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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 2022

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June	
	2022	2021
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Revenue	1,112,441	892,393
Gross profit	113,840	130,654
Gross profit margin	10.2%	14.6%
Profit for the period attributable to owners of the Company	32,940	15,443
Basic and diluted earnings per share	HK15.19 cents	HK7.12 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 2022 (the “**Period**”), together with the unaudited comparative figures for the same period of 2021 and the unaudited interim condensed consolidated statement of financial position of the Group as at 30 June 2022 together with audited comparative figures as at 31 December 2021.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2022

	<i>Notes</i>	Six months ended 30 June	
		2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Unaudited)
Revenue	4	1,112,441	892,393
Cost of sales		(998,601)	(761,739)
Gross profit		113,840	130,654
Other income	4	29,142	10,844
Selling and distribution expenses		(12,817)	(17,933)
Administrative expenses		(45,999)	(47,711)
Other gains and losses		6,166	(5,860)
Research and development expenses		(36,877)	(30,543)
Finance costs	6	(21,083)	(20,010)
Profit before tax		32,372	19,441
Income tax credit (expense)	7	104	(4,365)
Profit for the period	8	32,476	15,076
Profit for the period attributable to:			
– Owners of the Company		32,940	15,443
– Non-controlling interests		(464)	(367)
		32,476	15,076
Earnings per share	10		
Basic and diluted (<i>HK cents</i>)		15.19	7.12

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Six months ended 30 June	
	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Unaudited)
Profit for the period	32,476	15,076
Other comprehensive (expense) income that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of financial statements of foreign operations	<u>(23,066)</u>	<u>16,076</u>
Total comprehensive income for the period	<u>9,410</u>	<u>31,152</u>
Total comprehensive income (expense) for the period attributable to:		
– Owners of the Company	9,883	31,599
– Non-controlling interests	<u>(473)</u>	<u>(447)</u>
	<u>9,410</u>	<u>31,152</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

		30 June 2022	31 December 2021
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment		325,880	351,357
Right-of-use assets		50,391	54,562
Investment property		26,068	26,300
Financial assets at fair value through profit or loss	11	7,478	7,478
Financial asset at fair value through other comprehensive income	12	10,367	10,367
Deposit paid for acquisition of property, plant and equipment		5,847	6,115
Deposits with bank		175,400	183,464
Deferred taxation		7,701	8,052
		609,132	647,695
Current assets			
Inventories		355,040	312,029
Trade receivables	13	772,451	672,316
Bills receivables	13	227,581	265,827
Prepayments, deposits and other receivables		94,117	79,443
Pledged bank deposits		448,830	342,017
Bank balances and cash		168,319	112,312
		2,066,338	1,783,944
Current liabilities			
Trade payables	14	430,882	400,649
Bills payables	14	929,589	763,867
Other payables and accruals	14	62,141	58,418
Contract liabilities		42,587	22,499
Bank and other borrowings		343,123	325,429
Income tax payables		3,262	3,497
Lease liabilities		4,622	5,928
		1,816,206	1,580,287
Net current assets		250,132	203,657
Total assets less current liabilities		859,264	851,352

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Non-current liabilities		
Deferred taxation	368	368
Corporate bond	2,035	1,936
Government grants	17,967	18,793
Lease liabilities	9,434	10,205
	<u>29,804</u>	<u>31,302</u>
Net assets	<u>829,460</u>	<u>820,050</u>
Capital and reserves		
Share capital	2,168	2,168
Reserves	826,196	816,313
	<u>828,364</u>	<u>818,481</u>
Equity attributable to owners of the Company	828,364	818,481
Non-controlling interests	1,096	1,569
	<u>829,460</u>	<u>820,050</u>
Total equity	<u>829,460</u>	<u>820,050</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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 on 18 November 2014. 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 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 semiconductor memory chips related products sourcing and packaging 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. 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 2022 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 2021 except as described below.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA which are effective for the Group’s financial year beginning 1 January 2022:

Amendment to HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendment to HKFRSs	Annual Improvements to HKFRSs 2018–2020 cycle

The application of the 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	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers within the scope of HKFRS 15		
<i>Disaggregated by major products</i>		
Sales of goods		
– LED backlight	780,139	650,053
– LED lighting	48,761	64,360
– Semiconductor memory chips	283,541	177,980
	<u>1,112,441</u>	<u>892,393</u>
<i>Disaggregation of revenue by timing of recognition</i>		
Timing of revenue recognition		
– At a point in time	<u>1,112,441</u>	<u>892,393</u>
Other income		
Bank interest income	18,264	4,661
Exchange gains, net	5,320	–
Government grants (<i>note</i>)	1,776	3,362
Gain on disposal of property, plant and equipment, net	–	848
Sales of scrapped materials	106	73
Sundry income	3,676	1,900
	<u>29,142</u>	<u>10,844</u>

Note: Included in the amount, there are government grants immediately recognised as other income during the six months ended 30 June 2022 of approximately HK\$1,776,000 (six months ended 30 June 2021: approximately HK\$3,362,000) 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 2022

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

For the six months ended 30 June 2021

	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	<u>650,053</u>	<u>64,360</u>	<u>177,980</u>	<u>892,393</u>
Segment profit	<u>41,226</u>	<u>3,191</u>	<u>3,594</u>	48,011
Unallocated income				6,561
Unallocated expenses				(15,732)
Unallocated finance costs				<u>(19,399)</u>
Profit before tax				<u>19,441</u>

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 2022 and 31 December 2021:

Segment assets

	30 June 2022 <i>HK\$'000</i> (Unaudited)	31 December 2021 <i>HK\$'000</i> (Audited)
LED backlight	1,291,260	1,328,788
LED lighting	136,378	162,896
Semiconductor memory chips	<u>273,249</u>	<u>151,506</u>
Total segment assets	1,700,887	1,643,190
Unallocated assets	<u>974,583</u>	<u>788,449</u>
Consolidated total assets	<u>2,675,470</u>	<u>2,431,639</u>

Segment liabilities

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
LED backlight	1,227,697	1,102,066
LED lighting	120,591	137,370
Semiconductor memory chips	146,877	39,133
Total segment liabilities	1,495,165	1,278,569
Unallocated liabilities	350,845	333,020
Consolidated total liabilities	1,846,010	1,611,589

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, 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

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
LED backlight		
– Small dimension	136,606	166,679
– Medium dimension	623,779	455,616
– Large dimension	19,754	27,758
Sub-total	<u>780,139</u>	<u>650,053</u>
LED lighting		
– Indoor lighting	48,165	61,549
– Outdoor lighting	596	2,811
Sub-total	<u>48,761</u>	<u>64,360</u>
Semiconductor memory chips		
– Packaging and testing	14,642	–
– Products sourcing	268,899	177,980
Sub-total	<u>283,541</u>	<u>177,980</u>
Total	<u><u>1,112,441</u></u>	<u><u>892,393</u></u>

Analysis by application of products

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
LED backlight		
– Automobile displays	638,595	502,282
– Equipment displays	124,284	117,042
– Televisions	17,260	30,729
	<hr/>	<hr/>
Sub-total	780,139	650,053
	<hr/>	<hr/>
LED lighting		
– Commercial lighting	48,165	61,549
– Public lighting	596	2,811
	<hr/>	<hr/>
Sub-total	48,761	64,360
	<hr/>	<hr/>
Semiconductor memory chips		
– Packaging and testing	14,642	–
– Products sourcing	268,899	177,980
	<hr/>	<hr/>
Sub-total	283,541	177,980
	<hr/>	<hr/>
Total	1,112,441	892,393
	<hr/> <hr/>	<hr/> <hr/>

6. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on:		
– Bank and other borrowings	20,566	19,300
– Corporate bond	99	99
– Lease liabilities	418	611
	<hr/>	<hr/>
	21,083	20,010
	<hr/> <hr/>	<hr/> <hr/>

7. INCOME TAX (CREDIT) EXPENSE

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current income tax		
PRC Enterprise Income Tax		
– Current period	2,124	4,365
– Overprovision in prior years	(2,228)	–
	<hr/>	<hr/>
Total income tax (credit) expense for the period	(104)	4,365
	<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 2022 and 2021.

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 2022 and 2021.

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 2022 and 2021.

* *The English name is for identification purpose only*

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging:		
Salaries and allowances (excluding directors' emoluments)	144,038	102,124
Retirement benefit scheme contributions (excluding directors)	12,520	8,778
Total staff costs	<u>156,558</u>	<u>110,902</u>
Cost of inventories recognised as expenses (included in cost of sales)	998,601	761,739
Net foreign exchange (gains) losses	(5,320)	1,273
Depreciation of property, plant and equipment	24,712	22,708
Depreciation of right-of-use assets	4,467	4,930
Loss (gain) on disposal of property, plant and equipment, net (Reversal of) provision of inventories (included in other gains and losses)	1,573 (10,757)	(848) 5,860
Impairment loss recognised in respect of other receivables (included in other gains and losses)	2,995	–
Reversal of impairment loss recognised in respect of trade receivables (included in other gains and losses)	(1,129)	–

9. DIVIDENDS

No dividend was paid or proposed during the six months ended 30 June 2022, nor has any dividend been proposed since the end of the interim period (six months ended 30 June 2021: nil).

10. EARNINGS PER SHARE

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings for the purpose of basic and diluted earnings per share	<u>32,940</u>	<u>15,443</u>
Number of ordinary shares for the purpose of basic and diluted earnings per share	<u>216,825,000</u>	<u>216,825,000</u>
Basic and diluted earnings per share (HK cents per share)	<u>15.19</u>	<u>7.12</u>

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 2022 and 2021.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June	31 December
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Investments in a life insurance policy	<u>7,478</u>	<u>7,478</u>

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 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.

12. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Unlisted equity investment	10,367	10,367

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

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Receivables at amortised cost comprise:		
Trade receivables	803,128	704,879
Less: allowance for impairment of trade receivable	(30,677)	(32,563)
	772,451	672,316
Bills receivables	227,581	265,827
Total trade and bill receivables	1,000,032	938,143

As at 30 June 2022, the gross amount of trade receivables arising from contracts with customers amounted to approximately HK\$803,128,000 (31 December 2021: approximately HK\$704,879,000).

The Group allows an average credit period of 15 to 180 days (2021: 15 to 180 days) to its trade customers.

The following is an aged analysis of trade receivables (net of allowance for impairment of trade receivables) presented based on the invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period.

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
0 to 90 days	734,636	633,131
91 to 180 days	36,774	33,276
181 to 365 days	1,041	2,058
Over 1 year	–	3,851
	<u>772,451</u>	<u>672,316</u>

All the bills receivables are aged within 365 days.

14. TRADE, BILLS AND OTHER PAYABLES AND ACCRUALS

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Trade payables (<i>note</i>)	430,882	400,649
Bills payables (<i>note</i>)	929,589	763,867
	<u>1,360,471</u>	<u>1,164,516</u>
Other payables		
– Consideration payable on acquisition of a subsidiary	–	11,000
– Others	26,359	16,971
	<u>26,359</u>	<u>27,971</u>
Accrued expenses	32,193	25,863
Value added tax payables	3,589	4,584
	<u>62,141</u>	<u>58,418</u>
	<u>1,422,612</u>	<u>1,222,934</u>

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:

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
0 to 90 days	382,169	319,546
91 to 180 days	44,446	72,788
181 to 365 days	865	1,415
Over 365 days	3,402	6,900
	<hr/> 430,882 <hr/>	<hr/> 400,649 <hr/>

The average credit period on purchase of goods is from 30 days to 90 days. The Group has financial risk management policies or plans for its payables with respect to the credit timeframe.

All the bills payables are aged within 365 days.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

Halfway into 2022, after years of turbulence under the novel coronavirus (the “**COVID-19**”) pandemic, the globe continues to face a stunning confluence of unprecedented challenges, including a high inflation rate among the various post-COVID-19 impacts and the crisis brought by Russia’s war against Ukraine. According to the United States Bureau of Economic Analysis, the country’s gross domestic product (“**GDP**”) in the second quarter of 2022 decreased at an annual rate of 0.9%, although improved from a decrease of 1.6% in the previous quarter, there is still a lot of uncertainty. China’s GDP expanded 2.5% year on year (“**YoY**”) to US\$8.3 trillion in the first half of 2022 despite engaging in a volatile business environment, which illustrates the country’s economic resilience.

With a noticeable economic slowdown and COVID-19 outbreaks hitting different regions of the country, China’s consumer market has been facing tremendous pressure during the past months. On the other hand, the government has been pushing policies to support the automotive industry, including encouraging bank loans for the industry, a tax cut on car purchases, and ease of license requirements for new energy vehicles. During the first half of 2022, the overall cumulative new vehicle sales volumes in the country reached 12 million units, and it is forecasted that the annual auto sales will hit 27 million units in 2022. The high demand for automobiles also upsurged the need for electrical components for cars, including automobile onboard displays. The growth of the country’s car industry, especially the popularity of new energy vehicles, also incorporates more high-tech designs into the onboard display panels, including mini-LED displays and ones with the local dimming feature for optimal viewing experience and energy efficiency.

Worldwide, the most advanced economies have been placing great emphasis on 5G technology in recent years, and China is at the forefront of this market. The country’s concentration on 5G technology, together with a wide extent of applications on the Internet of Things, artificial intelligence and consumer electronics, necessitated the reliance on semiconductor memory chips. In spite of China’s heavy reliance on chips, the production of semiconductors in the country is far from self-sufficiency, especially during supply-chain disruption, the need for home production upsurged.

BUSINESS REVIEW

Overview

For the six months ended 30 June 2022 (the “**period under review**”), the Group had a significant performance improvement. As the Group engages in an ever-changing industry, we stay vigilant and resilient in seizing business opportunities and enhancing the quality of existing businesses.

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

The total revenue for the period under review was approximately HK\$1,112,441,000, representing an increase of approximately 24.7% compared to approximately HK\$892,393,000 for the corresponding period in 2021. Revenue from the LED business sectors was approximately HK\$828,900,000, representing an increase of approximately 16.0% compared to that of the corresponding period in 2021. Revenue from the sales of LED backlight products was approximately HK\$780,139,000 (six months ended 30 June 2021: approximately HK\$650,053,000), representing an increase of approximately 20.0%. The rise in the revenue of LED backlight products was driven by the increased sales of automobile onboard display and industrial equipment display backlight products, especially the automobile onboard display backlights, which will be illustrated further in the following sections. Revenue from the sales of LED lighting products was approximately HK\$48,761,000 (six months ended 30 June 2021: approximately HK\$64,360,000), representing a decrease of approximately 24.2%, due to the decreased sales of both public and commercial lighting products. The revenue from the semiconductor memory chip business was approximately HK\$283,541,000, which included the revenue of approximately HK\$14,642,000 from the newly added semiconductor chips packaging and testing line.

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\$638,595,000, HK\$17,260,000 and HK\$124,284,000, respectively.

Amid a surge in car sales in China, the demand for automobile displays was high during the period under review, and the Group's automobile onboard display backlights recorded an approximately 27.1% increase in sales for the six months ended 30 June 2022. It continued to be the largest contributor to the Group's LED backlight business during the period under review, representing approximately 81.9% of total LED backlight product sales (six months ended 30 June 2021: approximately 77.3%).

During the first half of 2022, 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 decreased by approximately 43.8%, amounting to approximately HK\$17,260,000 (six months ended 30 June 2021: approximately HK\$30,729,000). The Group is planning to end this line of business amid a contracting market.

As for the backlights for other industrial equipment displays, the Group recorded a mild increase of approximately 6.2% in revenue for the six months ended 30 June 2022, amounting to approximately HK\$124,284,000 (six months ended 30 June 2021: approximately HK\$117,042,000).

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\$596,000 and HK\$48,165,000, respectively (six months ended 30 June 2021: approximately HK\$2,811,000 and HK\$61,549,000), observing a decrease of approximately 78.8% and 21.7%, respectively.

The decrease in both of the business lines was mainly attributable to (i) overseas clients placing large orders to combat supply chain disruptions in the previous year, leaving inventory surpluses this year; (ii) decrease in orders from Europe, resulting from soaring inflation of the Euro; (iii) start of Russo-Ukrainian War, impeding the flow of goods; and (iv) rise in electricity costs in the Group's major overseas market in Europe, reducing the demand for new lighting projects.

During the period under review, though the lighting business is less favourable than the previous year, the Group maintained good working relationships with its overseas, especially European clients. It has also been manufacturing education lights in China, which aligned with the government's regulation for school equipment to prevent myopia in children and adolescents, offsetting some of the income loss from the overseas market.

Semiconductor Memory Chip Business

The rising demand for memory chips and their broadened applications motivated the Group to engage in the industry of semiconductor memory chip packaging and testing. After years of thorough planning and careful preparation, this line of business was launched during the period under review. Facing pressure from the domestic consumer market slowdown, the Group conducted this line of business prudently during the period under review. As the latest addition to the Group's portfolio, with a relatively short period of operation, during the period under review, the segment contributed a revenue of approximately HK\$14,642,000 (six months ended 30 June 2021: nil).

Leading up to the launch of the semiconductor memory chip packaging and testing business, the Group had been engaging in sourcing memory chip-related products. During the six months ended 30 June 2022, the sourcing segment recorded a revenue of approximately HK\$268,899,000 (six months ended 30 June 2021: approximately HK\$177,980,000), representing an increase of approximately 51.1%.

QUALITY CONTROL

At the Group, 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 for selecting and approving new suppliers and raw materials, and thorough testing of product samples is carried out before mass production of the products.

The Group owns a series of advanced production and testing equipment for improving quality control. The Group has been awarded various certifications, including ISO 9001:2008 and ISO 14001:2004 for quality and environmental management systems, which serve as an important assurance of product quality and reliability.

RESEARCH AND DEVELOPMENT

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

The Group’s R&D centre is located in 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 2022, the Group held 213 patents registered in the PRC. Looking forward, the Group will continue to enhance its R&D capabilities and prepare itself for the up-and-coming opportunities.

PROSPECTS

The world is experiencing severe challenges in the aftermath of COVID-19, while the accumulating damages from the Russo-Ukrainian conflict have caused the global economic recovery to lose momentum. According to the July issue of the World Economic Outlook by the International Monetary Fund (the “**IMF**”), global growth is estimated to slow down to 3.2% in 2022, 0.4% lower than the IMF’s forecast released in April. Despite countries having expected uncertain economic environment in 2022, professionals and authorities are still confident that China’s GDP will be able to attain its annual growth target of around 5.5% thanks to the recovery of investment and consumption.

Given the rising significance of the automotive market in China, the Group has enjoyed impressive growth from its principal revenue contributor, which is the sales of automobile onboard display backlights. As we advance, to sustain our growth rate and further reinforce our competitiveness in the market, the Group will proactively improve its automobile onboard display segment by enhancing technological advancement, diversifying client base, and incorporating updated business models. Technology-wise, the Group has already attained an edge in developing local dimming backlight products. It will continue its advantages in this aspect and other large and extra-large size panel backlights. We will also expand our client base from primarily domestic display panel factories to cover more overseas clients and top tier suppliers who provide parts adapted to the finished products. As the industry grows to meet the ever-evolving customer demand for display size and viewing experience, the Group will provide more value-added services and offer total solutions to its clients to stay relevant to today's more integrated business model.

As for the television market, the OLED displays' prices dropped while the production upsurged, leaving limited market share to the LCD TVs. It is foreseen that the revenue of this segment will continue to drop. Therefore, after careful deliberation, the Group decided to gradually exit the LED television backlight market at the end of the year and focus on the segments with more growth potential.

Under the pandemic, people are adapting to the new normal, from lockdowns and quarantine to working from home. These anti-epidemic measures made consumer electronics indispensable and essential for everyday life. It is projected that the revenue of the global consumer electronics market will reach around US\$1,034.0 billion in 2022, giving rise to a shortage of semiconductor memory chips. The growing demand for semiconductor chips encourages the Group to further develop its chip packaging and testing business. We are buoyant that the semiconductor memory chip lines will diversify our revenue stream.

At the beginning of the period under review, the Group suffered a sudden loss as the ex-Chairman, Mr. Yiu Chi To (“**Mr. Yiu**”) passed away. In the past decades, the Group was blessed to have Mr. Yiu's guidance; his visionary decision to exit the cell phone backlight market and focus on the automobile segment enabled the Group to participate in a more profitable market. Meanwhile, it is an honour to have Mr. Chen Chung Po (“**Mr. Chen**”) being the new Chairman. Since 2013, Mr. Chen has been involved in the daily operations of the Group. With the ex-Chairman's vision and current Chairman's experiences, even though the second half of 2022 will continue to impose challenges on businesses in relation to the risk of stagflation, we can anticipate that the Company will uphold prudent business development and respond to the market changes timely.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2022, 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\$780,139,000, representing an increase of approximately 20.0% from approximately HK\$650,053,000 for the six months ended 30 June 2021, which was mainly attributable to the increase in sales of its core products lines, especially the automobile display LED backlight products. The sales of the Group's LED lighting products for the period under review decreased by approximately 24.2% to approximately HK\$48,761,000 from approximately HK\$64,360,000 in the same period in 2021, due to a decrease in revenue from both public and commercial lighting segments. The revenue from the Group's semiconductor memory chips business was approximately HK\$283,541,000, which included approximately HK\$14,642,000 (six months ended 30 June 2021: nil) from the newly launched line of packaging and testing business, and approximately HK\$268,899,000 (six months ended 30 June 2021: approximately HK\$177,980,000) from the sourcing of memory chip-related products.

Gross Profit and Gross Profit Margin

For the period under review, the Group's overall gross profit was approximately HK\$113,840,000, decreased by approximately 12.9% from approximately HK\$130,654,000 in the corresponding period in 2021. The overall gross profit margin was approximately 10.2%, decreased by approximately 4.4 percentage points from approximately 14.6% in the corresponding period in 2021. Gross profit from the sales of the Group's LED segments of backlight and lighting products was approximately HK\$108,760,000, representing a decrease of approximately 14.3% from approximately HK\$126,885,000 for the corresponding period in 2021. The gross profit margin for these two segments decreased by approximately 4.7 percentage points from approximately 17.8% in the first half of 2021 to approximately 13.1% in the period under review. Gross profit from the semiconductor memory chip business was approximately HK\$5,080,000, which included gross profit of approximately HK\$48,000 (six months ended 30 June 2021: nil) from the newly launched semiconductor memory chip packaging and testing business, and approximately HK\$5,032,000 (six months ended 30 June 2021: approximately HK\$3,769,000) from the sourcing of memory chip-related products. For the period under review, the gross profit margin for the semiconductor memory chip business was approximately 1.8% (six months ended 30 June 2021: approximately 2.1%). The overall drop in gross profit and gross profit margin was due to the significant increase in the cost of sales, from approximately HK\$761,739,000 for the corresponding period in 2021 to approximately HK\$998,601,000 for the period under review, mainly resulting from the increased logistics costs and other costs arising from COVID-19 control regulations, including workplace disinfecting, mandatory COVID-19 testing, and quarantine cost for travelling staff.

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 2022, the Group's selling and distribution expenses were approximately HK\$12,817,000, representing a decrease of approximately 28.5% as compared to approximately HK\$17,933,000 in the corresponding period in 2021, which was mainly attributable to enforcement of cost control policies.

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 2022, the Group's administrative expenses were approximately HK\$82,876,000, which increased by approximately 5.9% as compared to approximately HK\$78,254,000 for the first half of 2021. The increase was mainly attributable to the high costs of COVID-19 outbreak prevention measures.

Other Income

During the period under review, other income was approximately HK\$29,142,000, representing a significant increase of approximately 168.7% in comparison with approximately HK\$10,844,000 for the corresponding period in 2021, mainly due to the increase in 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 credit amounted to approximately HK\$104,000 (six months ended 30 June 2021: tax expenses of approximately HK\$4,365,000), as a result of PRC profit tax expenses over-provided in the previous year arising from extra tax allowance offered by the PRC government regarding the research and development expenses.

Inventories

As at 30 June 2022, the Group's inventory was approximately HK\$355,040,000, increased by approximately 13.8% compared to approximately HK\$312,029,000 as at 31 December 2021. The increase in inventories is part of the Group's strategies to offset the current and anticipated increase in raw material prices by purchasing more materials at a relatively low rate. The debut of the memory chip packaging and testing business also contributed to the Group's inventory strategies.

Trade Receivables

As at 30 June 2022, the Group's net trade receivables amounted to approximately HK\$772,451,000 which increased mildly by approximately 14.9% as compared to approximately HK\$672,316,000 as at 31 December 2021. This was mainly attributable to the increase in sales.

Trade Payables

As at 30 June 2022, the Group's trade payables amounted to approximately HK\$430,882,000, which increased by 7.5% as compared to approximately HK\$400,649,000 as at 31 December 2021, which was attributable to increase of purchase of raw material.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2022.

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 2022.

CORPORATE GOVERNANCE PRACTICES

The Company and its management are committed to maintaining good corporate governance with an emphasis on the principles of transparency, accountability and independence to all shareholders. The Company believes that good corporate governance is essential for the continual growth and enhancement of shareholders' value. Throughout the period under review, the Company has applied the principles of and complied with the code provisions stipulated in the Corporate Governance Code and Corporate Governance Report (the "Code") as set out in Appendix 14 to the Listing Rules. The Company periodically reviews its corporate governance practices with reference to the latest development of corporate governance.

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 2021 annual report of the Company issued in April 2022.

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 2022. On 26 August 2022, 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 2022 interim report of the Company containing all applicable information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the Company's website at www.waichiholdings.com and the Stock Exchange's website at www.hkexnews.hk in due course.

APPRECIATION

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

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

Hong Kong, 26 August 2022

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 and Mr. Ho Chi Wai.