Hong Kong government and any newspaper the Petition presented on 16 July 2020 and in any other ways publicise the said Petition, pending the determination of the Strike Out Summons. The High Court has ordered that the issue of costs of the Application and the Hearing be reserved, to be determined at the Hearing of the Strike Out Summons.

The Company has filed a summons dated 24 July 2020 to apply for an order to strike out the Petition. The Hearing of the Strike Out Summons was held on 26 August 2020 and the High Court has ordered, among other things, that the Petition be struck out and costs to be paid by the Petitioner to the Company on an indemnity basis.

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 2019 annual report of the Company issued in March 2020.

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 2020. On 26 August 2020, 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 2020 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, 26 August 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.