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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 2024

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June	
	2024	2023
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Revenue	1,166,073	857,538
Gross profit	132,255	112,740
Gross profit margin	11.3%	13.1%
Profit for the period attributable to owners of the Company	23,967	24,128
Basic and diluted earnings per share	HK10.90 cents	HK10.98 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 2024 (the “**Period**”), together with the unaudited comparative figures for the same period of 2023 and the unaudited interim condensed consolidated statement of financial position of the Group as at 30 June 2024 together with audited comparative figures as at 31 December 2023.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2024

	<i>Notes</i>	Six months ended 30 June	
		2024	2023
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4	1,166,073	857,538
Cost of sales		(1,033,818)	(744,798)
Gross profit		132,255	112,740
Other income	4	47,976	27,671
Selling and distribution expenses		(22,176)	(16,776)
Administrative expenses		(64,106)	(50,170)
Research and development expenses		(34,175)	(30,850)
Finance costs	6	(32,027)	(17,610)
Profit before tax		27,747	25,005
Income tax expense	7	(3,483)	(290)
Profit for the period	8	24,264	24,715
Profit for the period attributable to:			
– Owners of the Company		23,967	24,128
– Non-controlling interests		297	587
		24,264	24,715
Earnings per share	10		
Basic and diluted (<i>HK cents</i>)		10.90	10.98

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED 30 JUNE 2024

	Six months ended 30 June	
	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period	24,264	24,715
Other comprehensive (expense) income that may be reclassified subsequently to profit or loss:		
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	(1,055)	1,325
Exchange differences arising on translation of financial statements of foreign operations	(406)	(19,547)
	<u> </u>	<u> </u>
Total comprehensive income for the period	22,803	6,493
	<u> </u>	<u> </u>
Total comprehensive income for the period attributable to:		
– Owners of the Company	22,503	6,493
– Non-controlling interests	300	–
	<u> </u>	<u> </u>
	22,803	6,493
	<u> </u>	<u> </u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2024

		30 June 2024	31 December 2023
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		313,839	331,093
Right-of-use assets		81,333	27,435
Investment property		23,468	23,700
Financial assets at fair value through profit or loss (“FVTPL”)	11	7,809	7,809
Financial asset at fair value through other comprehensive income (“FVTOCI”)	12	16,264	17,319
Deferred taxation		11,907	11,927
		<hr/> 454,620	<hr/> 419,283
Current assets			
Inventories		330,539	265,803
Trade receivables	13	950,816	880,858
Bills receivables	13	126,004	110,769
Prepayments, deposits and other receivables		88,891	71,785
Amounts due from a related party		–	7,614
Income tax recoverables		2,657	1,694
Pledged bank deposits		470,223	283,709
Bank balances and cash		274,787	357,208
		<hr/> 2,243,917	<hr/> 1,979,440
Current liabilities			
Trade payables	14	468,032	539,744
Bills payables	14	837,211	637,557
Other payables and accruals	14	55,784	67,215
Contract liabilities		510	993
Bank and other borrowings		368,386	271,400
Income tax payables		12,604	5,372
Lease liabilities		1,044	4,165
		<hr/> 1,743,571	<hr/> 1,526,446
Net current assets		<hr/> 500,346	<hr/> 452,994
Total assets less current liabilities		<hr/> 954,966	<hr/> 872,277

	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Non-current liabilities		
Deferred taxation	391	390
Government grants	506	508
Lease liabilities	<u>61,188</u>	<u>3,175</u>
	<u>62,085</u>	<u>4,073</u>
Net assets	<u>892,881</u>	<u>868,204</u>
Capital and reserves		
Share capital	2,197	2,197
Reserves	<u>888,699</u>	<u>864,322</u>
Equity attributable to owners of the Company	890,896	866,519
Non-controlling interests	<u>1,985</u>	<u>1,685</u>
Total equity	<u>892,881</u>	<u>868,204</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

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 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 2024 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 D2 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 2023 except as described below.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA which are effective for the Group's financial year beginning 1 January 2024:

Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback
Amendments to HKAS 1	Classification of Liabilities as Current or Noncurrent 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
Amendments to HKAS 1	Non-current Liabilities with Covenants
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements

The application of the new and amendments to HKFRSs in the current interim period has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated interim financial information.

4. REVENUE AND OTHER INCOME

	Six months ended 30 June	
	2024	2023
	<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	899,515	698,617
– LED lighting	49,115	51,190
– Semiconductor memory chips	217,443	107,731
	<u>1,166,073</u>	<u>857,538</u>
<i>Disaggregation of revenue by timing of recognition</i>		
Timing of revenue recognition		
– At a point in time	1,166,073	857,538
	<u>1,166,073</u>	<u>857,538</u>
Other income		
Bank interest income	27,762	13,251
Exchange gains, net	1,938	9,040
Government grants (<i>note</i>)	15,835	3,097
Sales of scrapped materials	241	81
Sundry income	2,200	2,202
	<u>47,976</u>	<u>27,671</u>

Note: Included in the amount, there are government grants immediately recognised as other income during the six months ended 30 June 2024 of approximately HK\$7,902,000 (six months ended 30 June 2023: approximately HK\$3,097,000) which were received from the PRC government in respect of certain research projects, salaries subsidies and company business development, and approximately HK\$7,933,000 (six months ended 30 June 2023: HK\$nil) which were received from PRC government in respect of the extra deduction from the value-added tax (“VAT”), 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 trading 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 – trading of high-tech electronic components and products

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 2024

	LED backlight HK\$’000 (Unaudited)	LED lighting HK\$’000 (Unaudited)	Semiconductor memory chips HK\$’000 (Unaudited)	Total HK\$’000 (Unaudited)
REVENUE				
External sales	<u>899,515</u>	<u>49,115</u>	<u>217,443</u>	<u>1,166,073</u>
Segment profit	<u>52,176</u>	<u>2,834</u>	<u>12,555</u>	67,565
Unallocated income				444
Unallocated expenses				(8,235)
Unallocated finance costs				<u>(32,027)</u>
Profit before tax				<u>27,747</u>

For the six months ended 30 June 2023

	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	698,617	51,190	107,731	857,538
Segment profit	37,064	2,166	6,888	46,118
Unallocated income				–
Unallocated expenses				(3,503)
Unallocated finance costs				(17,610)
Profit before tax				25,005

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 and certain unallocated finance costs. 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 2024 and 31 December 2023:

Segment assets

	30 June 2024 <i>HK\$'000</i> (Unaudited)	31 December 2023 <i>HK\$'000</i> (Audited)
LED backlight	1,364,119	1,204,504
LED lighting	245,660	238,423
Semiconductor memory chips	199,095	134,945
Total segment assets	1,808,874	1,577,872
Unallocated assets	889,663	820,851
Consolidated total assets	2,698,537	2,398,723

Segment liabilities

	30 June 2024	31 December 2023
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
LED backlight	1,058,355	1,037,850
LED lighting	293,961	175,897
Semiconductor memory chips	63,896	58,039
	<hr/>	<hr/>
Total segment liabilities	1,416,212	1,271,786
Unallocated liabilities	389,444	258,733
	<hr/>	<hr/>
Consolidated total liabilities	1,805,656	1,530,519
	<hr/> <hr/>	<hr/> <hr/>

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than deferred tax assets, financial assets at FVTPL and FVTOCI, pledged bank deposits, income tax recoverables, 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, 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	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
LED backlight		
– Small dimension	92,189	97,232
– Medium dimension	769,242	579,296
– Large dimension	38,084	22,089
	<hr/>	<hr/>
Sub-total	899,515	698,617
	<hr/>	<hr/>
LED lighting		
– Indoor lighting	48,556	50,795
– Outdoor lighting	559	395
	<hr/>	<hr/>
Sub-total	49,115	51,190
	<hr/>	<hr/>
Semiconductor memory chips	217,443	107,731
	<hr/>	<hr/>
Total	1,166,073	857,538
	<hr/> <hr/>	<hr/> <hr/>

Analysis by application of products

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
LED backlight		
– Automobile displays	823,079	603,347
– Equipment displays	64,815	82,951
– Televisions	11,621	12,319
	<hr/>	<hr/>
Sub-total	899,515	698,617
	<hr/>	<hr/>
LED lighting		
– Commercial lighting	35,838	50,795
– Public lighting	13,277	395
	<hr/>	<hr/>
Sub-total	49,115	51,190
	<hr/>	<hr/>
Semiconductor memory chips	217,443	107,731
	<hr/>	<hr/>
Total	1,166,073	857,538
	<hr/> <hr/>	<hr/> <hr/>

6. FINANCE COSTS

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on:		
– Bank and other borrowings	31,824	17,169
– Corporate bond	–	79
– Lease liabilities	203	362
	<hr/>	<hr/>
	32,027	17,610
	<hr/> <hr/>	<hr/> <hr/>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current income tax		
PRC Enterprise Income Tax		
– Current period	<u>3,483</u>	<u>290</u>
Total income tax expense for the period	<u><u>3,483</u></u>	<u><u>290</u></u>

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

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2024 and 2023.

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 2024 and 2023.

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 2026 respectively. They are entitled to the preferential tax rate of 15% for the six months ended 30 June 2024 and 2023.

* *The English name is for identification purpose only*

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging:		
Salaries and allowances (excluding directors' emoluments)	149,490	111,493
Retirement benefit scheme contributions (excluding directors)	21,369	18,727
Total staff costs	170,859	130,220
Cost of inventories recognised as expenses (included in cost of sales)	1,033,818	744,798
Net foreign exchange gains	(1,938)	(9,040)
Depreciation of property, plant and equipment	26,325	24,524
Depreciation of right-of-use assets	5,703	3,175
Loss on disposal of property, plant and equipment, net	3,473	359

9. DIVIDENDS

No dividend was paid or proposed during the six months ended 30 June 2024, nor has any dividend been proposed since the end of the interim period (six months ended 30 June 2023: nil).

10. EARNINGS PER SHARE

	Six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings for the purpose of basic and diluted earnings per share	23,967	24,128
Number of ordinary shares for the purpose of basic and diluted earnings per share	219,725,000	219,725,000
Basic and diluted earnings per share (HK cents per share)	10.90	10.98

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 2024 and 2023.

11. FINANCIAL ASSETS AT FVTPL

	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Investments in a life insurance policy	7,809	7,809

In September 2021, the Group's subsidiary, Wai Chi Opto Technology Limited ("Wai Chi Opto"), entered into a life insurance policy with an insurance company to insure Mr. Chen Chung Po, a director of the Company. Under the policy, the beneficiary and the policy holder is Wai Chi Opto and the total insured sum is approximately US\$1,750,000 (equivalent to approximately HK\$13,650,000). The Company was required to pay an one-off premium payment of approximately US\$602,000 (equivalent to approximately HK\$4,696,000). The Company can terminate the policy at any time and receive cash back based on the cash value of the policy at the date of withdrawal ("Cash Value"), which is determined by the premium payment plus accumulated interest earned minus the accumulated insurance charges and a specified amount of surrender charge if the withdrawal is made before the specified policy year.

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

12. FINANCIAL ASSET AT FVTOCI

	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Unlisted equity investment	16,264	17,319

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 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Receivables at amortised cost comprise:		
Trade receivables	956,403	890,181
Less: allowance for impairment of trade receivable	(5,587)	(9,323)
	950,816	880,858
Bills receivables	126,004	110,769
Total trade and bill receivables	1,076,820	991,627

As at 30 June 2024, the gross amount of trade receivables arising from contracts with customers amounted to approximately HK\$956,403,000 (31 December 2023: approximately HK\$890,181,000).

The Group allows an average credit period of 15 to 180 days (31 December 2023: 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 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
0 to 90 days	825,621	810,416
91 to 180 days	63,884	18,825
181 to 365 days	58,505	51,617
Over 1 year	2,806	–
	950,816	880,858

All the bills receivables are aged within 365 days.

14. TRADE, BILLS AND OTHER PAYABLES AND ACCRUALS

	30 June 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
Trade payables (<i>note</i>)	468,032	539,744
Bills payables (<i>note</i>)	837,211	637,557
	1,305,243	1,177,301
Other payables	29,800	36,087
Accrued expenses	25,984	31,128
	55,784	67,215
	1,361,027	1,244,516

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 2024 HK\$'000 (Unaudited)	31 December 2023 HK\$'000 (Audited)
0 to 90 days	342,885	450,958
91 to 180 days	103,610	71,885
181 to 365 days	8,755	7,991
Over 365 days	12,782	8,910
	468,032	539,744

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

All the bills receivables are aged within 180 days.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

During the first half of 2024, despite persisting geopolitical conflicts and international trade frictions, global economic activity commenced a recovery phase as the influence of cyclical factors waned. Robust exports from the Asian region, notably in the technology sector, bolstered trade and served as a driving force for economic growth.

For China, the country's gross domestic product (“GDP”) reached RMB61.7 trillion in the first half of the year, representing an increase of 5.0% year-on-year (“YOY”). The value added to the manufacturing industry increased by 6.3% YOY, surpassing the economic growth rate by 1.3 percentage points, accounting for 27% of the GDP. The upturn of external demand has accelerated the export of Chinese industrial products, especially various electronic products.

The LED backlight industry currently faces a landscape where opportunities and challenges coexist. The opportunities were driven primarily by strong automobile sales, particularly in the rapidly developing new energy vehicle sector. According to data provided by the China Association of Automobile Manufacturers (“CAAM”), the country's cumulative sales of new energy vehicles reached 3.89 million units between January and May 2024, marking an increase of 32.5% YOY compared to the same period last year. LED backlight panels, serving as pivotal components of in-vehicle display screens – an essential interface for “human-vehicle interaction” – have also reaped benefits from this trend, leading to a significant upsurge in demand.

However, the rapid growth in sales of LED backlights for automobiles has not come without its challenges. The heightened competition within the sector not only makes survival even more difficult for small and medium-sized LED display enterprises but also thins profit margins, forcing manufacturers to seek scalability and invest in the expansion of production facilities.

The current market environment, marked by robust demand and intensified competition, presents significant opportunities for industry players with sufficient expertise and capacity. Companies that can provide top-tier products and establish enduring, stable partnerships with clients will be well-positioned to navigate the challenges and capitalise on the growth opportunities. In contrast, those lacking the necessary resources and strategic foresight may find it increasingly difficult to compete in this rapidly evolving landscape.

BUSINESS REVIEW

Overview

For the six months ended 30 June 2024 (the “**period under review**”), the Group continues to focus on its core business of LED products, especially that of LED backlights for automobile onboard displays. In the dynamic landscape of its ever-changing industry, the Group continuously studies industry trends, vigorously invests in product research and development, and production to ensure meeting customer demands. Through a steadfast commitment to quality assurance, it prioritises maintaining its reputation as a reliable and trusted player in the market.

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

The total revenue for the period under review was approximately HK\$1,166,073,000, representing an increase of approximately 36.0% compared to approximately HK\$857,538,000 for the corresponding period in 2023, mainly due to the increased revenue from its core business. Revenue from the core sector of LED business was approximately HK\$948,630,000, representing an increase of approximately 26.5% compared to that of the corresponding period in 2023. Revenue from the sales of LED backlight products was approximately HK\$899,515,000 (six months ended 30 June 2023: approximately HK\$698,617,000), representing an increase of approximately 28.8%, mainly due to the increased sales from automobile onboard display backlights. Revenue from the sales of LED lighting products was approximately HK\$49,115,000 (six months ended 30 June 2023: approximately HK\$51,190,000), representing a slight decrease of approximately 4.1%. The revenue from the semiconductor memory chip business was approximately HK\$217,443,000, presenting an increase of 101.8% compared to the approximately HK\$107,731,000 from the corresponding period last year, driven by a surge in order volume during a market uptrend. However, this growth is subject to significant fluctuations and may not be sustainable.

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\$823,079,000, HK\$11,621,000, and HK\$64,815,000, respectively.

Benefiting from the thriving development of the automobile onboard display technology and the increasing popularity of new energy vehicles, the order volume for the Group's automobile display backlight products has consistently remained at a high level. It continued to be the largest contributor to the Group's LED backlight business during the period under review, representing approximately 91.5% of total LED backlight product sales (six months ended 30 June 2023: approximately 86.4%). However, due to the escalating competition among automotive manufacturers, the prices of cars are under increasing pressure. This trend has placed automobile onboard display backlights in a predicament where their prices are also being compressed. In line with this industry trend, the Group's gross profit margin in this segment decreased from 15.2% for the corresponding period last year to 13.3% for the period under review.

During the first half of 2024, due to the increasing obsolescence of LED backlight televisions in the market, the sales of the Group's television display backlights decreased slightly to approximately HK\$11,621,000 (six months ended 30 June 2023: approximately HK\$12,319,000).

As for the backlights for other industrial equipment displays, the Group recorded a decrease of approximately 21.9% in revenue for the six months ended 30 June 2024, amounting to approximately HK\$64,815,000 (six months ended 30 June 2023: approximately HK\$82,951,000).

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, the total revenue from lighting services amounted to HK\$49,115,000 (six months ended 30 June 2023: approximately HK\$51,190,000).

Revenues from public and commercial lighting were approximately HK\$13,277,000 and HK\$35,838,000, respectively (six months ended 30 June 2023: approximately HK\$395,000 and HK\$50,795,000). The significant increase in the public lighting sector was primarily due to lighting projects in the PRC's public school system. However, as these projects have been completed, the Group does not foresee a continued trend of rapid growth in this sector. The decrease in sales in the commercial lighting sector was due to a significant drop in orders from the Group's major market in Europe, where purchasing power and interest are currently suppressed by a series of factors, which include, amongst others, inflation and high energy costs.

Semiconductor Memory Chip Business

During the period under review, the revenue generated by the semiconductor memory chip business amounted to approximately HK\$217,443,000 (six months ended 30 June 2023: approximately HK\$107,731,000). As previously mentioned, such growth cannot be guaranteed in the future. Furthermore, due to the competitive and uncertain nature of the international semiconductor chip trade, the Group will continue to consider this sector as a non-core business, utilising its existing facilities and capabilities to generate a supplementary revenue stream without allocating additional resources in the near term.

QUALITY CONTROL

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

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

RESEARCH AND DEVELOPMENT

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

The Group's R&D centre is located in its production plant in Huizhou. The Group engages in various R&D activities, including (i) concurrent development of new product designs with our customers; (ii) improvement of product quality, efficiency and functionality of existing products; (iii) in-project calibration and optimization of the production processes and capability of the equipment; (iv) introduction and promotion of the use of new production technologies and new production materials; and (v) assessment of the future prospect and development trend of the LED industry. The Group has achieved a number of technological advancements and breakthroughs over the years, and, as at 30 June 2024, the Group held 282 patents registered in the PRC. Looking forward, the Group aims to enhance its R&D centre and talent pool, ensuring preparedness for emerging opportunities and maximizing potential business prospects.

PROSPECTS

In the latter half of 2024, the global economy is anticipated to undergo a moderate recovery, albeit within a persistently subdued historical cycle. Geopolitical factors will continue to overshadow economic progress with uncertainties. The outcome of the U.S. presidential election will wield substantial influence over international affairs, trade advancements, financial market confidence, and various other facets.

For China, the economic recovery in the first half of the year has laid a solid foundation for development in the second half. However, the resurgence of international trade protectionism may pose some challenges to this positive trend. On 21 June 2024, the U.S. Treasury Department released proposed rules on investment restrictions towards China, explicitly limiting American entities' investments in high-tech sectors. Additionally, the European Union has introduced 31 trade and investment restriction measures against China, including imposing a maximum 38.1% import tariff on Chinese electric cars.

These external restrictions will inevitably restrain the expansion of China's new energy vehicle industry. However, strong domestic demand may be sufficient to sustain the industry's optimistic outlook. Simultaneously, as the level of automotive intelligence continues to improve and the demands for human-vehicle interaction escalate, automobile onboard display products are gradually diversifying. From a single central control screen, the market is expanding to include LCD instrument panels, passenger entertainment screens, rear-seat entertainment screens, HUDs, and more. This trend signifies significant opportunities for LED backlight manufacturers. Statistics and forecasts from Sigmaintell (“群智諮詢”) indicate that the global demand for automobile onboard display screens is projected to reach 247 million units in 2028. Additionally, many global top-tier automotive manufacturers are increasingly turning to Chinese backlight producers for their outstanding quality-to-price ratio.

However, while the upgrade of automotive display screens has generated a significant increase in demand, the unit price of automotive display components is constantly being squeezed due to the continual decrease in car prices. To remain competitive, LED manufacturers need to stringently control operation costs while actively investing in R&D to meet evolving market demands.

As a highly experienced and well-regarded participant in the industry, the Group has consistently kept pace with market trends, continuously optimising existing products and strategising for emerging product trends. Within the current market environment, the Group has successfully achieved a leading position in the industry. With the continuous increase in order volumes, the Group may soon meet the ceiling of its scalability within its current production capacity. However, we are actively planning and exploring opportunities to address such constraints, including seeking possible collaborations with peers. Leveraging our research on market trends and the core position of our products in the industry chain, we are confident in maintaining strong development momentum and rewarding the trust of our shareholders.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2024, the sources of revenue for the Group were the sales of LED backlights, LED lighting services, and semiconductor memory chips business. The total revenue for the period under review was approximately HK\$1,166,073,000, increasing by approximately 36.0% compared to approximately HK\$857,538,000 for the corresponding period in 2023. The Group's LED backlight product sales were approximately HK\$899,515,000, representing an increase of approximately 28.8% from approximately HK\$698,617,000, for the six months ended 30 June 2023, which was mainly attributable to the increased sales from automobile onboard display backlights. The sales of the Group's LED lighting products for the period under review decreased by approximately 4.1% to approximately HK\$49,115,000 from approximately HK\$51,190,000 in the corresponding period in 2023. The revenue from the Group's semiconductor memory chips business was approximately HK\$217,443,000, increasing by approximately 101.8% compared to approximately HK\$107,731,000 from the corresponding period last year, resulting from the surge in order volume.

Gross Profit and Gross Profit Margin

For the period under review, the Group's overall gross profit was approximately HK\$132,255,000, which increased by approximately 17.3% from approximately HK\$112,740,000 in the corresponding period in 2023. The overall gross profit margin was approximately 11.3%, having decreased by approximately 1.8 percentage points from approximately 13.1% in the corresponding period in 2023. Gross profit from the sales of the Group's LED segments of backlight products and lighting services was approximately HK\$128,438,000, representing an increase of approximately 16.6% from approximately HK\$110,151,000 for the corresponding period in 2023. The gross profit margin for these two segments decreased by approximately 1.2 percentage points from approximately 14.7% in the first half of 2023 to approximately 13.5% in the period under review. Gross profit from the semiconductor memory chip business was approximately HK\$3,817,000 (six months ended 30 June 2023: approximately HK\$2,589,000). The gross profit margin for the semiconductor memory chip business was approximately 1.8% (six months ended 30 June 2023: approximately 2.4%). The overall increase in gross profit is mainly attributed to a significant rise in sales of LED backlight products.

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 2024, the Group's selling and distribution expenses were approximately HK\$22,176,000, representing an increase of approximately 32.2% as compared to approximately HK\$16,776,000 in the corresponding period in 2023. The increase in selling and distribution expenses was in line with the increase in turnover.

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 2024, the Group's administrative expenses, including research and development expenses, were approximately HK\$98,281,000, which increased by approximately 21.3% as compared to approximately HK\$81,020,000 for the first half of 2023. The increase in administrative expenses was mainly due to the increase in personnel needed to support business expansion.

Other Income

During the period under review, other income was approximately HK\$47,975,000, representing a significant increase of approximately 73.4% in comparison with approximately HK\$27,671,000 for the corresponding period in 2023, mainly due to the increase in interest income and government grant received.

Taxation

Taxation comprised current tax and movements in deferred tax assets and liabilities. Two of the Group's subsidiaries, Wai Chi Opto Technology (Shenzhen) Limited and Huizhou Wai Chi Electronics Company Limited (“**Huizhou Wai Chi**”), are qualified as a “High-Tech Enterprise” in the PRC and granted certain tax benefits, including a preferential enterprise income tax rate of 15% instead of the statutory rate of 25%. During the period under review, the Group's tax expenses amounted to approximately HK\$3,483,000 (six months ended 30 June 2023: approximately HK\$290,000), which was due to increase in taxable profits arising in PRC's subsidiaries.

Inventories

As at 30 June 2024, the Group's inventory was approximately HK\$330,539,000, increased by approximately 24.4% compared to approximately HK\$265,803,000 as at 31 December 2023. The increase in inventories is a result of the Group's change of tactic, as it strategically purchased more materials to offset an anticipated price increase.

Trade Receivables

As at 30 June 2024, the Group's net trade receivables amounted to approximately HK\$950,816,000 which increased mildly by approximately 7.9% as compared to approximately HK\$880,858,000 as at 31 December 2023. This was mainly attributable to some adjustments in payment terms made with the Group's clients.

Trade Payables

As at 30 June 2024, the Group's trade payables amounted to approximately HK\$468,032,000, which decreased by 13.3% as compared to approximately HK\$539,744,000 as at 31 December 2023, which was mainly attributable to some adjustments in payment terms made with the Group's suppliers.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2024.

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 six months ended 30 June 2024.

CORPORATE GOVERNANCE PRACTICES

The Company and its management are committed to maintaining good corporate governance with an emphasis on the principles of transparency, accountability and independence to all shareholders. The Company believes that good corporate governance is essential for the continual growth and enhancement of shareholders' value. Throughout the period under review, the Company has applied the principles of and complied with the code provisions stipulated in the Corporate Governance Code (the "Code") as set out in Appendix C1 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 in Part 2 of the 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 Code.

All other information on the Code has been disclosed in the corporate governance report contained in the 2023 annual report of the Company issued in April 2024.

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 2024. On 23 August 2024, 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 2024 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, 23 August 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.