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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 2023**

#### **FINANCIAL HIGHLIGHTS**

	<b>For the six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Revenue	<b>857,538</b>	1,112,441
Gross profit	<b>112,740</b>	113,840
Gross profit margin	<b>13.1%</b>	10.2%
Profit for the period attributable to owners of the Company	<b>24,128</b>	32,940
Basic and diluted earnings per share	<b>HK10.98 cents</b>	HK15.19 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 2023 (the “**Period**”), together with the unaudited comparative figures for the same period of 2022 and the unaudited interim condensed consolidated statement of financial position of the Group as at 30 June 2023 together with audited comparative figures as at 31 December 2022.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2023**

	<i>Notes</i>	<b>Six months ended 30 June</b>	
		<b>2023</b> <i>HK\$'000</i> <b>(Unaudited)</b>	<b>2022</b> <i>HK\$'000</i> <b>(Unaudited)</b>
Revenue	4	<b>857,538</b>	1,112,441
Cost of sales		<u><b>(744,798)</b></u>	<u>(998,601)</u>
Gross profit		<b>112,740</b>	113,840
Other income	4	<b>27,671</b>	29,142
Selling and distribution expenses		<b>(16,776)</b>	(12,817)
Administrative expenses		<b>(50,170)</b>	(45,999)
Other gains and losses		–	6,166
Research and development expenses		<b>(30,850)</b>	(36,877)
Finance costs	6	<u><b>(17,610)</b></u>	<u>(21,083)</u>
Profit before tax		<b>25,005</b>	32,372
Income tax (expense) credit	7	<u><b>(290)</b></u>	<u>104</u>
Profit for the period	8	<u><b>24,715</b></u>	<u>32,476</u>
Profit for the period attributable to:			
– Owners of the Company		<b>24,128</b>	32,940
– Non-controlling interests		<u><b>587</b></u>	<u>(464)</u>
		<u><b>24,715</b></u>	<u>32,476</u>
Earnings per share	10		
Basic and diluted ( <i>HK cents</i> )		<u><b>10.98</b></u>	<u>15.19</u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**  
*FOR THE SIX MONTHS ENDED 30 JUNE 2023*

	<b>Six months ended 30 June</b>	
	<b>2023</b> <i>HK\$'000</i> <b>(Unaudited)</b>	<b>2022</b> <i>HK\$'000</i> <b>(Unaudited)</b>
Profit for the period	<b>24,715</b>	32,476
Other comprehensive (expense) income that may be reclassified subsequently to profit or loss:		
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	<b>1,325</b>	–
Exchange differences arising on translation of financial statements of foreign operations	<b>(19,547)</b>	(23,066)
Total comprehensive income for the period	<b><u>6,493</u></b>	<b><u>9,410</u></b>
Total comprehensive income for the period attributable to:		
– Owners of the Company	<b>6,493</b>	9,883
– Non-controlling interests	<b>–</b>	(473)
	<b><u>6,493</u></b>	<b><u>9,410</u></b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

		30 June 2023	31 December 2022
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
<b>Non-current assets</b>			
Property, plant and equipment		321,666	309,002
Right-of-use assets		44,862	46,186
Investment property		24,468	24,700
Financial assets at fair value through profit or loss (“FVTPL”)	11	7,633	7,633
Financial asset at fair value through other comprehensive income (“FVTOCI”)	12	11,692	11,692
Deposit paid for acquisition of property, plant and equipment		5,423	5,597
Deposits with bank		162,690	167,917
Deferred taxation		9,026	9,254
		587,460	581,981
<b>Current assets</b>			
Inventories		190,651	276,763
Trade receivables	13	832,353	749,923
Bills receivables	13	74,727	135,822
Prepayments, deposits and other receivables		166,458	154,594
Derivative financial instrument		–	3,162
Pledged bank deposits		436,544	562,630
Bank balances and cash		195,185	257,912
		1,895,918	2,140,806
<b>Current liabilities</b>			
Trade payables	14	317,706	393,639
Bills payables	14	662,644	938,391
Other payables and accruals	14	68,540	75,004
Contract liabilities		2,484	10,766
Bank and other borrowings		565,701	444,408
Corporate bond		2,085	1,976
Income tax payables		4,055	3,272
Lease liabilities		5,844	4,347
		1,629,059	1,871,803
<b>Net current assets</b>		266,859	269,003
<b>Total assets less current liabilities</b>		854,319	850,984

	<b>30 June 2023 HK\$'000 (Unaudited)</b>	31 December 2022 HK\$'000 (Audited)
<b>Non-current liabilities</b>		
Deferred taxation	368	368
Obligations under finance leases	476	–
Government grants	16,665	17,200
Lease liabilities	3,349	7,015
	<u>20,858</u>	<u>24,583</u>
<b>Net assets</b>	<b><u>833,461</u></b>	<b><u>826,401</u></b>
<b>Capital and reserves</b>		
Share capital	2,197	2,168
Reserves	829,579	823,119
	<u>831,776</u>	<u>825,287</u>
Equity attributable to owners of the Company	831,776	825,287
Non-controlling interests	1,685	1,114
	<u>833,461</u>	<u>826,401</u>
<b>Total equity</b>	<b><u>833,461</u></b>	<b><u>826,401</u></b>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

## 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. In the opinion of the directors of the Company, Rexell Technology Company Limited, a company incorporated in the British Virgin Island, is considered as the parent and ultimate parent company of the Company. Its ultimate controlling party is Mr. Yiu Chi To, who passed away on 28 January 2022.

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 address of 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 memory chips related products sourcing and packing and testing 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 2023 has been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

### 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 2022 except as described below.

#### Application of new and amendments to HKFRSs

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 2023:

HKFRS 17 and related amendments	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Return-Pillar Two Model Rules

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	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(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	698,617	780,139
– LED lighting	51,190	48,761
– Semiconductor memory chips	107,731	283,541
	<u>857,538</u>	<u>1,112,441</u>
<i>Disaggregation of revenue by timing of recognition</i>		
Timing of revenue recognition		
– At a point in time	<u>857,538</u>	<u>1,112,441</u>
<b>Other income</b>		
Bank interest income	13,251	18,264
Exchange gains, net	9,040	5,320
Government grants ( <i>note</i> )	3,097	1,776
Sales of scrapped materials	81	106
Sundry income	2,202	3,676
	<u>27,671</u>	<u>29,142</u>

*Note:* Included in the amount, there are government grants immediately recognised as other income during the six months ended 30 June 2023 of approximately HK\$3,097,000 (six months ended 30 June 2022: approximately HK\$1,776,000) which were received from the PRC government in respect of certain research projects and salaries subsidies, the relevant granting criteria of 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 and packaging and testing business of semiconductor memory chips products, the information reported to the CODM is further categorised 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. Semiconductor memory chips – Provision of packaging and testing services and 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 2023*

	<b>LED backlight HK\$’000 (Unaudited)</b>	<b>LED lighting HK\$’000 (Unaudited)</b>	<b>Semiconductor memory chips HK\$’000 (Unaudited)</b>	<b>Total HK\$’000 (Unaudited)</b>
REVENUE				
External sales	<u>698,617</u>	<u>51,190</u>	<u>107,731</u>	<u>857,538</u>
Segment profit	<u>37,064</u>	<u>2,166</u>	<u>6,888</u>	46,118
Unallocated income				–
Unallocated expenses				(3,503)
Unallocated finance costs				<u>(17,610)</u>
Profit before tax				<u>25,005</u>

*For the six months ended 30 June 2022*

	LED backlight <i>HK\$'000</i> (Unaudited)	LED lighting <i>HK\$'000</i> (Unaudited)	Semiconductor memory chips <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
REVENUE				
External sales	780,139	48,761	283,541	1,112,441
Segment profit	53,979	2,220	1,370	57,569
Unallocated income				27,315
Unallocated expenses				(31,866)
Unallocated finance costs				(20,646)
Profit before tax				32,372

Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' emoluments, bank interest income, net foreign exchange gains (losses), sundry income, certain unallocated finance costs and certain unallocated other gains and losses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

**Segment assets and liabilities**

The following table presents assets and liabilities of the Group's operating segments as at 30 June 2023 and 31 December 2022:

*Segment assets*

	<b>30 June 2023</b> <i>HK\$'000</i> (Unaudited)	31 December 2022 <i>HK\$'000</i> (Audited)
LED backlight	1,242,089	1,263,080
LED lighting	173,175	167,042
Memory chips related product business	157,578	95,090
Total segment assets	1,572,842	1,525,212
Unallocated assets	910,536	1,197,575
Consolidated total assets	2,483,378	2,722,787

### Segment liabilities

	<b>30 June 2023 HK\$'000 (Unaudited)</b>	31 December 2022 HK\$'000 (Audited)
LED backlight	920,278	1,275,548
LED lighting	123,971	105,006
Memory chips	31,418	85,956
Total segment liabilities	1,075,667	1,466,510
Unallocated liabilities	574,250	429,876
Consolidated total liabilities	<b>1,649,917</b>	<b>1,896,386</b>

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 FVTPL and FVTOCI, pledged bank deposits, deposits with bank, bank balances and cash, investment property and certain unallocated other receivables. Assets used jointly by reportable 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, obligation under finance lease, certain unallocated lease liabilities and certain unallocated other payable, accruals. Liabilities for which reportable segments are jointly liable are allocated on the basis of the revenues earned by individual reportable segments.

### Revenue from major products

#### Analysis by type of products

	<b>Six months ended 30 June</b>	
	<b>2023 HK\$'000 (Unaudited)</b>	2022 HK\$'000 (Unaudited)
LED backlight		
– Small dimension	97,232	136,606
– Medium dimension	579,296	623,779
– Large dimension	22,089	19,754
Sub-total	698,617	780,139
LED lighting		
– Indoor lighting	50,795	48,165
– Outdoor lighting	395	596
Sub-total	51,190	48,761
Memory chips related products business	107,731	283,541
Total	<b>857,538</b>	<b>1,112,441</b>

### *Analysis by application of products*

	<b>Six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
LED backlight		
– Automobile displays	<b>603,347</b>	638,595
– Equipment displays	<b>82,951</b>	124,284
– Televisions	<b>12,319</b>	17,260
	<hr/>	<hr/>
Sub-total	<b>698,617</b>	780,139
	<hr/>	<hr/>
LED lighting		
– Commercial lighting	<b>50,795</b>	48,165
– Public lighting	<b>395</b>	596
	<hr/>	<hr/>
Sub-total	<b>51,190</b>	48,761
	<hr/>	<hr/>
Memory chips related products business	<b>107,731</b>	283,541
	<hr/>	<hr/>
Total	<b>857,538</b>	1,112,441
	<hr/> <hr/>	<hr/> <hr/>

### **6. FINANCE COSTS**

	<b>Six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Interest on:		
– Bank and other borrowings	<b>17,169</b>	20,566
– Corporate bond	<b>79</b>	99
– Lease liabilities	<b>362</b>	418
	<hr/>	<hr/>
	<b>17,610</b>	21,083
	<hr/> <hr/>	<hr/> <hr/>

## 7. INCOME TAX (CREDIT) EXPENSE

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current income tax		
PRC Enterprise Income Tax		
– Current period	290	2,124
– Overprovision in prior years	–	(2,228)
	<hr/>	<hr/>
Total income tax expense (credit) for the period	<b>290</b>	<b>(104)</b>
	<hr/> <hr/>	<hr/> <hr/>

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 2023 and 2022.

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 2023 and 2022.

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 which will be expired in 2024 and 2023 respectively. They are entitled to the preferential tax rate of 15% for the six months ended 30 June 2023 and 2022.

\* *The English name is for identification purpose only*

## 8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging:		
Salaries and allowances (excluding directors' emoluments)	111,493	144,038
Retirement benefit scheme contributions (excluding directors)	18,727	12,520
Total staff costs	130,220	156,558
Cost of inventories recognised as expenses (included in cost of sales)	744,798	998,601
Net foreign exchange (gains) losses	(9,040)	(5,320)
Depreciation of property, plant and equipment	24,524	24,712
Depreciation of right-of-use assets	3,175	4,467
Loss (gain) on disposal of property, plant and equipment, net	359	(10,757)
(Reversal of) provision of inventories (included in other gains and losses)	–	2,995
Impairment loss recognised in respect of other receivables (included in other gains and losses)	–	(1,129)

## 9. DIVIDENDS

No dividend was paid or proposed during the six months ended 30 June 2023, nor has any dividend been proposed since the end of the interim period (six months ended 30 June 2022: nil).

## 10. EARNINGS PER SHARE

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings for the purpose of basic and diluted earnings per share	24,128	32,940
Number of ordinary shares for the purpose of basic and diluted earnings per share	219,725,000	216,825,000
Basic and diluted earnings per share (HK cents per share)	10.98	15.19

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 2023 and 2022.

## 11. FINANCIAL ASSETS AT FVTPL

	<b>30 June 2023 HK\$'000 (Unaudited)</b>	31 December 2022 HK\$'000 (Audited)
Investments in a life insurance policy	<b>7,633</b>	7,633

In September 2021, the Group's subsidiary, Wai Chi Opto Technology Limited ("Wai Chi Opto"), entered into a life insurance policy with an insurance company to insure Mr. Chen Chung Po, 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\$1,750,000 (equivalent to approximately HK\$13,650,000). The Company was required to pay an one-off premium payment of approximately US\$602,000 (equivalent to approximately HK\$4,696,000). The Company 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 and a specified amount of surrender charge if the withdrawal is made before the specified policy year.

In February 2020, 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 was Wai Chi Opto and the total insured sum was 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, 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 ASSET AT FVTOCI

	<b>30 June 2023 HK\$'000 (Unaudited)</b>	31 December 2022 HK\$'000 (Audited)
Unlisted equity investment	<b>11,692</b>	11,692

The unlisted equity investment is issued by a private entity incorporated in Taiwan.

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

### 13. TRADE AND BILLS RECEIVABLES

	<b>30 June 2023 HK\$'000 (Unaudited)</b>	31 December 2022 HK\$'000 (Audited)
Receivables at amortised cost comprise:		
Trade receivables	<b>838,449</b>	775,140
Less: allowance for impairment of trade receivable	<b>(6,096)</b>	(25,217)
	<b>832,353</b>	749,923
Bills receivables	<b>74,727</b>	135,822
Total trade and bill receivables	<b>907,080</b>	885,745

As at 30 June 2023, the gross amount of trade receivables arising from contracts with customers amounted to approximately HK\$838,449,000 (31 December 2022: approximately HK\$775,140,000).

The Group allows an average credit period of 15 to 180 days (31 December 2022: 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 2023 HK\$'000 (Unaudited)</b>	31 December 2022 HK\$'000 (Audited)
0 to 90 days	<b>658,719</b>	708,580
91 to 180 days	<b>90,604</b>	36,901
181 to 365 days	<b>83,030</b>	4,442
Over 1 year	<b>–</b>	–
	<b>832,353</b>	749,923

All the bills receivables are aged within 365 days.



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

	<b>30 June 2023 HK\$'000 (Unaudited)</b>	31 December 2022 HK\$'000 (Audited)
Trade payables ( <i>note</i> )	<b>317,706</b>	393,639
Bills payables ( <i>note</i> )	<b>662,644</b>	938,391
	<b>980,350</b>	1,332,030
Other payables	<b>45,045</b>	40,956
Accrued expenses	<b>19,503</b>	31,477
Value added tax payables	<b>3,992</b>	2,571
	<b>68,540</b>	75,004
	<b>1,048,890</b>	1,407,034

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

	<b>30 June 2023 HK\$'000 (Unaudited)</b>	31 December 2022 HK\$'000 (Audited)
0 to 90 days	<b>241,343</b>	319,400
91 to 180 days	<b>63,991</b>	69,379
181 to 365 days	<b>10,357</b>	2,969
Over 365 days	<b>2,015</b>	1,891
	<b>317,706</b>	393,639

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 180 days.

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY REVIEW

The first half of 2023 witnessed a turbulent global economic recovery, as aggressive rises in central bank policy rates to fight inflation triggered widespread concerns of a global recession, particularly impacting advanced economies. Though the world's major economies proved their resilience in the first half of 2023, according to International Monetary Fund, inflation is expected to decline gradually, with a return to target levels likely after 2025.

In China, despite a 5.5% year-on-year growth in the half-year GDP, the effects of economic recovery are yet to benefit the manufacturing sector, while concerns over the market affected consumer confidence. The consumer price index (“CPI”) for June remained flat, below expectations and being the lowest since February 2021. In the previous month of May, China's CPI increased by 0.2% year on year, and in April, it rose by 0.1%, both lower than expected. Meanwhile, the producer price index (“PPI”) dropped by 5.4% year on year in June, marking the ninth consecutive month of decline, and the urban unemployment rate for 16 to 24-year-olds rose to 21.3% in June amid an influx of fresh graduates into the labour market.

In the optoelectronics industry, post-pandemic turbulence was evident. Samsung Electronics' April to June 2023 financial report showed a 96% decrease in operating profit compared to the previous year, primarily due to sluggish chip demand and ongoing oversupply. Furthermore, the display panel market faced challenges, with declining sales of notebooks, tablets, and TVs affecting the demand for mid-to-large-sized panels. While OLED panel sales units increased, profit margins suffered due to price declines and the need for constant production upgrades to meet evolving trends.

Conversely, the automobile onboard display market displayed promising developments. Cars are evolving from mere transportation means to vital components of daily life, driving demand for enhanced passenger experiences. Intelligent cabins with display screens as primary interactive interfaces present a significant market opportunity. The automobile onboard display market is shifting towards larger, more diverse, customised, and high-definition screens. Notably, several large-sized onboard display screens and mini LED screens have already been integrated into vehicles.

In the midst of the intelligent automotive revolution, LED manufacturers find opportunities in the growing automobile onboard display backlight market. New market entrants initially disrupted industry norms and profit margins, but the stringent requirements for automotive modules in terms of safety set high barriers for entry. Some manufacturers whose product quality did not meet the standards have already incurred economic losses. Faced with operational challenges, many inexperienced producers of automobile onboard display backlights are exiting the market. As the global and domestic economies seek stabilisation, manufacturers must adapt to the evolving automotive industry landscape, focusing on innovative solutions and quality assurance to remain competitive.

## **BUSINESS REVIEW**

### **Overview**

For the six months ended 30 June 2023 (the “**period under review**”), the Group maintained relative stability for its core business. In the dynamic landscape of its ever-changing industry, the Group remains vigilant and resilient, actively seizing business opportunities while continually focusing on enhancing the quality of its products. Through a steadfast commitment to quality assurance, it effectively maintains its reputation as a reliable and trusted player in the market.

The Group’s enterprise resource planning (“**ERP**”) system effectively controls costs through timely monitoring, seamless information exchange, and efficient data management. This has boosted financial management and work efficiency with increased process automation during manufacturing.

The total revenue for the period under review was approximately HK\$857,538,000, representing a decrease of approximately 22.9% compared to approximately HK\$1,112,441,000 for the corresponding period in 2022, mainly due to the decreased revenue from the semiconductor memory chip business, as a result of the Group’s strategic response to the current unfavourable market conditions. Revenue from the core sector of LED business was approximately HK\$749,807,000, representing a decrease of approximately 9.5% compared to that of the corresponding period in 2022. Revenue from the sales of LED backlight products was approximately HK\$698,617,000 (six months ended 30 June 2022: approximately HK\$780,139,000), representing a decrease of approximately 10.4%, mainly due to the decreased sales from industrial equipment display backlights and TV backlights. Revenue from the sales of LED lighting products was approximately HK\$51,190,000 (six months ended 30 June 2022: approximately HK\$48,761,000), representing an increase of approximately 5.0%, driven by the increased sales of commercial lighting products. The revenue from the semiconductor memory chip business was approximately HK\$107,731,000, presenting a decrease of 62.0% compared to the approximately HK\$283,541,000 from the corresponding period last year, resulting from the Group’s strategic response to the current significant cyclical decline in the chip demand in the market.

### **LED Backlight Business**

The three types of the Group’s LED backlight products are used for: 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\$603,347,000, HK\$12,319,000, and HK\$82,951,000, respectively.

Amid an influx of competitors into the market, the automobile onboard display backlight sales encountered some challenges, but the demand for the Group's quality goods remained stable during the period under review. It continued to be the largest contributor to the Group's LED backlight business during the period under review, representing approximately 86.4% of total LED backlight product sales (six months ended 30 June 2022: approximately 81.9%). Moreover, as the onboard display modules consolidate many functionalities of a vehicle, technical challenges have been affecting the profitability of display manufacturers and, thus, the backlight providers like the Group. Such situation was notably improved lately, and the Group's gross profit margin in this segment increased from 13.7% for the corresponding period last year to 15.2% for the period under review.

During the first half of 2023, as the rival technologies continued to mature and the market for LCD TVs continued to shrink, the sales of the Group's television display backlights further decreased to approximately HK\$12,319,000 (six months ended 30 June 2022: approximately HK\$17,260,000).

As for the backlights for other industrial equipment displays, the Group recorded a decrease of approximately 33.3% in revenue for the six months ended 30 June 2023, amounting to approximately HK\$82,951,000 (six months ended 30 June 2022: approximately HK\$124,284,000).

### **Lighting Service Business**

The Group's LED lighting service business is classified into two categories, including public lighting and commercial lighting. The Group provides various services including product sales, lighting solutions design, installation, and maintenance etc. During the period under review, revenues from public lighting and commercial lighting were approximately HK\$395,000 and HK\$50,795,000, respectively (six months ended 30 June 2022: approximately HK\$596,000 and HK\$48,165,000).

During the period under review, the total revenue from light services amounted to HK\$51,190,000, increasing approximately 5.0% compared to the corresponding period last year. Such increase was mainly due to the Group's efforts in developing opportunities in commercial and education lighting services in the PRC while maintaining good working relationships with overseas clients.

### **Semiconductor Memory Chip Business**

After years of thorough planning and careful preparation, the segment of the semiconductor memory chip business was launched in 2022. It mainly includes sourcing memory-chip-related products and the packaging and testing of semiconductor wafers. Facing pressure from the global chip oversupply together with the domestic consumer market slowdown, the Group conducted this line of business prudently during the period under review.

During the period under review, the segment contributed revenue of approximately HK\$107,731,000 (six months ended 30 June 2022: approximately HK\$283,541,000). The revenue and profit margin of this business segment are significantly influenced by industry trends. Currently, the market demand for memory chips and related products is on a cyclic low period, as such, the Group took a relatively inactive approach in the sales of this segment. The Group will closely monitor market dynamics and make strategic adjustments when appropriate.

## **QUALITY CONTROL**

The Group's unwavering commitment to quality control has earned it a loyal customer base. Stringent quality control procedures are in place, ensuring the excellence of products at every stage from design to manufacturing and storage. Thorough testing of product samples occurs before mass production, and new suppliers and raw materials undergo a rigorous selection and approval process. This is especially crucial in the automobile onboard display backlight segment. Due to the stringent safety requirements in the automotive sector, strict product quality standards are imposed on onboard modules. In order to meet these high demands, the Group has made significant efforts in quality control for this segment. Leveraging the Group's technological advantages, it has earned a reputation for delivering exceptional quality, fostering positive interactions with clients and other industry players, and laying a solid foundation for future growth.

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**

Recognising the immense value of Research and Development (“**R&D**”) capabilities, the Group has become an agile and sharp industry player in this field. With consumers seeking intelligence, diversity, and integration in tech-related products, market research becomes vital to comprehend evolving customer needs and preferences. The R&D department not only keeps the Group relevant in market trends and retains customer loyalty but also empowers the Group to proactively identify niche markets that offer profitable opportunities. By staying informed of market trends and technological advances, the Group remains prepared for emerging possibilities and strives to seize optimal business deals.

The Group's R&D centre is located in its 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 functionality 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 at 30 June 2023, the Group held 258 patents registered in the PRC. Looking forward, the Group aims to enhance its R&D centre and talent pool, ensuring preparedness for emerging opportunities and maximizing potential business prospects.

## **PROSPECTS**

Despite concerns over a global economic downturn, the European and American economies showed resilience in the first half of 2023, surpassing market expectations. In China, post-pandemic improvements led to economic recovery, with consumer demand poised for a rebound, setting the stage for sustained growth.

Within this stabilising environment, the Chinese automotive industry, particularly the new energy vehicle segment, is expected to thrive, supported by favourable policies. Advancing automotive technology drives demand for diversified onboard display products, with the average number of screens per vehicle projected to rise, offering new growth opportunities. Additionally, China's adoption of the "Performance and Installation Requirements of Indirect Vision Devices for Motor Vehicles (機動車輛間接視野裝置性能和安裝要求)" on July 1, 2023, opens new opportunities for electronic camera monitor systems ("CMS"). CMS using camera-monitor combinations instead of traditional optical mirrors have three cameras on the vehicle, each with a corresponding display. This development opens new growth prospects in the automobile onboard display market.

In terms of technology, mini LED backlight is gaining traction in the automotive display market. Despite not meeting growth expectations in 2022, the cost of vehicle-mounted mini LED backlit displays is expected to decrease significantly due to lower material costs and iterative upgrades in technology solutions. A Sigmaintell analyst predicts that the shipment of mini LED automobile onboard display will reach around 800,000 units in 2023, more than five times the previous year, and is anticipated to exceed 4 million units by 2025.

The Group's mini LED and local dimming LED products are expected to enter mass production in the second half of the year, leading to a substantial increase in the penetration rate of these high-end products. The adjusted product structure may have a controllable short-term impact on the Group's gross margin. However, with the application of new technologies, the value of individual products is expected to rise, and the Group remains confident in its long-term profitability prospects.



Recognising the Group's outstanding R&D capacities and business potential, one of its subsidiaries was awarded the title of "Specialized and New 'Little Giant' Enterprise" (專精特新「小巨人」企業) by the Industrial and Information Technology Department of Guangdong Province (廣東省工業信息廳) in July, providing opportunities for policy support and financial subsidies.

With favourable market trends, policy support, and technological advancements, the automobile onboard display backlight market presents significant growth prospects. Moreover, there is a growing demand for regional development in the automotive-related industry. The Group plans to explore opportunities in the East and Southwest regions of China to enhance production capacity and expand its business sources.

In the semiconductor sector, AI intelligence enhances computing power, and is expected to drive a cyclical growth in demand for memory chips. On the other hand, industry analysts indicate that the price declines, which were pronounced in the previous quarters, have begun to slow down. It is expected that the market will reach its bottom around the third quarter of this year, signalling a potential rebound in global semiconductor memory chips demand, presenting a recovery opportunity for the Group's semiconductor business.

Looking forward, the Group stands poised to capitalise on the flourishing automobile onboard display backlight market, leveraging its technological edge and adaptability to meet customer demands. With strategic expansions in key regions and a commitment to R&D excellence, the Group remains confident in its ability to seize emerging opportunities and achieve sustainable business development.

## **FINANCIAL REVIEW**

### **Revenue**

For the six months ended 30 June 2023, the sources of revenue for the Group were the sales of LED backlights, LED lighting services, and semiconductor memory chips business. The Group's LED backlight product sales were approximately HK\$698,617,000, representing a decrease of approximately 10.4% from approximately HK\$780,139,000, for the six months ended 30 June 2022, which was mainly attributable to the decrease in sales of backlights for industrial equipment displays and TV. The sales of the Group's LED lighting products for the period under review increased by approximately 5.0% to approximately HK\$51,190,000 from approximately HK\$48,761,000 in the corresponding period in 2022 driven by an increase in revenue from commercial lighting segments. The revenue from the Group's semiconductor memory chips business was approximately HK\$107,731,000, decreasing by approximately 62.0% compared to approximately HK\$283,541,000 from the corresponding period last year, in line with the market trends.

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

For the period under review, the Group's overall gross profit was approximately HK\$112,740,000 decreased by approximately 1.0% from approximately HK\$113,840,000 in the corresponding period in 2022. The overall gross profit margin was approximately 13.1%, increased by approximately 2.9 percentage points from approximately 10.2% in the corresponding period in 2022. Gross profit from the sales of the Group's LED segments of backlight and lighting products was approximately HK\$110,150,000, representing an increase of approximately 1.3% from approximately HK\$108,760,000 for the corresponding period in 2022. The gross profit margin for these two segments increased by approximately 1.6 percentage points from approximately 13.1% in the first half of 2022 to approximately 14.7% in the period under review. Gross profit from the semiconductor memory chip business was approximately HK\$2,590,000 (six months ended 30 June 2022: approximately HK\$5,080,000). The gross profit margin for the semiconductor memory chip business was approximately 2.4% (six months ended 30 June 2022: approximately 1.8%). The overall drop in gross profit is mainly due to the significant decrease from the semiconductor segment, which was affected by its market trends.

## **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 2023, the Group's selling and distribution expenses were approximately HK\$16,776,000, representing an increase of approximately 30.9% as compared to approximately HK\$12,817,000 in the corresponding period in 2022. The increase in selling and distribution expenses was mainly attributable to the effects of sales commissions and certain technical issues arising from the payment terms for a few long-term production projects, which are expected to be improved in the future.

## **Administrative Expenses**

Administrative expenses refer to the general expenses incurred in offices and factories. The Group focuses on effective management by means of resource consolidation in the Shenzhen and Huizhou factories. For the six months ended 30 June 2023, the Group's administrative expenses were approximately HK\$81,020,000, which decreased slightly by approximately 2.2% as compared to approximately HK\$82,876,000 for the first half of 2022.

## **Other Income**

During the period under review, other income was approximately HK\$27,671,000, representing a slight decrease of approximately 5.0% in comparison with approximately HK\$29,142,000 for the corresponding period in 2022, mainly due to the decrease in bank interest income.



## **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\$290,000 (six months ended 30 June 2022: tax credit of approximately HK\$104,000).

## **Inventories**

As at 30 June 2023, the Group's inventory was approximately HK\$190,651,000, decreased by approximately 31.1% compared to approximately HK\$276,763,000 as at 31 December 2022. The decrease in inventories is a result of 1) the Group's change of tactic, as it strategically purchased more materials in the previous year to offset an anticipated price increase and, 2) the decrease in inventories kept for the semi-conductor memory chips business.

## **Trade Receivables**

As at 30 June 2023, the Group's net trade receivables amounted to approximately HK\$832,353,000 which increased mildly by approximately 11.0% as compared to approximately HK\$749,923,000 as at 31 December 2022. This was mainly attributable to some adjustments in payment terms made with the Group's clients.

## **Trade Payables**

As at 30 June 2023, the Group's trade payables amounted to approximately HK\$317,706,000, which decreased by 19.3% as compared to approximately HK\$393,639,000 as at 31 December 2022, which was attributable to the decrease of the purchase of raw materials.

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2023.

## **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 2023.

## **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 (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.

Section C.2.1. of the CG Code stipulates that the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. Former Chairman of the Company, Mr. Yiu Chi To, passed away on 28 January 2022, currently the role of the chairman of the Company is performed by Chief Executive Officer, Mr. Chen Chung Po. Besides the above, the Company has complied with all the other applicable code provisions of the CG Code.

All other information on the Code has been disclosed in the corporate governance report contained in the 2022 annual report of the Company issued in April 2023.

## **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 2023. On 25 August 2023, 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 2023 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**  
**Chen Chung Po**  
*Chairman*

Hong Kong, 25 August 2023

*As at the date of this announcement, the executive Directors of the Company are Mr. Chen Chung Po (Chairman and Chief Executive Officer), Ms. Luk Fong, 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, Mr. Ho Chi Wai and Mr. Yu Zhenyu.*