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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHTS

	2023	2022
	HK\$'000	HK\$'000
Revenue	1,985,768	2,216,352
Gross profit	268,601	262,691
Gross profit margin	13.5%	11.9%
Profit for the year attributable to owners of the Company	36,417	59,912
Basic earnings per share	HK16.8 cents	HK27.6 cents
Diluted earnings per share	HK16.6 cents	HK27.6 cents

FINAL RESULTS

The Board of Directors (the “**Board**”) of Wai Chi Holdings Company Limited (the “**Company**”) is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (hereinafter collectively referred to as the “**Group**”) for the year ended 31 December 2023, together with comparative figures for the year ended 31 December 2022, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Revenue	4	1,985,768	2,216,352
Cost of sales		<u>(1,717,167)</u>	<u>(1,953,661)</u>
Gross profit		268,601	262,691
Other income	4	72,543	52,335
Other gains and (losses)	6	(33,676)	14,838
Selling and distribution expenses		(37,880)	(36,009)
Administrative expenses		(115,673)	(108,449)
Research and development expenses		(77,172)	(86,044)
Finance costs	7	<u>(37,848)</u>	<u>(40,189)</u>
Profit before tax		38,895	59,173
Income tax expenses	8	<u>(2,164)</u>	<u>(377)</u>
Profit for the year	9	<u>36,731</u>	<u>58,796</u>
Profit (loss) for the year attributable to:			
– Owners of the Company		36,417	59,912
– Non-controlling interests		<u>314</u>	<u>(1,116)</u>
		<u>36,731</u>	<u>58,796</u>
		<i>HK\$</i>	<i>HK\$</i>
Earnings per share			
Basic	15	<u>0.168</u>	<u>0.276</u>
Diluted	15	<u>0.166</u>	<u>0.276</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Profit for the year	36,731	58,796
Other comprehensive income that will not be reclassified subsequently to profit or loss:		
Fair value gain on investment in equity instrument designated at fair value through other comprehensive income	5,627	1,325
Other comprehensive expenses that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of financial statements of foreign operations	(2,016)	(55,725)
Release of exchange reserve upon disposal of a subsidiary	(4,820)	–
Other comprehensive expense for the year	(1,209)	(54,400)
Total comprehensive income for the year	<u>35,522</u>	<u>4,396</u>
Total comprehensive income (expenses) for the year attributable to:		
– Owners of the Company	34,951	4,851
– Non-controlling interests	571	(455)
	<u>35,522</u>	<u>4,396</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		331,093	309,002
Right-of-use assets		27,435	46,186
Investment property		23,700	24,700
Financial assets at fair value through profit or loss (“FVTPL”)		7,809	7,633
Financial asset at fair value through other comprehensive income (“FVTOCI”)		17,319	11,692
Deposit paid for acquisition of property, plant and equipment		–	5,597
Deposits with bank		–	167,917
Deferred taxation assets		11,927	9,254
		419,283	581,981
Current assets			
Inventories	10	265,803	276,763
Trade receivables	11	880,858	749,923
Bills receivables	11	110,769	135,822
Prepayments, deposits and other receivables	12	71,785	154,594
Derivative financial instrument		–	3,162
Amounts due from a related party	13	7,614	–
Income tax recoverables		1,694	–
Pledged bank deposits		283,709	562,630
Bank balances and cash		357,208	257,912
		1,979,440	2,140,806
Current liabilities			
Trade payables	14	539,744	393,639
Bills payables	14	637,557	938,391
Other payables and accruals	14	67,215	75,004
Contract liabilities		993	10,766
Bank and other borrowings		271,400	444,408
Corporate bond		–	1,976
Income tax payables		5,372	3,272
Lease liabilities		4,165	4,347
		1,526,446	1,871,803

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Net current assets	<u>452,994</u>	<u>269,003</u>
Total assets less current liabilities	<u>872,277</u>	<u>850,984</u>
Non-current liabilities		
Deferred taxation liabilities	390	368
Government grants	508	17,200
Lease liabilities	<u>3,175</u>	<u>7,015</u>
	<u>4,073</u>	<u>24,583</u>
Net assets	<u><u>868,204</u></u>	<u><u>826,401</u></u>
Capital and reserves		
Share capital	2,197	2,168
Reserves	<u>864,322</u>	<u>823,119</u>
Equity attributable to owners of the Company	<u>866,519</u>	<u>825,287</u>
Non-controlling interests	<u>1,685</u>	<u>1,114</u>
Total equity	<u><u>868,204</u></u>	<u><u>826,401</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 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 Islands, is considered as the parent and ultimate parent company of the Company. Its ultimate controlling party is Ms. Luk Fong.

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 trading of high-tech electronic components and products.

The functional currency of the Company and the subsidiaries incorporated in Hong Kong are Hong Kong dollars (“**HK\$**”) while that of the subsidiaries established in the PRC are Renminbi (“**RMB**”). For the purpose of presenting the consolidated financial statements, the Company and its subsidiaries (hereinafter collectively referred to as the “**Group**”) adopted HK\$ as its presentation currency.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

In the current year, the Group has applied, for the first time, the following new and amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) which are effective for the Group’s financial year beginning 1 January 2023:

HKFRS 17 (including the October 2020 and February 2022 amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimate
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendment to HKAS 12	International Tax Reform – Pillar Two Model Rules

Except as described below, the application of the new and amendments to HKFRSs in the current year 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 consolidated financial statements.

Impact on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 – Disclosure of Accounting Policies

The amendments to HKAS 1 and HKFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The application of the amendments has had no material impact on the Group’s financial performance and positions, but has affected the disclosures of accounting policies.

Impact on application of Amendments to HKAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments to HKAS 12 narrow the scope of the initial recognition exemption of deferred tax liabilities and deferred tax assets so that it no longer applies to transactions that, on initial recognition, give to equal taxable and deductible temporary differences, such as leases and decommissioning liabilities. Therefore, entities are required to recognise a deferred tax assets (provided that sufficient taxable profit is available) and a deferred tax liability for temporary difference arising from these transactions. The amendments shall be applied to transactions related leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained earnings at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

The amendments had no material impact on the consolidated financial statements of the Group.

Amendments to HKFRSs issued but not yet effective

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

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ¹
Amendments to HKAS 1	Non-current Liabilities with Covenants ²
Amendments to HKAS 1	Non-current Liabilities with Covenants ¹
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ¹
Amendments to HKAS 21	Lack of Exchangeability ²

¹ Effective for annual periods beginning on or after 1 January 2024.

² Effective for annual periods beginning on or after 1 January 2025.

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

The directors of the Company anticipate that, except as described below, the application of the amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020); Amendments to HKAS 1 – Non-current Liabilities with Covenants

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current issued in 2020 (the “**2020 Amendments**”) clarify the requirements on determining if a liability is current or non-current, in particular the determination over whether an entity has the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments specify that an entity’s right to defer settlement must exist at the end of the reporting period. Classification is unaffected by management’s intentions or expectations about whether the entity will exercise its right to defer settlement. The amendments also clarify the classification of liabilities that will or may be settled by issuing an entity’s own equity instruments.

Amendments to HKAS 1 Non-current Liabilities with Covenants issued in 2022 (the “**2022 Amendments**”) further clarify how an entity determine the current or non-current classification of a liability when its right to defer the settlement is subject to compliance with covenants.

The amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within twelve months.

The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. However, an entity that applies the 2020 Amendments early is also required to apply the 2022 Amendments, and vice versa.

Based on the Group’s outstanding liabilities as at 31 December 2023, the application of the amendments will not result in change in the classification of the Group’s liabilities.

3. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment property, financial assets at fair value through profit or loss, financial asset at fair value through other comprehensive income and derivative financial instrument, that are measured at fair values at the end of each reporting period.

Historical cost is generally based on fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

4. REVENUE AND OTHER INCOME

Revenue represented revenue arising on sales of goods excludes discounts and sales related taxes for the year. An analysis of the Group's revenue for the year is as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products lines		
Sales of goods		
LED backlight	1,656,359	1,620,565
LED lighting	120,442	91,470
Semiconductor memory chips	208,967	504,317
	<u>1,985,768</u>	<u>2,216,352</u>

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Disaggregation of revenue from contracts with customers by timing of recognition		
Timing of revenue recognition		
At a point in time	<u>1,985,768</u>	<u>2,216,352</u>

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Other income		
Bank interest income	29,162	34,815
Government grants	37,913	10,981
Sales of scrapped materials	2,035	1,995
Rental income	1,179	1,361
Sundry income	2,254	3,183
	<u>72,543</u>	<u>52,335</u>

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 delivered. In addition, for both LED backlight and LED lighting operations and packaging and testing services and sourcing business of high-tech electronic components and 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 year ended 31 December 2023

	LED backlight HK\$’000	LED lighting HK\$’000	Semiconductor memory chips HK\$’000	Total HK\$’000
REVENUE				
External sales	<u>1,656,359</u>	<u>120,442</u>	<u>208,967</u>	<u>1,985,768</u>
Segment profit	<u>67,212</u>	<u>2,301</u>	<u>465</u>	<u>69,978</u>
Unallocated income				<u>37,068</u>
Unallocated expenses				<u>(30,722)</u>
Unallocated finance costs				<u>(37,429)</u>
Profit before tax				<u>38,895</u>

For the year ended 31 December 2022

	LED backlight <i>HK\$'000</i>	LED lighting <i>HK\$'000</i>	Semiconductor memory chips <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE				
External sales	<u>1,620,565</u>	<u>91,470</u>	<u>504,317</u>	<u>2,216,352</u>
Segment profit	<u>101,437</u>	<u>1,844</u>	<u>2,666</u>	105,947
Unallocated income				51,596
Unallocated expenses				(58,994)
Unallocated finance costs				<u>(39,376)</u>
Profit before tax				<u>59,173</u>

Analysis by type of products

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
LED backlight		
– Small dimension	192,504	254,913
– Medium dimension	1,413,067	1,320,540
– Large dimension	50,788	45,112
Sub-total	<u>1,656,359</u>	<u>1,620,565</u>
LED lighting		
– Indoor lighting	118,616	90,565
– Outdoor lighting	1,826	905
Sub-total	<u>120,442</u>	<u>91,470</u>
Semiconductor memory chips	<u>208,967</u>	<u>504,317</u>
Total	<u>1,985,768</u>	<u>2,216,352</u>

Analysis by application of products

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
LED backlight		
– Automobile displays	1,491,407	1,350,820
– Equipment displays	140,193	232,434
– Televisions	24,759	37,311
	<hr/>	<hr/>
Sub-total	1,656,359	1,620,565
	<hr/>	<hr/>
LED lighting		
– Commercial lighting	118,616	90,565
– Public lighting	1,826	905
	<hr/>	<hr/>
Sub-total	120,442	91,470
	<hr/>	<hr/>
Semiconductor memory chips	208,967	504,317
	<hr/>	<hr/>
Total	1,985,768	2,216,352
	<hr/> <hr/>	<hr/> <hr/>

6. OTHER GAINS AND (LOSSES)

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Provision of inventories (<i>Note a</i>)	(18,226)	(7,196)
Reversal of provision of inventories (<i>Note b</i>)	2,251	13,713
(Provision and write-off)/reversal of impairment of trade and other receivables and prepayments, net	(20,975)	308
Impairment loss recognised on construction in progress	–	(2,624)
Net foreign exchange gains	4,297	8,920
Gain on fair value changes of derivative financial instrument	–	3,162
Loss on fair value changes of investment property	(1,000)	(1,600)
Loss on disposal of a subsidiary	(199)	–
Gain on fair value changes of financial assets at FVTPL	176	155
	<hr/>	<hr/>
	(33,676)	14,838
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (a) During the year ended 31 December 2023, provision of inventories of approximately HK\$18,226,000 (2022: HK\$7,196,000) was made for write-down of obsolete inventories that are no longer suitable for use in production or saleable in the market.
- (b) During the year ended 31 December 2023, a reversal of provision of HK\$2,251,000 (2022: HK\$13,713,000) was made due to the sell-out of inventories written off in previous years.

7. FINANCE COSTS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Interest on:		
– Bank and other borrowings	25,156	18,891
– Corporate bond	123	200
– Lease liabilities	419	813
– Bills payables	12,150	20,285
	<u>37,848</u>	<u>40,189</u>

8. INCOME TAX EXPENSES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Current income tax		
Hong Kong Profits Tax		
– Current year	347	45
PRC Enterprise Income Tax		
– Current year	4,545	2,211
	<u>4,892</u>	<u>2,256</u>
Deferred taxation	<u>(2,728)</u>	<u>(1,879)</u>
Income tax expense	<u>2,164</u>	<u>377</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.

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK\$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. For the year ended 31 December 2023 and 2022, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other Group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25% for the year ended 31 December 2023 (2022: 25%).

Pursuant to the relevant laws and regulations in the PRC, the Group’s subsidiaries, Wai Chi Opto Technology (Shenzhen) Limited* (偉志光電(深圳)有限公司) and Huizhou Wai Chi Electronics Company Limited* (惠州偉志電子有限公司), were accredited as high-tech enterprises which will be expired in 2024 and 2023 respectively. They are entitled to the preferential tax rate of 15% for both years.

9. PROFIT FOR THE YEAR

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Profit for the year has been arrived at after charging:		
Directors' and Chief Executive's emoluments	9,158	5,160
Salaries and allowances (excluding Directors and Chief Executive of the Company)	282,258	264,383
Retirement benefits schemes contributions (excluding Directors and Chief Executive of the Company)	28,986	22,431
Share-based payment expenses (excluding Directors and Chief Executive of the Company)	1,346	1,142
	<u>321,748</u>	<u>293,116</u>
Total staff costs		
Auditor's remuneration	1,200	1,200
Cost of inventories recognised as expenses (included in cost of sales) (<i>Note a</i>)	1,628,336	1,852,630
Research and development costs recognised as expense (<i>Note b</i>)	77,172	86,044
Depreciation of property, plant and equipment	49,430	53,262
Depreciation of right-of-use-assets	4,718	6,748
Loss on disposal of property, plant and equipment	424	9,366
Loss on write-off of property, plant and equipment	1,200	1,390
Lease expenses for short-term leases	2,301	1,197
	<u><u>2,168,735</u></u>	<u><u>2,143,983</u></u>

Notes:

- (a) Cost of inventories recognised as expenses included depreciation of property, plant and equipment, staff costs and net provision of inventories of HK\$30,011,000 (2022: HK\$29,630,000), HK\$193,477,000 (2022: HK\$195,836,000) and HK\$15,975,000 (2022: Net reversal of provision of HK\$6,517,000) respectively. The amounts were also included in the respective amounts disclosed above.
- (b) Research and development costs recognised as expense included staff costs of HK\$29,938,000 (2022: HK\$31,051,000). The amounts were also included in the respective amount disclosed above.

10. INVENTORIES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Raw materials	20,979	43,537
Work-in-progress	86,105	79,191
Finished goods	158,719	154,035
	<u>265,803</u>	<u>276,763</u>

11. TRADE AND BILLS RECEIVABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Receivables at amortised cost comprise:		
Trade receivables	890,181	775,140
Less: allowance for impairment of trade receivables	<u>(9,323)</u>	<u>(25,217)</u>
	880,858	749,923
Bills receivables	<u>110,769</u>	<u>135,822</u>
Total trade and bills receivables	<u>991,627</u>	<u>885,745</u>

As at 31 December 2023, the gross amount of trade receivables arising from contracts with customers amounted to HK\$890,181,000 (2022: HK\$775,140,000).

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0 to 90 days	810,416	708,580
91 to 180 days	18,825	36,901
181 to 365 days	51,617	4,442
Over 365 days	<u>–</u>	<u>–</u>
	<u>880,858</u>	<u>749,923</u>

HK\$70,442,000 (2022: HK\$41,343,000) has been past due 90 days or more and is not considered as in default due to the good repayment records for those customers, continuous business with the Group and/or other reasonable and supportable information.

All the bills receivables are aged within 180 days (2022: 180 days).

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Deposits and other receivables (<i>Note</i>)	56,181	98,630
Less: allowance for impairment of other receivables	<u>(11,740)</u>	<u>(10,295)</u>
	44,441	88,335
Value added tax receivables	18,175	3,521
Prepayments	<u>9,169</u>	<u>62,738</u>
	<u>71,785</u>	<u>154,594</u>

Note: Included in Deposits and other receivables amounted to approximately HK\$13,118,000 (2022: HK\$39,890,000) is represented interest receivables.

13. AMOUNTS DUE FROM A RELATED PARTY

On 22 December 2023, the Company has entered into the equity interest transfer agreement with the transferee, which is directly wholly owned by the Company's ultimate controlling shareholder, pursuant to which the Company transferred 100% of its equity interests in Sanxia Wai Chi Opto Technology (Yichang) Limited to the transferee at the consideration of RMB 6.90 million (equivalent to approximately HK\$7.61 million) that shall be payable in cash within 90 days from the date of the equity interest transfer agreement.

14. TRADE, BILLS AND OTHER PAYABLES AND ACCRUALS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade payables (<i>Note a</i>)	539,744	393,639
Bills payables (<i>Note a</i>)	637,557	938,391
	<u>1,177,301</u>	<u>1,332,030</u>
Other payables		
– Others	36,087	40,956
Accrued expenses	31,128	31,477
Value added tax payables	–	2,571
	<u>67,215</u>	<u>75,004</u>
Total trade and other payables	<u><u>1,244,516</u></u>	<u><u>1,407,034</u></u>

Note:

- (a) The following is an aged analysis of trade payables presented based on the invoice dates at the end of the reporting period is as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0 to 90 days	450,958	319,400
91 to 180 days	71,885	69,379
181 to 365 days	7,991	2,969
Over 365 days	8,910	1,891
	<u>539,744</u>	<u>393,639</u>

The average credit period on purchase of goods is from 30 days to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

All the bills payables are aged within 180 days.

15. EARNINGS PER SHARE

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Earnings for the purpose of basic and diluted earnings per share	<u>36,417</u>	<u>59,912</u>
	2023	2022
Number of ordinary shares for the purpose of basic and diluted earnings per share	216,871,575	216,825,000
Effect of dilutive potential ordinary shares:		
Share awards	<u>2,805,479</u>	–
Number of ordinary shares for the purpose of diluted earnings per share	<u>219,677,055</u>	<u>216,825,000</u>
Basic earnings per share (HK\$ per share)	<u>0.168</u>	<u>0.276</u>
Diluted earnings per share (HK\$ per share)	<u>0.166</u>	<u>0.276</u>

The weighted average number of ordinary shares shown above has been arrived at after deducting shares held by share award scheme trust.

The computation of diluted earnings per share does not assume the exercise of the Company's option because the exercise price of those options was higher than the average market price of shares for the years ended 31 December 2023 and 2022.

16. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2023, nor has any dividend been proposed since the end of the reporting period (2022: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

2023 is a year marked by a high frequency of significant events. On the one hand, the swift advancement of AI technology has presented lucrative opportunities and has also showcased the possibility of a more efficient mode of production. On the other hand, the occurrence of wars and conflicts has continued to exert detrimental influence. Additionally, trade tensions between China and the United States persisted, posing challenges to the progress of international trade. According to the data from the International Monetary Fund (“**IMF**”), the global economic growth rate stood at 3.1%, suggesting that economy recovery still faces challenges.

For China, 2023 marked the first year of its post-pandemic era. However, due to external pressures, as well as the exposure to domestic structural issues, China’s economic development did not soar immediately upon the reopening as expected. Instead, its performance has been uneven during different quarters. Nevertheless, it still managed to reach the 5.2% YoY GDP growth rate, just attaining the objective set at the beginning of the year.

Zooming into the LED industry, manufacturers have been confronted with the necessity of transforming their production direction driven by the changes from downstream industries. An increasing number of smartphone brands, following in the footsteps of their industry’s pioneers, such as Apple and Samsung, have been pivoting towards using OLED screens in their flagship products. The same trend has been observed among television manufacturers as well. Such a transition to electronic equipment has drastically reduced the demand for small-sized LED panels.

However, the development of automobile displays has created opportunities in the medium-sized LED panel business. Unlike their predecessors, which were equipped with round gauges and minimalistic indicators on dashboards, vehicles produced in the current generation often feature TV-like screens that display information and serve as functional buttons. According to a report from Precedence Research, a Canada/India-based market research agency, the global automotive smart display market size was estimated at USD12.48 billion in 2023 and is expected to hit around USD18.55 billion by 2032 with a compound annual growth rate (“**CAGR**”) of 4.5% during the forecast period. Therefore, the automotive industry has become a very important field of application to be taken into account when discussing LED manufacturing.

As our main business partners in the automotive LED backlight sector are automotive manufacturers based in China, their product designs and requirements directly affect the LED order volume of our group. According to the automobile section of Gao Gong Intelligent (高工智能), the Chinese market (excluding imports and exports) delivered 7.75 million passenger cars equipped with 10-inch or larger screens (including multiple screens) as standard in the first seven months of this year, an increase of 38.19% YoY compared to the same period last year. In addition to the growing demand for LED backlighting in automotive designs, driven by larger and more in-vehicle display screens, the increasing sales of Chinese automobiles, both domestically and internationally, are also contributing to the demand for our group's products. The export data of Chinese new energy vehicles, in particular, is impressive. According to a report by People's Daily, China's exports reached 4.91 million units, surpassing Japan for the first time and becoming the world's largest exporter. These factors have underscored the growing demand for LED backlight from the downstream industry.

BUSINESS REVIEW

The enterprise resource planning (“ERP”) system implemented by the Group continues to contribute to its 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 automation during the manufacturing process. The Group is also exploring vendor-managed inventory systems to facilitate smooth transactions with its customers and further improve its operating system.

The total revenue for the year ended 31 December 2023 was approximately HK\$1,985,768,000, representing a decrease of 10.4% compared to approximately HK\$2,216,352,000 for the year ended 31 December 2022. Considering the core business segments, being LED backlight and LED lighting products, the Group's core revenue was approximately HK\$1,776,801,000, representing an increase of 3.8% as compared to approximately HK\$1,712,035,000 for the year ended 31 December 2022. Revenue from the sales of LED backlight products was approximately HK\$1,656,359,000 (2022: HK\$1,620,565,000), representing a mild increase of 2.2%. Revenue from the sales of LED lighting products was approximately HK\$120,442,000 (2022: HK\$91,470,000), representing an increase of 31.7% resulting from the increase in the number of customers in remote areas.

LED Backlight Business

The Group mainly focuses on the production of three types of LED backlight products, which are: (1) automobile onboard displays; (2) television displays; and (3) other industrial equipment displays. For the year ended 31 December 2023, revenue derived from LED backlight products in automobile onboard displays, television displays and industrial equipment displays were approximately HK\$1,491,407,000, HK\$24,759,000 and HK\$140,193,000, respectively.

Under a booming demand, backlights for automobile onboard displays have been the core growth driver of the Group, recording a 10.4% increase in sales for the year ended 31 December 2023, following continuous and rapid expansion in the past few years. It continued to be the largest contributor to the Group's LED backlight business during the year ended 31 December 2023, representing approximately 90.0% of total LED backlight product sales (2022: 83.4%).

The demand for LED backlights for television, continued to decline in 2023. As a result, the Group's LED backlight for television displays recorded an approximately 33.6% decrease in sales, amounting to approximately HK\$24,759,000 (2022: HK\$37,311,000). Equipment display backlight products recorded a decrease of 39.7% in revenue from HK\$232,434,000 for the year ended 31 December 2022 to HK\$140,193,000 for the year under review.

LED Backlight Revenue Breakdown	For the year ended 31 December			
	2023		2022	
	HK\$'000	%	HK\$'000	%
Automobile Displays	1,491,407	90.0	1,350,820	83.4
Televisions	24,759	1.5	37,311	2.3
Equipment Displays	140,193	8.5	232,434	14.3
	1,656,359	100.0	1,620,565	100.0

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 year ended 31 December 2023, revenues from public lighting and commercial lighting both increased significantly to approximately HK\$1,826,000 and HK\$118,616,000, respectively (2022: HK\$905,000 and HK\$90,565,000) due to business expansion, exhibiting growth rates of 101.8% and 31.0%, respectively. While consistently maintaining strong sales in Europe, the company's primary market in this segment, the Group also began expanding into various regions of China, especially in remote areas where the LED lighting penetration rate still has ample room to grow. This expansion has contributed to impressive segmental growth.

LED Lighting Revenue Breakdown	For the year ended 31 December			
	2023		2022	
	HK\$'000	%	HK\$'000	%
Public Lighting	1,826	1.5	905	1.0
Commercial Lighting	118,616	98.5	90,565	99.0
	120,442	100.0	91,470	100

Semiconductor Memory Chip Business

Amid the prevailing U.S. export and import restrictions on goods from China, the Group's semiconductor memory chip business is grappling with an unfavorable market scenario, resulting in its revenue decreasing by more than half to approximately HK\$208,967,000 (2022: HK\$504,317,000). As a non-core segment, the Group plans to sustain a baseline level of activity within this sector while channelling limited resources in the foreseeable future.

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

As today's consumers look for intelligence, diversity, and integration in many tech-related products, market research is vital to understand the ever-evolving needs and preferences of customers. Highly valuing research and development (“**R&D**”) capabilities, the Group has become an agile and sharp industry player for its efforts in this field. R&D not only keeps the Group relevant in market trends, and retains customer loyalty, but also enables the Group to identify niche markets that offer profitable opportunities ahead of peers.

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 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 of 31 December 2023, the Group held 273 patents registered in the PRC. Looking forward, the Group seeks to expand its R&D centre and talent base, striving to be always prepared for emerging opportunities so as to capture optimal business deals.

AWARDS FOR CORPORATE RESPONSIBILITY

During the year ended 31 December 2023, Wai Chi Opto Technology Limited, a subsidiary of the Group, has received the Green Office Label awarded under the Green Office Awards Labelling Scheme (“GOALS”) organised by the World Green Organization (“WGO”) for the seventh year, in recognition of the Group’s continued efforts in aiding environmental protection.

WGO launched GOALS in 2013 with the objectives of raising awareness of global environmental issues and encouraging corporations to implement the best green practices in their offices in 9 stipulated aspects of operations, including energy savings, water savings, waste reduction, paper and printing reduction, green procurement, IT use and disposal, transportation, education and awareness, and finally green innovation. Companies have to undergo a process of stringent green audit, during which the Group has demonstrated its commitment in corporate social responsibility by incorporating its green mission into daily practice and corporate culture.

PROSPECTS

As per the United Nations’ World Economic Situation and Prospects 2024, global economic growth is set to decline for the third consecutive year, dropping to 2.4% in 2024, making the period from 2020 to 2024 the slowest five years of global economic growth in the past 30 years, as being affected by conflicts, sluggish trade, high-interest rates, and heightened climate disasters. In China, the GDP growth rate may still fall short of the expectations of those anticipating rapid expansion in the post-pandemic era, with factors like real estate market weakness and subdued external demand moderating the expected growth rate to about 5% in 2024.

To boost the economy, the Chinese government has enacted proactive fiscal policies and set goals to promote private enterprises, particularly emphasising the development of new energy vehicles. This focus aligns with regional plans, such as Shenzhen’s ambition to produce over 200 million new energy vehicles annually by 2025. Similar objectives have been outlined in Anhui Province’s 14th Five-Year plan, targeting an automobile industry output exceeding RMB1 trillion by the end of this plan. Supported by policies and market trends, the overall development trend of new energy automobiles appears promising, offering increased sales domestically and internationally, thereby creating more business opportunities for LED backlight manufacturers.

However, due to the intense competition in the domestic new energy vehicle market and the rapid introduction of new car models, automobile prices are continuously declining. BYD, for instance, announced that two of its new plug-in hybrid electric vehicle models would be sold at a starting price of RMB79,800, reflecting a decrease of RMB20,000 compared to previous models with the same market positioning. Consequently, the prices offered to auto-component suppliers, including LED backlight providers, are being compressed by car manufacturers.

In the meantime, the LED industry has witnessed a shift towards automotive backlighting due to the lucrative market. Amid intensifying competition in the market, some manufacturers are withdrawing therefrom due to profitability concerns. This presents an opportunity for our Group to encounter fewer competitors. However, it also underscores the challenging nature of the current market conditions.

In response to the industry-wise phenomenon of rising order volumes and declining profit margins, the Group continues to allocate funds into its fast paced and intensive product R&D efforts. This strategy aims to outperform competitors and uphold its position as a market leader. For example, we are proactively expanding our mini-LED production capacity while innovating on the technology to meet the demand of future cutting-edge display products.

The dynamic nature of market demand has necessitated significant R&D investment for the Group, underscoring the importance of monitoring the adequacy and liquidity of our funds. Nevertheless, we firmly believe that proactively exploring new product possibilities, with solid understanding of the market trends, is the cornerstone of our industry leadership. Therefore, we remain confident in our ability to sustain a leading position in the LED backlight manufacturing industry.

FINANCIAL REVIEW

Revenue

During the year ended 31 December 2023, the sources of revenue for the Group were the sales of LED backlights, LED lighting services, and semiconductor memory chip related products. The sales of the Group's LED backlight products were approximately HK\$1,656,359,000 (2022: HK\$1,620,565,000), representing an increase of approximately 2.2%, which was mainly attributable to the continuous increase in sales of automobile onboard display LED backlight products. The revenue from the Group's LED lighting services was approximately HK\$120,442,000 (2022: HK\$91,470,000), representing an increase of approximately 31.7%. The segment of the semiconductor memory chips recorded sales of approximately HK\$208,967,000 (2022: HK\$504,317,000), representing a decrease of approximately 58.6%.

Gross Profit and Gross Profit Margin

For the year ended 31 December 2023, gross profit from the sales of LED backlight products and LED lighting services was approximately HK\$263,915,000, representing an increase of 3.9% from approximately HK\$254,043,000 in 2022. Gross profit margin for these two segments increased by 0.1 percentage points from 14.8% in 2022 to 14.9% in 2023. The slight increase in gross profit and gross profit margin was mainly due to the effective cost control measures combined with decrease in operating expenses after the lifting of Covid-19 restrictions. Gross profit and gross profit margin from the semiconductor memory chip business were HK\$4,686,000 and 2.2% (2022: HK\$8,648,000 and 1.7%) respectively, showing a sharp decrease for the gross profit, as it remains a non-core sector. For the year ended 31 December 2023, the Group's overall gross profit was approximately HK\$268,601,000, representing an increase of 2.2% from approximately HK\$262,691,000 in 2022. Overall gross profit margin was 13.5% in 2023, representing an increase of 1.6 percentage points from 11.9% in 2022.

Selling and Distribution Expenses

Labour costs, sales commissions and transportation costs were the Group's major selling and distribution expenses. For the year ended 31 December 2023, the Group's selling and distribution expenses was approximately HK\$37,880,000 which has increased by 5.2% compared to approximately HK\$36,009,000 for the year 2022.

Administrative Expenses

Administrative expenses refer to the general expenses incurred in offices and factories. The Group focuses on effective management by means of resource consolidation in the Shenzhen and Huizhou factories. For the year ended 31 December 2023, the Group's administrative expenses were approximately HK\$192,845,000 which has decreased by 0.8% compared to approximately HK\$194,493,000 for the year 2022.

Other Income

During the year ended 31 December 2023, other income was approximately HK\$72,543,000, representing an increase of 38.6% in comparison with approximately HK\$52,335,000 for the year 2022, mainly due to government grant recognised during the year.

Bank Balances and Cash

During the year ended 31 December 2023, the Group's bank balances and cash amounted to approximately HK\$357,208,000, representing an increase of 38.5% from approximately HK\$257,912,000 in 2022.

Pledged Deposit

During the year ended 31 December 2023, the Group's pledged deposit amounted to approximately HK\$283,709,000 (2022: approximately HK\$562,630,000). Having only one property in PRC as collateral limited the Group's options for corporate loans needed for business expansion at times, thus, as a norm under the current macroeconomic policies, the Group was provided with an alternative of savings pledged loans. The Group is currently consolidating its assets and savings hoping to simplify and improve the situation in the coming year.

Taxation

Taxation comprised current tax and movements in deferred tax assets and liabilities. Two of the Group's subsidiaries, Wai Chi Opto Technology (Shenzhen) Limited ("**Shenzhen Wai Chi**") and Huizhou Wai Chi Electronics Company Limited, are qualified as "High-Tech Enterprises" in the PRC and granted certain tax benefits, including a preferential enterprise income tax rate of 15% instead of the statutory rate of 25%. During the year ended 31 December 2023, the Group's tax expenses were approximately HK\$2,164,000 (2022: Tax credit of approximately HK\$377,000), which increased alongside the expansion of business.

Inventories

As at 31 December 2023, the Group's inventories were approximately HK\$265,803,000, representing a decrease of 4.0% as compared to approximately HK\$276,763,000 as at 31 December 2022. The decrease in inventories was an expected fallback after the Group strategically increased its inventories in the previous year to offset the anticipated increase in raw material prices.

Trade Receivables

As at 31 December 2023, the Group's net trade receivables amounted to approximately HK\$880,858,000, which increased by 17.5% as compared to approximately HK\$749,923,000 as at 31 December 2022. This was attributable to the increase in sales of LED backlight products.

Trade Payables

As at 31 December 2023, the Group's trade payables amounted to approximately HK\$539,744,000, which increased by 37.1% as compared to approximately HK\$393,639,000 as at 31 December 2022. The increase was attributable to the increase in purchase of raw materials.

Grant of Awarded Shares and Share Options under the Share Award Scheme and the Share Option Scheme

Pursuant to the share award scheme adopted by the Company on 19 December 2022 (the “**the Share Award Scheme**”), on 23 December 2022, the Board (including the independent non-executive Directors, and excluding Mr. Chen Chung Po, Ms. Luk Fong, Ms. Yiu Kwan Yu and Ms. Yong Jian Hui) resolved to conditionally grant 800,000 Awarded Shares and 400,000 Awarded Shares to Mr. Chen Chung Po and Ms. Yong Jian Hui, respectively, conditional upon the approval of such grant by the Independent Shareholders at the EGM. The Grant was subsequently approved at the EGM dated 9 February 2023. The purposes and objectives of the Share Award Scheme are to recognise the contributions of the selected employees and give incentives thereto in order to retain them for the continual operation and development of the Group. The Board and the Company's remuneration committee are of the view that the aforementioned grant of awarded shares serves as an incentive for recognition of the grantees' past contributions in driving the continual business operation and development of the Group and to encourage them to further apply their expertise, experience and leadership to the development of the Group in the future.

The Board announced that on 11 July 2023, the Company granted share options (the “**Share Options**”) to three eligible employees of the Group (the “**Grantees**”) pursuant to the Company’s share option scheme which was adopted on 19 December 2022 (the “**Share Option Scheme**”), subject to acceptance by the Grantees. The Share Options entitle the Grantees to subscribe for a total of 90,000 new shares with a nominal value of HK\$0.01 each (the “**Shares**”) in the share capital of the Company.

The exercise price of the Share Options granted was HK\$1.49 per Share, with a 10-year validity period from 11 July 2023 (the “**Grant Date**”), and the exercise period will be commenced on the date immediately following the expiry of twelve months from the Grant Date up to and inclusive of 10 July 2024.

The Grantees are employees of the Group. The Grantees are not (i) a Director, chief executive or substantial shareholder of the Company or their associate(s) (as defined in the Listing Rules); (ii) a participant with options and awards granted and to be granted exceeding the 1% individual limit under Rule 17.03D of the Listing Rules; or (iii) a related entity participant or service provider (as defined in the Listing Rules) with options and awards granted and to be granted in any 12-month period exceeding 0.1% of the total issued Shares.

For details regarding the grant of Share Options, please refer to the Company’s announcement dated 11 July 2023.

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES

During the year ended 31 December 2023, neither the Company nor any of its subsidiaries had purchased or redeemed any of the listed shares of the Company.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance (“**CG**”). The Board believes that adherence to CG practices will definitely be beneficial to the Company’s shareholders in the long term. For the year ended 31 December 2023, the Company has applied the CG Code as set out in Appendix C1 to the Listing Rules in force at that time. Code Provision C.2.1 in Part 2 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. The Board will keep reviewing the current structure of the Board from time to time and should suitable candidate with the requisite knowledge, skill and experience be identified, the Company will make appointment to fill the post of the chief executive as appropriate. Besides the above, the Company has complied with all the other applicable code provisions of the CG Code. The Company periodically reviews its corporate governance practices with reference to the latest development in corporate governance.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the Group's consolidated financial statements for the year ended 31 December 2023, the accounting principles and practices adopted and discussed auditing, internal controls and financial reporting matters.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company will be held on 29 May 2024. The notice of the annual general meeting will be published in the Company's website and sent to the shareholders of the Company in the manner required by the Listing Rules in due course.

PUBLICATION OF ANNUAL REPORT

The 2023 annual report of the Company containing all applicable information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the Company's website at www.waichiholdings.com and HKEx news website at www.hkexnews.hk in due course.

APPRECIATION

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

By order of the Board
Wai Chi Holdings Company Limited
Chen Chung Po
Chairman

Hong Kong, 28 March 2024

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. Ho Chi Wai and Mr. Yu Zhenyu.