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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 2021

#### FINANCIAL HIGHLIGHTS

	For the six months ended 30 June	
	2021	2020
	Unaudited HK\$'000	Unaudited HK\$'000
Revenue	<b>892,393</b>	609,064
Gross profit	<b>130,654</b>	82,579
Gross profit margin	<b>14.6%</b>	13.6%
Profit for the period attributable to owners of the Company	<b>15,443</b>	6,614
Basic and diluted earnings per share	<b>HK7.12 cents</b>	HK3.05 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 2021 (the “**Period**”), together with the unaudited comparative figures for the same period of 2020 and the unaudited interim condensed consolidated statement of financial position of the Group as at 30 June 2021 together with audited comparative figures as at 31 December 2020.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2021**

		<b>Six months ended 30 June</b>	
		<b>2021</b>	<b>2020</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Revenue	4	<b>892,393</b>	609,064
Cost of sales		<u><b>(761,739)</b></u>	<u>(526,485)</u>
Gross profit		<b>130,654</b>	82,579
Other income	4	<b>10,844</b>	20,723
Selling and distribution expenses		<b>(17,933)</b>	(11,239)
Administrative expenses		<b>(47,711)</b>	(40,921)
Other losses		<b>(5,860)</b>	(4,626)
Research and development expenses		<b>(30,543)</b>	(23,557)
Finance costs	6	<u><b>(20,010)</b></u>	<u>(13,078)</u>
Profit before tax		<b>19,441</b>	9,881
Income tax expense	7	<u><b>(4,365)</b></u>	<u>(3,267)</u>
Profit for the period	8	<u><b>15,076</b></u>	<u>6,614</u>
Profit (loss) for the period attributable to:			
– Owners of the Company		<b>15,443</b>	6,614
– Non-controlling interests		<u><b>(367)</b></u>	<u>–</u>
		<u><b>15,076</b></u>	<u>6,614</u>
Earnings per share	10		
Basic and diluted ( <i>HK cents</i> )		<u><b>7.12</b></u>	<u>3.05</u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**  
*FOR THE SIX MONTHS ENDED 30 JUNE 2021*

	<b>Six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Profit for the period	<b>15,076</b>	6,614
Other comprehensive income (expense) that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	<u><b>16,076</b></u>	<u>(12,217)</u>
Total comprehensive income (expense) for the period	<u><b>31,152</b></u>	<u><b>(5,603)</b></u>
Total comprehensive income (expense) for the period attributable to:		
– Owners of the Company	<b>31,599</b>	(5,603)
– Non-controlling interests	<u><b>(447)</b></u>	<u>–</u>
	<u><b>31,152</b></u>	<u><b>(5,603)</b></u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2021**

		<b>30 June 2021</b>	<b>31 December 2020</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Non-current assets</b>			
Property, plant and equipment		<b>297,065</b>	248,072
Right-of-use assets		<b>60,394</b>	62,304
Deposit paid for acquisition of property, plant and equipment		<b>6,009</b>	52,898
Deferred taxation		<b>8,406</b>	8,312
Deposits with bank		<b>180,271</b>	178,223
Financial assets at fair value through profit or loss	11	<b>3,510</b>	3,510
Financial assets at fair value through other comprehensive income	12	<b>10,374</b>	3,683
		<b>566,029</b>	557,002
<b>Current assets</b>			
Inventories		<b>324,193</b>	220,710
Trade receivables	13	<b>602,799</b>	566,740
Bills receivables	13	<b>162,061</b>	157,675
Prepayments, deposits and other receivables		<b>209,221</b>	151,101
Pledged bank deposits		<b>244,464</b>	277,267
Bank balances and cash		<b>109,187</b>	101,520
		<b>1,651,925</b>	1,475,013
<b>Current liabilities</b>			
Trade payables	14	<b>405,589</b>	295,154
Bills payables	14	<b>511,379</b>	545,268
Other payables and accruals	14	<b>41,952</b>	35,967
Contract liabilities		<b>16,780</b>	6,210
Bank and other borrowings		<b>410,568</b>	346,569
Lease liabilities		<b>9,249</b>	8,974
Income tax payables		<b>5,842</b>	5,912
		<b>1,401,359</b>	1,244,054
<b>Net current assets</b>		<b>250,566</b>	230,959
<b>Total assets less current liabilities</b>		<b>816,595</b>	787,961

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
<b>Non-current liabilities</b>		
Lease liabilities	12,590	15,419
Corporate bond	1,995	1,896
Government grants	18,610	18,398
Deferred taxation	381	381
	<u>33,576</u>	<u>36,094</u>
<b>Net assets</b>	<u>783,019</u>	<u>751,867</u>
<b>Capital and reserves</b>		
Share capital	2,168	2,168
Reserves	779,286	747,687
	<u>781,454</u>	<u>749,855</u>
Equity attributable to owners of the Company	781,454	749,855
Non-controlling interests	1,565	2,012
	<u>783,019</u>	<u>751,867</u>
<b>Total equity</b>	<u>783,019</u>	<u>751,867</u>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## FOR THE SIX MONTHS ENDED 30 JUNE 2021

### 1. GENERAL

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

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

The functional currency of the Company and the subsidiaries incorporated in Hong Kong are Hong Kong dollars (“**HK\$**”) while that of the subsidiaries established in the 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 2021 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 2020 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 2021:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, Interest Rate Benchmark Reform – Phase 2
HKFRS 4 and HKFRS 16
Amendment to HKFRS 16
COVID-19-Related Rent Concessions

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	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
<i>Disaggregated by major products</i>		
Sales of goods		
– LED backlight	650,053	436,977
– LED lighting	64,360	38,621
– Sourcing business	177,980	133,466
	<b>892,393</b>	<b>609,064</b>
<i>Disaggregation of revenue by timing of recognition</i>		
Timing of revenue recognition		
– At a point in time	<b>892,393</b>	<b>609,064</b>
<b>Other income</b>		
Bank interest income	4,661	9,242
Government grants (note)	3,362	8,231
Gain on disposal of property, plant and equipment, net	848	559
Sales of scrapped materials	73	10
Sundry income	1,900	2,681
	<b>10,844</b>	<b>20,723</b>

*Note:* Included in the amount, there are government grants immediately recognised as other income during the six months ended 30 June 2021 of approximately HK\$3,362,000 (six months ended 30 June 2020: approximately HK\$8,231,000) 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 memory chips related 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 memory chips related 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 2021

	LED backlight HK\$'000 (Unaudited)	LED lighting HK\$'000 (Unaudited)	Sourcing business HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
REVENUE				
External sales	<u>650,053</u>	<u>64,360</u>	<u>177,980</u>	<u>892,393</u>
Segment profit	<u>41,226</u>	<u>3,191</u>	<u>3,594</u>	<u>48,011</u>
Unallocated income				6,561
Unallocated expenses				(15,732)
Unallocated finance costs				<u>(19,399)</u>
Profit before tax				<u>19,441</u>

### For the six months ended 30 June 2020

	LED backlight HK\$'000 (Unaudited)	LED lighting HK\$'000 (Unaudited)	Sourcing business HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
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>	31,303
Unallocated income				11,923
Unallocated expenses				(20,692)
Unallocated finance costs				<u>(12,653)</u>
Profit before tax				<u>9,881</u>



## Segment assets and liabilities

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

### Segment assets

	<b>30 June 2021</b> <i>HK\$'000</i> (Unaudited)	31 December 2020 <i>HK\$'000</i> (Audited)
LED backlight	<b>1,116,975</b>	1,106,382
LED lighting	<b>163,864</b>	94,399
Sourcing business	<b>171,650</b>	178,317
	<hr/>	<hr/>
Total segment assets	<b>1,452,489</b>	1,379,098
Unallocated assets	<b>765,465</b>	652,917
	<hr/>	<hr/>
Consolidated total assets	<b>2,217,954</b>	2,032,015
	<hr/> <hr/>	<hr/> <hr/>

### Segment liabilities

	<b>30 June 2021</b> <i>HK\$'000</i> (Unaudited)	31 December 2020 <i>HK\$'000</i> (Audited)
LED backlight	<b>863,983</b>	806,715
LED lighting	<b>108,120</b>	63,843
Sourcing business	<b>42,730</b>	53,327
	<hr/>	<hr/>
Total segment liabilities	<b>1,014,833</b>	923,885
Unallocated liabilities	<b>420,102</b>	356,263
	<hr/>	<hr/>
Consolidated total liabilities	<b>1,434,935</b>	1,280,148
	<hr/> <hr/>	<hr/> <hr/>

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, financial assets at fair value through other comprehensive income, pledged bank deposits, deposits with bank, 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, 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

### *Analysis by type of products*

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
LED backlight		
– Small dimension	166,679	140,872
– Medium dimension	455,616	277,953
– Large dimension	27,758	18,152
Sub-total	650,053	436,977
LED lighting		
– Indoor lighting	61,549	37,323
– Outdoor lighting	2,811	1,298
Sub-total	64,360	38,621
Sourcing business		
– High-tech electronic components and products sourcing	–	87,266
– Memory chips related products sourcing	177,980	46,200
Sub-total	177,980	133,466
Total	892,393	609,064

## Analysis by application of products

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
LED backlight		
– Automobile displays	502,282	313,064
– Equipment displays	117,042	103,846
– Televisions	30,729	20,067
Sub-total	650,053	436,977
LED lighting		
– Public lighting	2,811	1,298
– Commercial lighting	61,549	37,323
Sub-total	64,360	38,621
Sourcing business		
– High-tech electronic components and products sourcing	–	87,266
– Memory chips related products sourcing	177,980	46,200
Sub-total	177,980	133,466
Total	892,393	609,064

## 6. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expenses on:		
– Bank and other borrowings	19,300	12,554
– Corporate bond	99	99
– Lease liabilities	611	425
	20,010	13,078

## 7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax		
– Current period	<u>4,365</u>	<u>3,267</u>
Total income tax expense for the period	<u><u>4,365</u></u>	<u><u>3,267</u></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 2021 and 2020.

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 2021 and 2020.

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 2021 and 2020.

\* The English name is for identification purpose only

## 8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging:		
Salaries and allowances (excluding directors' emoluments)	102,124	95,922
Retirement benefit scheme contributions (excluding directors)	8,778	4,533
Total staff costs	110,902	100,455
Cost of inventories recognised as expenses (included in cost of sales)	761,739	526,485
Net foreign exchange losses	1,273	910
Depreciation of property, plant and equipment	22,708	19,909
Depreciation of right-of-use assets	4,930	2,199
Provision of inventories (included in other losses)	5,860	–
Impairment loss recognised in respect of trade and other receivables (included in other losses)	–	4,626

## 9. DIVIDENDS

No dividend was paid or proposed during the six months ended 30 June 2021, nor has any dividend been proposed since the end of the interim period (six months ended 30 June 2020: nil).

## 10. EARNINGS PER SHARE

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings for the purpose of basic and diluted earnings per share	15,443	6,614
Number of ordinary shares for the purpose of basic and diluted earnings per share	216,825,000	216,825,000
Basic and diluted earnings per share (HK cents per share)	7.12	3.05

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 2021 and 2020.

## 11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Investment in a life insurance policy	<u>3,510</u>	<u>3,510</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, which is determined by the premium payment plus accumulated interest earned minus the accumulated insurance charges and a specified amount of surrender charge if the withdrawal is made before the specified policy year.

## 12. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Investment in an unlisted equity	<u>10,374</u>	<u>3,683</u>

The unlisted equity securities are issued by a private entity incorporated in Taiwan.

The investment was not held for trading. Instead, it was held for medium to long-term strategic purposes. Accordingly, the directors of the Company have elected to designate these investments in equity instruments as at fair value through other comprehensive income as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

During the six months ended 30 June 2021, the Group purchased financial assets at fair value through other comprehensive income with a cost of approximately HK\$6,691,000 (six months ended 30 June 2020: nil).

## 13. TRADE AND BILLS RECEIVABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Trade receivables	628,512	592,182
Less: allowance for impairment	<u>(25,713)</u>	<u>(25,442)</u>
	602,799	566,740
Bills receivables	<u>162,061</u>	<u>157,675</u>
	<u>764,860</u>	<u>724,415</u>

As at 30 June 2021, the gross amount of trade receivables arising from contracts with customers amounted to approximately HK\$628,512,000 (31 December 2020: approximately HK\$592,182,000).

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.

	<b>30 June 2021 HK\$'000 (Unaudited)</b>	<b>31 December 2020 HK\$'000 (Audited)</b>
0 to 90 days	590,186	554,649
91 to 180 days	7,916	8,369
181 to 365 days	4,214	3,722
Over 1 year	483	–
	<b>602,799</b>	<b>566,740</b>

All the bills receivables are aged within 365 days.

#### 14. TRADE, BILLS AND OTHER PAYABLES AND ACCRUALS

	<b>30 June 2021 HK\$'000 (Unaudited)</b>	<b>31 December 2020 HK\$'000 (Audited)</b>
Trade payables (note)	405,589	295,154
Bills payables (note)	511,379	545,268
	<b>916,968</b>	<b>840,422</b>
Other payables	10,354	6,848
Accrued expenses	20,385	21,906
Value added tax payables	11,213	7,213
	<b>41,952</b>	<b>35,967</b>
	<b>958,920</b>	<b>876,389</b>

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

	<b>30 June 2021 HK\$'000 (Unaudited)</b>	<b>31 December 2020 HK\$'000 (Audited)</b>
0 to 90 days	327,381	264,392
91 to 180 days	67,426	22,850
181 to 365 days	4,111	1,500
Over 365 days	6,671	6,412
	<b>405,589</b>	<b>295,154</b>

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 receivables are aged within 365 days.

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY REVIEW

Two years into the novel coronavirus (the “**COVID-19**”) pandemic (the “**pandemic**”), the world is learning to live with it. As each successive wave of the virus swept over the world, it has wreaked less economic damage than the last time around, especially in the more developed countries where a high vaccination rate improves their resilience against the latest surge in COVID-19 caseload. Though the pattern that has evolved in the more developed countries does not necessarily apply to the less developed countries, International Monetary Fund (the “**IMF**”), in its latest forecast released in July 2021, expects the world economy to expand by 6% this year, which would be a tremendous rebound from last year’s 3.2% contraction.

China, the first country to have brought the COVID-19 transmission under control and by now having at least 1.87 billion doses of vaccine administered, has been business-as-usual for about a year now. According to the National Bureau of Statistics of the People’s Republic of China, the county recorded a stunning 12.7% GDP growth in the first half of 2021.

The pandemic changed how people live and do business, but not exactly as expected; it certainly has not stopped people from upgrading their automotive vehicles, especially those stepping up their efforts to protect the environment by switching to electric cars. Tesla, for example, produced more than 206,000 vehicles in the second quarter of 2021, more than doubling its year-earlier output, and generated a record-high quarterly profit. In China, during the first half of 2021, car sales rose by 25.6% as compared to a year ago, while new energy car sales were already comparable to the number recorded during the whole year of 2019. The surge in car sales drove the demand for automotive onboard LED panels, and in turn, its backlights. Even though newer but more expensive technologies gradually replace backlight products, thanks to the surge in car sales, manufacturers of automotive onboard LED backlights indeed consider the first half of 2021 a very profitable period, unlike their counterparts in the cellphone sector, as flagship cellphones are all opting for OLED screens now.

Another material that has surged in demand owing partially to increased car sales is memory chips. In fact, the pandemic has kept demand high for many gadgets, including personal computers, data servers, and mobile devices, which all require memory chips. Revenue for Samsung’s chip division in the second quarter of 2021 rose by 25% as compared to a year ago, while contract prices for its NAND flash, which provides storage capacity on devices, rose as much as 10% in this quarter.



## **BUSINESS REVIEW**

During the period under review, by grasping emerging opportunities and adapting to new business practices, the Group achieved encouraging growth. This is also partially due to China's speedy virus control and containment, which enabled it to remain and continue to be the world's most, and probably the only, reliable source of production and supply under the pandemic.

The Group's enterprise resource planning (“**ERP**”) system 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\$892,393,000, an increase of approximately 46.5% compared to approximately HK\$609,064,000 for the corresponding period in 2020. As the Group realises its plans of stepping into the semiconductor memory chip industry, its sourcing business segment has shifted focus to memory chips only. This segment recorded total revenue of approximately HK\$177,980,000, solely from memory chips related products, representing an increase of approximately 33.4% from the segment revenue of approximately HK\$133,466,000 from the same period in 2020. Revenue from the LED business sectors was approximately HK\$714,413,000, representing an increase of approximately 50.2% compared to that of the corresponding period last year. Revenue from the sales of LED backlight products was approximately HK\$650,053,000 (2020: approximately HK\$436,977,000), representing an increase of approximately 48.8%. The rise in the revenue of LED backlight products is driven by the increased sales of all LED backlight products, especially the automobile onboard displays backlights, which will be illustrated further in the following sections. Revenue from the sales of LED lighting products was approximately HK\$64,360,000 (2020: approximately HK\$38,621,000), representing an increase of 66.6%, due to the increased sales of both public and commercial lighting products.

### **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\$502,282,000, HK\$30,729,000 and HK\$117,042,000, respectively.

Automobile onboard displays recorded a 60.4% increase in sales for the period under review. It continued to be the largest contribution to the Group's LED backlight business, with the potential to sustain growth under the favourable market condition discussed in the Industry Review section. It represents approximately 77.3% of total LED backlight products sales (2020: approximately 71.6%).

As China's consumer market recovers alongside its overall economy, the Group's television display and industrial equipment display backlight products enjoyed a boost in sales too. The Group's television display segment sales increased by 53.1%, while other industrial equipment displays increased by 12.7%.

### **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\$2,811,000 and HK\$61,549,000, respectively, observing a significant increase of approximately 116.6% and 64.9% (2020: approximately HK\$1,298,000 and HK\$37,323,000), respectively.

The increase in the Group's public lighting product sales was mainly driven by the orders for school classroom lighting and hospital lighting in the PRC and street lights in Mexico. The rise of the Group's commercial lighting business mainly resulted from increased orders in Europe, where clients consider manufacturers from the PRC the most stable supply stream and increase the quantity of their order to stay ahead of possible logistics disruptions in the future.

### **Sourcing Business**

While the Group upgrades its product mix, it has been engaging in sourcing high-tech electronic components and products to gain a temporary source of income to fund the transitional period. Starting from the year ended 31 December 2019, the Group added a new collection of products to this segment, namely, memory chips related products, which generates a significantly higher profit margin than the other products the Group has been engaging in before. During the six months ended 30 June 2021, this business segment involves only memory chips as the Group focuses on higher-margin products. More importantly, it is also part of the Group's plan to smoothly open up a new line of business – memory chip testing and packaging. During the period under review, the sourcing segment recorded a revenue of approximately HK\$177,980,000 (2020: approximately HK\$133,466,000), representing an increase of approximately 33.4%, making a foundation for the Group to launch its new production line in the second half of the year.

## QUALITY CONTROL

At the Company, a high level of quality control has proven to garner customer loyalty. The Group has established stringent quality control procedures to ensure the quality of its products. From the very beginning of designing a product to each stage throughout the manufacturing process, until the product is completed and stored, the Group's quality control staff ensures 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 supporting 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 advancements and breakthroughs over the years and, as of 30 June 2021, the Group held 193 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

Governments and businesses worldwide are now adapting to this pandemic much better than when they were first faced with it. Across the U.S. and Europe, drastic lockdowns widely adopted during the first wave of the pandemic are being avoided now. Instead, these governments limit their restrictions on business activities while staying just as effective in COVID-19 transmission containment. Businesses have also developed new practices to cope with the new norm, from factories performing better at spacing out workers on-site to corporations improving productivity for those working from home.

For China, even though the latest COVID-19 case surge starting from the city of Nanjing appears alarming to many, it is unlikely to dent China's robust economic recovery. In its July release, IMF projected China's economy to grow 8.1% for the year 2021, which would exceed the country's own target of 6% set at the beginning of the year.

While the demand for automotive vehicles and electronic gadgets pressure manufacturers to source enough memory chips to sustain their production, the unprecedented shortage in semiconductor microchips that started a year ago shows no sign of easing, which creates a sellers' market. Some executives from chip producers even expect that the strains brought by this supply-demand imbalance would stretch into 2023.

Aiming to launch its NAND Flash testing and packing business in the second half of 2021, the Group is thrilled to be able to grasp the opportunities arising from the market. Besides being highly lucrative at the moment and in the near future, the business also requires much less labour force as it is more automated, enabling it to bring promising profitability. With the installation of its production facilities being finalised, samples of products are sent to some secured clients for their confirmation before mass production. The Group also injected capital, though not in a very significant amount, into one of its important suppliers, a leading Taiwanese chip maker, to deepen the relationship, broaden the Group's income stream as well as learn from one of the best in the market. The Group expects that a considerable amount of revenue could be generated from its semiconductor segment by the end of the year.

As for the Group's existing core business segments of LED products, the outlook for the coming period is also brighter than the past couple of years. For one thing, the aforementioned trend in car sales surge is expected to continue, especially in China where policy and capital supports are being poured into the new energy automotive industry to encourage a switch to the environmentally-friendly modules, and for another, many people are also buying their first cars. The Group expects its automotive onboard display backlight sector to enjoy a similar growing trend in the second half of 2021 as it had during the first. In the crowded market of LED lighting products, where the Group is merely maintaining an optimum capacity at existing facilities without further investment, some profitable projects on hand are expected to generate considerable income in the coming period.

The Group foresees a rising trend in prices of possibly all of its raw materials. As a matter of fact, this trend has already been observed in the past period, which has led the Group to strategically increase the order of certain raw materials at relatively lower prices and to negotiate with its suppliers for better deals. This strategy has successfully maintained the Group's profit margin in a volatile market; thus, it is expected to continue in the coming period. All in all, the Group wishes to keep up with the turnover growth while improving its resilience against uncertainties in the market to achieve higher profit margins.

## **FINANCIAL REVIEW**

### **Revenue**

The three revenue streams of the Group are the sales of LED backlights, the sales of LED lighting products, and the sourcing business. For the period under review, the sales of the Group's LED backlight products amounted to approximately HK\$650,053,000, an increase of approximately 48.8% from approximately HK\$436,977,000 for the same period in 2020. This was due to the rise in sales of all backlight products, especially for automobile onboard displays, which increased by approximately 60.4% as compared to the same period last year. Sales of the Group's equipment backlight and television backlight products also increased by approximately 12.7% and approximately 53.1%, respectively. The sales of LED lighting products for the period under review significantly increased by approximately 66.6% to approximately HK\$64,360,000 from approximately HK\$38,621,000 in the same period in 2020, as demand for the Group's commercial and public lighting products rose. The Group's sourcing business segment recorded a revenue of approximately HK\$177,980,000 for the period under review, an increase of approximately 33.4% as compared to the same period last year, thanks to the shift of focus to the more lucrative products of memory chips.

### **Gross Profit and Gross Profit Margin**

For the period under review, gross profit from the sales of the Group's current core segments of LED backlight and LED lighting products was HK\$126,898,000, representing a significant increase of approximately 61.5% from approximately HK\$78,561,000 for the corresponding period in 2020, which is in line with the increased revenue. The gross profit margin for these two segments increased mildly by 1.3 percentage points from 16.5% in the first half of 2020 to 17.8% in the period under review. Gross profit and gross profit margin from the sourcing business segment were HK\$3,756,000 and 2.1% (2020: approximately HK\$4,018,000 and 3.0%), respectively. For the period under review, the Group's overall gross profit was approximately HK\$130,654,000, increased by 58.2% from approximately HK\$82,579,000 in the corresponding period in 2020, in line with the increased overall revenue. The overall gross profit margin was 14.6%, increased mildly by 1.0 percentage point from 13.6% in the corresponding period in 2020.

## **Selling and Distribution Expenses**

Labour costs, sales commissions and transportation costs make up the Group's major selling and distribution expenses. For the six months ended 30 June 2021, the Group's selling and distribution expenses were approximately HK\$17,933,000, an increase of 59.6% as compared to approximately HK\$11,239,000 of the corresponding period in 2020, in line with the increased sales volume.

## **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 2021, the Group's administrative expenses was approximately HK\$47,711,000, which increased by 16.6% as compared to approximately HK\$40,921,000 for the first half of 2020, in line with the increased production and sales volume.

## **Other Income**

During the period under review, other income was approximately HK\$10,844,000, representing a decrease of 47.7% in comparison with approximately HK\$20,723,000 of the corresponding period in 2020, mainly due to decrease in 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 and Huizhou Wai Chi Electronics Company Limited ("**Huizhou Wai Chi**"), 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\$4,365,000 (2020: approximately HK\$3,267,000), an increase in line with the rise in sales.

## **Inventories**

As at 30 June 2021, the Group's inventory was approximately HK\$324,193,000, increased by approximately 46.9% compared to approximately HK\$220,710,000 at 31 December 2020. The increase in inventories is part of the Group's strategies to offset the current and anticipated increase in raw material prices by purchasing more materials at a relatively low rate. The expected debut of the memory chip testing and packaging business also contributed to the Group's inventory strategies.



## **Trade Receivables**

As at 30 June 2021, the Group's net trade receivables amounted to approximately HK\$602,799,000 which increased mildly by approximately 6.4% as compared to approximately HK\$566,740,000 as at 31 December 2020.

## **Trade Payables**

As at 30 June 2021, the Group's trade payables amounted to approximately HK\$405,589,000, increased by 37.4% as compared to approximately HK\$295,154,000 as at 31 December 2020, which was attributable to increase of purchase of raw material.

## **Placing of New Shares and Full Use of the Net Proceeds from the Placing**

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.

On 11 November 2020, Wai Chi Huizhou had entered into an agreement (the “**Agreement**”) with Victoria Ultra Business Co., Ltd. to acquire the equipment (the “**Acquisition**”) at a cash consideration (the “**Consideration**”) of approximately USD5.9 million (equivalent to approximately HK\$45.9 million) (as set out in the announcement of the Company dated 11 November 2020). Completion of the Acquisition (the “**Completion**”) took place after the fulfilment of the conditions precedent set out in the Agreement on 31 March 2021. Wai Chi Huizhou paid the cash Consideration in full to Victoria Ultra Business Co., Ltd., and the equipment was delivered to Wai Chi Huizhou in March 2021 and is currently being used for the semiconductor memory chips testing and packing business of the Group. With the Completion, 100% of the Net Proceeds had been used for the funding of the Acquisition.

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2021.

## **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 ended 30 June 2021.

## **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 2020 annual report of the Company issued in March 2021.

## **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 2021. On 25 August 2021, 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 2021 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](http://www.waichiholdings.com) and the Stock Exchange's website at [www.hkexnews.hk](http://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, 25 August 2021

*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.*