Wai Chi Holdings Company Limited
偉志控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1305

2018 INTERIM REPORT

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FINANCIAL HIGHLIGHTS

	For the six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
	HK$'000	HK$'000
Revenue	**1,445,080**	624,156
Gross profit	**119,422**	93,392
Gross profit margin	**8.3%**	15.0%
Profit for the period	**16,929**	10,533
Basic and diluted earnings per share	**HK7.81 cents**	HK4.86 cents

CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Mr. Yiu Chi To *(Chairman)*
Mr. Chen Chung Po *(Chief Executive Officer)*
Ms. Yiu Kwan Yu
Mr. Chen Wei Wu
Ms. Yong Jian Hui

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Au Yeung Tin Wah
Mr. Chen Kwok Wang
Mr. Ho Chi Wai

COMPANY SECRETARY
Mr. Cheung Wai Hung

AUDIT COMMITTEE
Mr. Au Yeung Tin Wah *(Chairman)*
Mr. Chen Kwok Wang
Mr. Ho Chi Wai

REMUNERATION COMMITTEE
Mr. Ho Chi Wai *(Chairman)*
Mr. Au Yeung Tin Wah
Mr. Chen Kwok Wang

NOMINATION COMMITTEE
Mr. Chen Kwok Wang *(Chairman)*
Mr. Au Yeung Tin Wah
Mr. Ho Chi Wai

RISK MANAGEMENT COMMITTEE
Mr. Chen Chung Po *(Chairman)*
Mr. Chen Kwok Wang
Mr. Cheung Wai Hung

AUTHORISED REPRESENTATIVES
Mr. Chen Chung Po
Mr. Cheung Wai Hung

REGISTERED OFFICE
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
6th Floor, Liven House
63 King Yip Street
Kwun Tong
Kowloon
Hong Kong

AUDITORS
SHINEWING (HK) CPA Limited
Certified Public Accountants
43/F., Lee Gardens One
33 Hysan Avenue
Causeway Bay
Hong Kong

STOCK CODE
01305

COMPANY'S WEBSITE
www.waichiholdings.com

PRINCIPAL BANKERS

O-Bank Co., Limited
Suites 3210–3214
32nd Floor, Gateway Tower 6
Harbour City, Tsim Sha Tsui
Kowloon, Hong Kong

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road
Central
Hong Kong

Citibank (Hong Kong) Limited
11th Floor, Citi Tower
One Bay East, 83 Hoi Bun Road
Kwun Tong
Kowloon, Hong Kong

Cayman Islands principal share registrar and transfer office

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Hong Kong branch share registrar and transfer office

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In the first half of 2018, global economic recovery continues despite a number of uncertainties in international trading, financial market and the complex geopolitics. Under such circumstances, China's GDP growth remained stable at around 6.8%. As China's economic reform deepens and advances, the economic structure continues to optimize, bringing rapid development in high-tech industries, and high-end equipment manufacturing.

For the past months and in the foreseeable future, the escalating Sino-US trade tension poses pressure on most industries, adding to the wait-and-see mood. The LED market players are seeking a breakthrough. The global LED lighting market scope, estimated by LEDinside, an LED information service platform and research institution, will steadily expand between 2016 and 2019 and reach US$32.717 billion in 2018, while most capable manufacturers are transforming towards the niche and high-tech threshold market due to the sluggishness in the lower-end lighting market. On the other hand, the market value of global automobile LED in 2017 was US$2.817 billion and is expected to increase by 12.45% in 2018, with headlights, fog lights and automobile panels being the top three growth points. Since China is the largest global automobile market, the need for automobile LED products is gradually growing. Supported by national policies in areas like market access, taxation and infrastructure, China's automobile market is transforming towards an energy-saving future, resulting in the increasingly growing demand for automobile LED products.

BUSINESS REVIEW

The Group successfully restructured the product mix by ceasing the low-margin smartphone LED backlight business in 2016 and focused on the production of high margin products. Since then, the Group has granted more resources and capital to develop profitable business segments including automobile on-board displays and lighting services. The non-core high-tech electronic components and products sourcing business serves as a buffer in the migration to a high-margin business portfolio. The risk management system the Group specially designed and put in place for the sourcing business (details of which would be discussed below) helped to regulate the business development. In addition, the Group's strategic partnership with O-Bank, a Taiwanese bank specializing in industrial sector, proved to be a visionary decision. Supported by O-Bank's extensive experience in the industrial sector in Taiwan where LED industry is well-developed, the partnership can serve as a strong facilitator in our future expansion.

During the period under review, the total revenue of the Group significantly increased by 131.5% to approximately HK$1,445,080,000 from HK$624,156,000 in the corresponding period of 2017. Net profit of the Group during the period under review recorded an increase from HK$10,533,000 to approximately HK$16,929,000. Revenue of LED backlight products registered an increase of 17.0% to approximately HK$377,886,000 (2017: approximately HK$322,872,000). Revenue from the sales of LED lighting products was approximately HK$48,336,000 (2017: approximately HK$29,637,000), with an increase of 63.1%. Revenue generated from sourcing of high-tech electronic components and products was approximately HK$1,018,858,000. By strengthening the sales of automobile LED backlight products and maintaining the revenue stream from sourcing business, the Group successfully achieved satisfactory results in this relatively unfavorable market environment filled with uncertainties.

LED Backlight Business

The Group's LED backlight products are classified into three types, including: (1) automobile on-board displays; (2) television displays; and (3) other industrial equipment displays. During the period under review, revenue derived from LED backlight products related to automobile on-board displays, television displays and industrial equipment displays were approximately HK$222,558,000, HK$56,459,000 and HK$98,869,000 respectively.

The Group's revenue from automobile on-board displays increased by 52.8%. With the fast development of new energy vehicle industry in China, the demand for automobile LED products is also on the rise. In the first half of 2018, China Association of Automobile Manufacturers announced a 94.9% increase on the new energy vehicle production and a 111.6% increase on the sales. This trend is widely believed to last for at least several years. To seize the opportunities rising from the latest trend, the Group, being an experienced market player with strong research and development capacity, has been devoting to develop automobile lighting, which is a niche and less penetrated lighting market with higher entry barrier and better profit margins. It is the Group's strong belief that the expanding Chinese new energy vehicle market calls for more reliable, safe, and easy-to-use in-vehicle LED products.

On the contrary, Chinese television market is still masked with difficulties since 2016. Data from China Electronics Chamber of Commerce shows that domestic television consumption has not yet rebounded from its rock bottom. In the meantime, export is faced with uncertainties from the current Sino-US trade tension. It is safe to say that China's television market has saturated with very limited room for growth. Therefore, the Group is gradually shifting manufacturing resources from the television section to automobile on-board displays to fit in with the market changes. During the first half of 2018, as a seasoned market player, the Group's revenue from the sales of television LED backlight products increased by 4.7%, a fairly mild increase compared to automobile on-board displays section.

LED Lighting Service Business

The Group's LED lighting business is classified into 2 types, including public lighting and commercial lighting. The Group provides various services including products, lighting solutions design, installation and maintenance etc. During the period under review, revenue from public lighting and commercial lighting was approximately HK$15,994,000 and HK$32,342,000 respectively, showing a decrease of 5.0% and an increase of 152.7% as compared to respective approximates of HK$16,839,000 and HK$12,798,000 during the same period of 2017.

Since the implementation of LED street lighting in China is relatively slow, the Group has been proactively expanding its LED lighting services to overseas markets. Following the major global trend of smart cities in the world, the Group has set up large-scale business projects in both Europe and North America, where our sales are proven to be quite satisfactory. Specifically, our business development in European market is progressing as planned and is contributing to our revenue growth.

High-tech Electronic Components and Products Sourcing Business

To smoothly transform to higher margin business segments, the Group has been temporarily engaging in a non-core business of providing sourcing business of high-tech electronic component and products since 2016. Revenue from the provision of sourcing business was approximately HK$1,018,858,000, accounting for 70.5% of total revenue for the period under review, providing strong support for the Group to develop new projects in other high margin areas.

In order to regulate the operation of the sourcing business and minimize possible risks, the Group has established a sophisticated risk management system, including 4 categories, namely, (1) legal risk management, which requires the Group to sign framework agreements with both the supplier and the buyer sides to set clearly the duties of all parties; (2) goods and logistics risk management, which prevents the Group from being involved in such disputes by letting the supplier and buyer deal directly in terms of shipment time, storage methods, logistics methods, and product quality, etc.; (3) intellectual property risk management, which requires suppliers to ensure that the products meet all legal requirements and to take responsibilities if all or any of the relevant legal issues arise; and (4) overdue accounts receivable risk management, which requires each members of the senior management of the customers to provide personal guarantee for the settlement of accounts. As a result of the above-mentioned risk management measures, there was no overdue transaction in the sourcing business section as of 30 June 2018, and the longest payment collection period was only 60 days during the Review Period. With the risk management system in place, the Group has confidence in maintaining a smooth and safe operation environment in the sourcing business.

QUALITY CONTROL

The Group has established stringent quality control procedures to ensure the quality of the LED products. Quality control begins from product design stage and continues throughout the entire product manufacturing and storage process. Quality control staff engage in the product design process to ensure quality excellence. A set of detailed procedures have been established and implemented in selecting and approving new suppliers and raw materials. Thorough testing of product samples is being carried out before mass production of the LED products.

The Group possesses a series of advanced production and testing equipment for enhancing quality control. The Group has been awarded various certifications, including ISO 9001:2008 and ISO 14001:2004 for quality and environmental management systems, which serves as an important assurance of the quality and reliability of the Group’s products.

RESEARCH AND DEVELOPMENT

The Group firmly believes that the Research and Development ("R&D") capabilities are of great importance to the innovation process and can help maintain its strong competitiveness in the LED backlight and LED lighting industries. In order to remain competitive in the LED industry, the Group places great emphasis on developing and improving the LED backlight and LED lighting products.

The Group's R&D centre is located in our production plant in Huizhou. The Group engages in various R&D activities, including (i) concurrent development of new product designs with customers; (ii) improvement of product quality, efficiency and functions of existing products; (iii) in-project calibration and optimization of the production processes and capability of the equipment; (iv) introduction and promotion of the use of new production technologies and new production materials; and (v) assessment of the future prospect and development trend of the LED industry. The Group has achieved a number of technological advancement and breakthroughs by obtaining 65 patents registered in the PRC. In the future, the Group will continue to enhance its R&D capabilities in order to catch up with the strong demands in both LED backlight and LED lighting products markets.

PROSPECT

In the short term, the Sino-US trade tension is expected to put pressure on world economy. The inclusion of television components, textile, household products, and high-tech products etc. in the list of extra US tariffs over Chinese goods, coupled with China's recently announced further depreciation of RMB in reaction, has put a lot of business development opportunities on hold.

In the long term, thanks to the rising domestic demand in China, which drives a stable GDP growth, the income and profitability of manufacturing enterprises in the country still have good chance to improve. High-tech manufacturers in particular, who have been enjoying favorable government policies, are still expecting a bright future.

In terms of the LED industry, China's major products and key technologies can effectively compete with their international counterparts. The dramatically expanding domestic automobile market is also bringing promising opportunities for the automobile LED products, specifically with China ranking the first in terms of new energy vehicles sales for 3 consecutive years. The safety requirements on in-vehicle LED products and customers' preference on easy-to-use and advanced functions rule out competitors with lower R&D capacities. The Group's experience and reputation in the market help it to seize such growing business opportunities in the ever-changing trends.

For the lighting section, the Group's efforts in developing both public and commercial projects have paid back. In addition to our existing business, the Group is also seeking opportunities to expand the public lighting services in China including establishing a joint venture company through a non-wholly-owned subsidiary this year, aiming at providing lighting services for the Chinese railways. Due to the safety requirements and the busy schedule of trains running across the country, the replacement of lighting facilities along the railways has experienced great difficulties throughout the years. The Group is equipped with the required capacity and sophisticated technology to provide the lighting device for the railways in China. We are currently expecting the approval for suppliers from authorities before we can officially start bidding for the provision of the service, but progress has already been made. Looking ahead, we expect it would not only bring new revenue stream to the Group, but also turn a new page for the Chinese railway development.

Leveraging on our reputation over the past three decades, as well as our strong design, R&D, and production capacities, we have confidence in meeting the challenges of changing demands, shifting consumers' preferences, transforming consumption patterns and evolving market trends. Taking the current economic and industry environment into consideration, we will take an active yet cautious path towards our future growth.

FINANCIAL REVIEW

Revenue

The revenue of the Group was mainly contributed by the sales of LED backlight and LED lighting products and the sourcing business of high-tech electronic components and products. During the period under review, the sales of LED backlight products increased by 17.0% to approximately HK$377,886,000 from HK$322,872,000 in the same period of 2017. Sales of LED lighting products recorded a considerable increase of 63.1% to approximately HK$48,336,000 from HK$29,637,000 in the same period of 2017 due to significant increase in the commercial sector. Revenue from the sourcing business of high-tech electronic components and products was approximately HK$1,018,858,000. As a non-core business and an expedient in the migration to a high-margin business portfolio, the revenue from this sector will continue to be used to grow the higher margin segments.

The Group has deployed more resources and capital in developing automobile LED backlight products, the sales of which has been growing in satisfactory pace with good profit margins. Meanwhile, throughout the period under review, the Group continued to implement stringent cost control measures to enhance financial efficiency by fully implementing enterprise resource planning ("ERP") system for lowering the operational cost for the entire manufacturing process that has been upgraded with advanced automation capabilities.

Gross profit and Gross Profit Margin

During the period under review, the Group's gross profit from the sales of LED backlight and LED lighting product was approximately HK$107,751,000, increased by 23.3% from approximately HK$90,134,000 in the same period of 2017. Gross profit margin of these two segments was 25.3%, decreased by 0.3% percentage points from 25.6% in the same period of 2017. Gross profit and gross profit margin from the provision of sourcing business of high-tech electronic components and products were HK$11,671,000 and 1.15% respectively.

Selling and Distribution Expenses

Labour costs, sales commissions and transportation costs were the Group's major selling and distribution expenses. During the period under review, the Group's selling and distribution expenses was approximately HK$11,835,000, slightly decreased by 4.9% compared to approximately HK$12,439,000 in the same period of 2017.

Administrative Expenses

Administrative expenses refer to the general expenses incurred in offices and factories. The Group focuses on effective management, by means of resources consolidation in the Shenzhen and Huizhou factories. During the period under review, the Group's administrative expenses was approximately HK$45,942,000, decreased by 8.37% as compared to approximately HK$50,139,000 in the same period of 2017.

Other Income and Other Gains

During the period under review, other income and gains was approximately HK$7,222,000, increase by 5.7% as compared to the same period of 2017, mainly due to the increase of government grant obtained from the Shenzhen local government.

Taxation

Income tax expense 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, are qualified as a "High-Tech Enterprise" in the PRC and granted certain tax benefit, including a preferential enterprise income tax rate of 15% instead of the statutory rate of 25%. During the period under review, the Group's income tax expenses was approximately HK$3,558,000, which was mainly attributable to the taxable profit generated by the subsidiaries of the Company located in PRC.

Inventories

As of 30 June 2018, the Group's inventory was approximately HK$235,635,000, increased by 13.5% as compared to approximately HK$207,631,000 as at 31 December 2017. The increase in inventory was attributable to the increase of inventory for automobile and lighting LED products to meet with the increasing demand.

Trade receivables

As of 30 June 2018, the Group's net trade receivables were approximately HK$334,037,000, decreased by 14.9% as compared to approximately HK$392,747,000 as at 31 December 2017. The Group's major customers are sizeable corporations with long-term relationships, including a number of listed companies, hence the risk of trade receivables turning into bad debts is relatively low.

Trade payables

As of 30 June 2018, the Group's trade payables were approximately HK$152,792,000, decreased by 21.4% as compared to approximately HK$194,387,000 as at 31 December 2017, the decrease was attributable to decrease in purchase of materials.

Placing of New Shares and Offer to Acquire the Company's Shares

On 6 May 2016, the Company completed a placing of new shares (the "Placing"), allotted and issued 16,825,000 new shares of the Company to not less than six individuals who are independent third parties at the price of HK$2.00 per share. Net proceeds from the Placing amounted to approximately HK$31,134,000, which are intended to be used for financing any potential investment opportunities such as mergers and acquisition that may arise from time to time. As at 30 June 2018, the net proceeds from the Placing have not yet been utilized and have been deposited with licensed banks in Hong Kong.

OTHER DISCLOSURE

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company's ordinary shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 18 November 2014. The total net proceeds from the initial public offering amounted to approximately HK$161,542,000. The Group has, up to the financial period ended 30 June 2018, utilized approximately HK$67,600,000 to purchase machinery and equipment for producing LED backlight and LED lighting products, approximately HK$22,500,000 to repay bank loan utilized for purchasing machinery and equipment, approximately HK$4,500,000 to upgrade and expand our ERP system, approximately HK$40,500,000 for our R&D activities including recruiting technical and expert staff and enhancing our research and development capacity. At the end of the financial period ended 30 June 2018, the net proceeds have been fully utilized as intended.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2018.

GEARING RATIO

As at 30 June 2018, the gearing ratio of the Group, based on total borrowings (including bank borrowing and obligations under finance leases) to the equity (including all capital and reserves) of the Company was 58% (31 December 2017: 50%).

EMPLOYEES

As at 30 June 2018, the Group had 2,249 employees.

The Group recognised the importance of maintaining good relationship with its employees and retaining competent staff to ensure operational efficiency and effectiveness. In the six months ended 30 June 2018, the Group had not encountered any significant problems with its employees, and there had not been any dispute between the Group and its employees that might have caused any disruption to the Group's business or operation. The Group has had no difficulty in recruiting and retaining experienced staff. The remuneration of each employee of the Group is determined on the basis of his or her performance and responsibility. The Group provides training to employees.

FOREIGN CURRENCY EXPOSURE

The Group is exposed to foreign currency risk primarily through sales, purchases, bank balances and cash and bank borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars and Renminbi.

The Group is not engaged in the use of any financial instruments for hedging purposes. However, the management monitors foreign exchange exposure from time to time and will consider hedging significant foreign currency exposure when the need arises.

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 2018.

CONTROLLING SHAREHOLDERS AND DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the "Related Party Transactions and Balances" in note 21 to the Condensed Consolidated Interim Financial Information, no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or a controlling shareholder had a material interest, whether directly or indirectly, subsisted at the end of the six months ended 30 June 2018 or at any time during the period.

DIRECTORS AND CHIEF EXECUTIVE OFFICER'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 30 June 2018, the interests and short positions of the directors and chief executive officer of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Listing Rules were as follows:

Name of Director	Capacity/ nature of interest	Number and class of securities (Note 2)	Approximate percentage of shareholding
Mr. Yiu Chi To (Note 1)	Beneficial owner	128,120,000 (L)	59%

Notes:

1. Mr. Yiu Chi To holds 100% of the issued share capital of Rexell Technology Company Limited, which is the controlling shareholder holding 59% of the issued share capital of the Company.

2. The letter "L" denotes the Director's long position in the shares of the Company or the relevant associated corporation.

Save as disclosed above, as at 30 June 2018, none of the Directors and chief executive officer of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they had taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PARTIES IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

As at 30 June 2018, so far as the directors and chief executive officer of the Company were aware, the following persons and corporations (excluding the directors and chief executive officer of the Company) had interests or short positions in any of the shares or underlying shares of the Company which were required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who, directly or indirectly, is interested in 10% or more of the nominal value of any class of share capital to vote in all circumstances at general meetings of any other member of the Group:

Name of Shareholder	Capacity/ nature of interest	Number of shares held (Note 2)	Approximate percentage of issued share capital
Rexell Technology Company Limited (Note 1)	Beneficial owner	128,120,000	59%
Mr. Yiu Chi To (Note 2)	Interest of a controlled corporation	128,120,000	59%

Notes:

1. Rexell Technology Company Limited directly holds 128,120,000 shares representing 59% of the issued share capital of the Company.

2. Mr. Yiu Chi To is the legal and beneficial owner of all the issued shares of Rexell Technology Company Limited and is therefore deemed to be interested in all the 128,120,000 shares of the Company held by Rexell Technology Company Limited under the SFO.

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 an 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company periodically reviews its corporate governance practices with reference to the latest development of corporate governance.

All other information on the Code has been disclosed in the corporate governance report contained in the 2017 annual report of the Company issued in March 2018.

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, following 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 2018. On 24 August 2018, 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.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Notes	Six months ended 30 June 2018 HK$'000 (Unaudited)	 2017 HK$'000 (Unaudited)
Revenue	5	**1,445,080**	624,156
Cost of sales		**(1,325,658)**	(530,764)
Gross profit		**119,422**	93,392
Other income and other gains	5	**7,222**	6,835
Selling and distribution expenses		**(11,835)**	(12,439)
Administrative expenses		**(45,942)**	(50,139)
Research and development expenses		**(34,091)**	(14,161)
Finance costs	7	**(14,289)**	(9,599)
Profit before tax		**20,487**	13,889
Income tax expense	8	**(3,558)**	(3,356)
Profit for the period	9	**16,929**	10,533
Earnings per share	11		
Basic and diluted (HK$ cents)		**7.81**	4.86

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Profit for the period	**16,929**	10,533
Other comprehensive income for the period		
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax		
Exchange differences arising on translation of foreign operations	**1,313**	13,917
Total comprehensive income for the period, net of tax	**18,242**	24,450

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	12	**239,795**	245,238
Prepaid lease payments	13	**38,099**	37,665
Deferred taxation		**6,530**	6,586
		284,424	289,489
Current assets			
Inventories		**235,635**	207,631
Prepaid lease payments	13	**915**	915
Trade receivables	14	**334,037**	392,747
Bills receivables	14	**73,594**	26,922
Prepayment, deposits and other receivables		**321,090**	400,157
Financial asset at fair value through profit or loss		**23,722**	–
Available-for-sale investment		**–**	23,926
Pledged bank deposits	15	**97,319**	144,353
Deposits with bank		**224,173**	186,623
Bank balances and cash	15	**114,430**	111,722
		1,424,915	1,494,996
Current liabilities			
Trade payables	16	**152,792**	194,387
Bills payables	16	**281,519**	327,304
Other payables and accruals	16	**192,801**	262,992
Bank borrowings – due within one year	17	**377,660**	321,441
Obligations under finance leases – due within one year		**193**	974
Income tax payables		**9,630**	9,706
		1,014,595	1,116,804
Net current assets		**410,320**	378,192
Total assets less current liabilities		**694,744**	667,681

	Notes	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Non-current liabilities			
Bank borrowings – due more than one year	17	**9,000**	–
Obligations under financial leases			
– due more than one year		**23**	90
Corporate bond	18	**1,875**	1,776
Government grants		**19,582**	19,793
Deferred taxation		**14**	14
		30,494	21,673
Net assets		**664,250**	646,008
Capital and reserves			
Share capital	19	**2,168**	2,168
Reserves		**662,082**	643,840
Total equity		**664,250**	646,008

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Reserves					
	Share capital HK$'000	Share premium HK$'000	Statutory reserve HK$'000 (Note a)	Translation reserve HK$'000	Merger reserve HK$'000 (Note b)	Retained profits HK$'000	Total HK$'000
At 1 January 2018 (audited)	2,168	331,977	49,501	225	34,561	227,576	646,008
Profit for the period	–	–	–	–	–	16,929	16,929
Other comprehensive income for the period – exchange differences arising from foreign operations	–	–	–	1,313	–	–	1,313
Total comprehensive income for the period	–	–	–	1,313	–	16,929	18,242
At 30 June 2018 (unaudited)	2,168	331,977	49,501	1,538	34,561	244,505	664,250

		Reserves					
	Share capital HK$'000	Share premium HK$'000	Statutory reserve HK$'000 (Note a)	Translation reserve HK$'000	Merger reserve HK$'000 (Note b)	Retained profits HK$'000	Total HK$'000
At 1 January 2017 (audited)	2,168	331,977	45,043	(41,477)	34,561	209,704	581,976
Profit for the period	–	–	–	–	–	10,533	10,533
Other comprehensive income for the period							
– exchange differences arising from foreign operations	–	–	–	13,917	–	–	13,917
Total comprehensive income for the period	–	–	–	13,917	–	10,533	24,450
At 30 June 2017 (unaudited)	2,168	331,977	45,043	(27,560)	34,561	220,237	606,426

Notes:

(a) As stipulated by regulations in the People's Republic of China (the "PRC"), the Company's subsidiaries established and operated in the PRC are required to appropriate 10% of their after-tax profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

(b) Merger reserve represented the difference between share capital of the new holding company and the aggregate of the share capital of the then holding company of the Group and the companies comprising the Group.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash (used in) generated from operations	**(52,255)**	6,080
Tax paid	**(3,551)**	(6,007)
Net cash flow (used in) from operating activities	**(55,806)**	73
Cash flows from investing activities		
Purchase of property, plant and equipment	**(14,278)**	(17,034)
Proceeds from disposal of property, plant and equipment	**36**	307
Other investing cash flow	**15,682**	97,212
Net cash flow from investing activities	**1,440**	80,485
Cash flows from financing activities		
Repayments of bank borrowings	**(78,749)**	(194,090)
Proceeds from bank borrowing	**147,734**	159,309
Other financing cash flows	**(11,279)**	(8,058)
Net cash from (used in) financing activities	**57,706**	(42,839)
Net (decrease) increase in cash and cash equivalents	**3,340**	37,719
Cash and cash equivalents at 1 January	**111,722**	152,341
Effect of foreign exchange rates changes	**(632)**	900
Cash and cash equivalents at 30 June, represented by bank balances and cash	**114,430**	190,960

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. GENERAL

Wai Chi Holdings Company Limited (the “Company”) is incorporated in the Cayman Islands as an exempted company with limited liability under Companies Law of the Cayman Islands on 16 August 2013 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 18 November 2014. Its ultimate controlling party is Mr. Yiu Chi To. The address of the registered office of the Company is Offshore Incorporations (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the 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 engaged in manufacturing and trading of Light-Emitting Diode (“LED”) backlight and LED lighting products.

The functional currency of the Company and the subsidiaries incorporated in Hong Kong are Hong Kong dollars (“HK$”) while that of the subsidiaries established in the People’s Republic of China (the “PRC”) are Renminbi (“RMB”). For the purpose of presenting the condensed consolidated interim financial information, the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) adopted HK$ as its presentation currency which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

The condensed consolidated interim financial information of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2018 has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017 except as described below.

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretation ("new HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning 1 January 2018.

HKFRS 9 (2014)	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014–2016 Cycle
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

The adoption of HKFRS 9 and 15 resulted in changes in the Group's accounting policies and adjustments to the amounts recognised in the condensed consolidated financial statements. The new accounting policies are set out in note 4 below. The directors of the Company consider that, the application of other new and revised HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these condensed consolidated financial statements.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 HKFRS 9 Financial instruments

HKFRS 9 replaced HKAS 39 Financial Instruments: Recognition and Measurement, and introduces new requirements for the (1) classification and measurement of financial assets and financial liabilities; (2) impairment of financial assets and (3) general hedge accounting. The Group has applied HKFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under HKFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained earnings and other components of equity as at 1 January 2018.

3.1.1 Classification and measurements

At the date of initial application of HKFRS 9, the Group's management has reviewed and assessed all financial assets held by the Group on the basis of the Group's business model for managing these financial assets and their contractual cash flow characteristics, and has classified its financial assets and financial liabilities into the appropriate categories of HKFRS 9, as explained below:

Trade receivable and other receivables, bill receivables with recourse previously classified as loan and receivables carried at amortised cost:
They are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets continue to be subsequently measured at amortised cost upon application of HKFRS 9.

Equity investments previously classified as available-for-sale investments carried at fair value:
The equity investments amounting to HK$23,722,000 carried at fair value, the Group has not elected the option for designation at FVTOCI and reclassified them to financial assets at fair value through profit or loss ("FVTPL").

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 HKFRS 9 Financial instruments (continued)

3.1.2 Impairment of financial assets

The Group has the following type of financial instruments that are subject to the new impairment requirements under HKFRS 9.

Trade receivables at amortised cost:

The Group applied the simplified approach to provide for expected credit losses ("ECL") under HKFRS 9 and recognised lifetime expected losses for all trade receivables. The trade receivables are grouped based on shared credit risk characteristics and others (e.g. past due information, etc.) for measuring ECL.

Financial assets with low credit risk:

The Group measured a 12-month ECL in respect of the following financial instruments:

- Other financial assets including prepaid lease payments, bank balances and cash, for which credit risk has not increased significantly since initial recognition.

Based on assessment by the management of the Group, no loss allowance at 1 January 2018 was made.

The following table summaries the opening balance adjustments recognized for each line item in the condensed consolidated statement of financial position on initial application of HKFRS 9:

	At 31 December 2017 RMB'000	Effect from application of HKFRS 9 RMB'000	**At 1 January 2018 RMB'000**
Current assets			
Available-for-sale financial investment	23,926	(23,926)	**–**
Financial asset at fair value through profit or loss	–	23,926	**23,926**

4. CHANGE IN ACCOUNTING POLICIES

4.1 HKFRS 9 Financial instruments

4.1.1 Classification and measurement

All recognised financial assets that are within the scope of HKFRS 9 are to be subsequently measured at amortised cost or fair value, depending on the entity's business model for managing the financial assets and cash flow characteristics of the asset.

There are three measurement categories into which the Group classifies its debt instruments:

Financial assets at amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest on principal outstanding are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains (losses), together with foreign exchange gains and losses.

Financial assets at fair value through other comprehensive income ("FVTOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains (losses). Interest income from these financial assets is included in other income using the effective interest method.

Financial assets at fair value through profit or loss ("FVTPL"): Assets that do not meet the criteria for amortised cost or FVTOCI are measured at financial assets at FVTPL. In addition, financial assets that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces an accounting mismatch. A gain or loss on financial asset that is subsequently measured at FVTPL is recognised in profit or loss and presented in other gains (losses) in the period in which it arises.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

4. CHANGE IN ACCOUNTING POLICIES (continued)

4.1 HKFRS 9 Financial instruments (continued)

4.1.1 Classification and measurement (continued)

In respect of the Group's equity instruments, the Group subsequently measures them at fair value. On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate equity instrument as at FVTOCI if the instrument is neither held for trading nor a contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies, with fair value gains and losses recognised in OCI and accumulated in investment revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss when they are derecognised. Instead, they will be transferred to retained earnings. Dividends from equity instruments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established. Changes in the fair value of equity instruments at FVTPL are recognised in other gains (losses) in the condensed consolidated statement of profit or loss and other comprehensive income as applicable.

With regard to the measurement of financial liabilities designated as at FVTPL, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss.

4.1.2 Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets which are subject to impairment under HKFRS 9 (including trade and bills receivables prepayments, deposits and other receivables and lease receivable. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

For trade and bills receivables and lease receivable, the Group applies the simplified approach permitted by HKFRS 9 and records lifetime ECL that results from all possible default events over the expected life of these financial instruments.

4. CHANGE IN ACCOUNTING POLICIES (continued)

4.1 HKFRS 9 Financial instruments (continued)

4.1.2 Impairment of financial assets (continued)

For other financial instruments, the ECL is based on the 12-month ECL. The 12-months ECL is the portion of lifetime ECL that results from possible default events within 12 months after the reporting date, unless when there has been a significant increase in credit risk since initial recognition of the financial instrument, the allowance will be based on the lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with that assessed at the date of initial recognition. In making the assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. The Group presumes that the credit risk on a financial asset has increased significantly when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the above requirements, the Group assumes that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. A financial asset is determined to have a low credit risk if (i) it has a low risk of default; (ii) the borrower has a strong capacity to meet it contractual cash flow obligations in the near term; and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

The measurement of ECL is a function of the probability of default, loss given default and the exposure at default and is estimated as the difference between all contractual cash flows that are due to the Group under the contract and the cash flows that the Group expects to receive, discounted at the original effective interest rate.

4. CHANGE IN ACCOUNTING POLICIES (continued)

4.2 HKFRS 15 Revenue from contracts with customers

Revenue is recognised to depict the transfer of promised goods and services to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services to a customer. Specifically, the Group uses a five-step approach to recognise revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligations is transferred to customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. For contracts that contain more than one performance obligation, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

4. CHANGE IN ACCOUNTING POLICIES (continued)

4.2 HKFRS 15 Revenue from contracts with customers (continued)

The Group recognises revenue for a performance obligation satisfied over time only if the Group can reasonably measure its progress to towards complete satisfaction of the performance obligation. In circumstances where the Group is unable to reasonably measure the outcome of a performance obligation but expects to recover the cost incurred in satisfying the performance obligation, the Group recognises revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

4.2.1 Significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

4.2.2 Contract cost

The Group recognises as an asset the incremental costs of obtaining a contract with a customer if the Group expects to recover those costs, and are amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. The asset is subject to impairment review. Where the amortisation period of the asset is one year or less, the Group applies practical expedient under HKFRS 15 to recognise the incremental costs as an expense when incurred.

5. REVENUE, OTHER INCOME AND OTHER GAINS

Revenue represents the amounts received and receivable for goods sold in the normal course of business, net of discounts and sales related taxes. Analysis of the Group's revenue, other income and other gains is as follows:

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Revenue		
Sales of goods	**1,445,080**	624,156
Other income and other gains		
Bank interest income	**1,913**	2,807
Government grants (note)	**4,563**	2,927
Sales of scrapped materials	**5**	3
Reversal of allowance for trade and other receivables	**–**	3
Sundry income	**741**	1,095
	7,222	6,835

Note: Included in the amount of government grants recognised during each of the periods ended 30 June 2018 and 2017 of approximately HK$4,563,000 (unaudited) and HK$2,858,000 (unaudited) respectively were received in respect of certain research projects and export encouragement scheme, the relevant granting criteria for which have been fulfilled and were immediately recognised as other income for the periods. For the six months ended 30 June 2017, the government grants of approximately HK$69,000 (unaudited) (for the six months ended 30 June 2018: nil) were recognised as deferred income utilised during the periods respectively.

6. SEGMENT INFORMATION

Information reported to the Chief Executive Officer of the Company, being the chief operating decision maker, 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 Light-Emitting Diode ("LED") backlight and LED lighting operations and sourcing business of high-tech electronic components and products, the information reported to the chief operating decision maker is further broken down into different type of products and application of products. The directors of the Company have chosen to organise the Group around differences in products. No operating segments identified by the chief operating decision maker 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 – Manufacturing and trading of LED backlight products in different sizes and applications

2. LED lighting – Manufacturing and trading of LED lighting products for public and commercial use

3. Sourcing business – Provision of high-tech electronic components and products sourcing business

6. SEGMENT INFORMATION (continued)

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 2018 (unaudited)

	LED backlight HK$'000	LED lighting HK$'000	Sourcing business HK$'000	Total HK$'000
REVENUE				
External sales	377,886	48,336	1,018,858	1,445,080
Segment profit	57,829	6,211	11,671	75,711
Unallocated income				2,654
Unallocated expenses				(43,589)
Finance costs				(14,289)
Profit before tax				20,487

6. SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

For the six months ended 30 June 2017 (unaudited)

	LED backlight HK$'000	LED lighting HK$'000	Sourcing business HK$'000	Total HK$'000
REVENUE				
External sales	322,872	29,637	271,647	624,156
Segment profit	52,340	5,333	3,259	60,932
Unallocated income				3,905
Unallocated expenses				(41,349)
Finance costs				(9,599)
Profit before tax				13,889

Segment assets and liabilities

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

Segment assets

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
LED backlight	**618,290**	856,005
LED lighting	**83,607**	49,419
Sourcing business	**220,178**	353,806
Total segment assets	**922,075**	1,259,230
Unallocated assets	**787,264**	525,255
Consolidated total assets	**1,709,339**	1,784,485

6. SEGMENT INFORMATION (continued)

Segment assets and liabilities (continued)

Segment liabilities

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
LED backlight	**455,199**	544,766
LED lighting	**116,533**	54,147
Sourcing business	**74,073**	204,017
Total segment liabilities	**645,805**	802,930
Unallocated liabilities	**399,284**	335,547
Consolidated total liabilities	**1,045,089**	1,138,477

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

– all assets are allocated to operating segments other than deferred tax assets, pledged bank deposits, bank balances and cash and certain unallocated head office assets. Assets used jointly by operating segments are allocated on the basis of the revenues earned by individual reportable segments; and

– all liabilities are allocated to operating segments other than income tax payables, bank borrowings, obligations under finance leases and corporate bond. Liabilities for which operating segments are jointly liable are allocated in proportion to segment revenue.

6. SEGMENT INFORMATION (continued)

Segment assets and liabilities (continued)

For the six months ended 30 June 2018 (unaudited)

	LED backlight HK$'000	LED lighting HK$'000	Sourcing business HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Additions to non-current assets#	13,316	962	–	–	14,278
Amortisation of prepaid lease payments	504	362	–	–	866
Depreciation of property, plant and equipment	16,730	1,015	–	–	17,745
Impairment loss on inventories	4,321	430	–	–	4,751
Net loss on disposal of property, plant and equipment	82	3	–	–	85
Amounts regularly provided to the Chief Executive Officer but not included in the measure of segment profit or loss or segment assets:					
Interest income	–	–	–	(1,913)	(1,913)
Finance costs	–	–	–	14,289	14,289
Income tax expense (credit)	478	(57)	3,137	–	3,558

Non-current assets excluded deferred tax assets.

6. SEGMENT INFORMATION (continued)

Segment assets and liabilities (continued)

For the six months ended 30 June 2017 (unaudited)

	LED backlight HK$'000	LED lighting HK$'000	Sourcing business HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Additions to non-current assets #	16,900	134	–	–	17,034
Amortisation of prepaid lease payments	249	186	–	–	435
Depreciation of property, plant and equipment	17,138	476	–	–	17,614
Impairment loss on trade and other receivables	6,385	148	–	–	6,533
Net loss on disposal of property, plant and equipment	676	–	–	–	676
Write-off of property, plant and equipment	36	–	–	–	36
Reversal of allowance for trade and other receivables	(1)	(2)	–	–	(3)
Amounts regularly provided to the Chief Executive Officer but not included in the measure of segment profit or loss or segment assets:					
Interest income	–	–	–	(2,807)	(2,807)
Finance costs	–	–	–	9,599	9,599
Income tax expense	1,664	1	1,691	–	3,356

Non-current assets excluded deferred tax assets.

6. SEGMENT INFORMATION (continued)

Revenue from major products

The following are analyses of the Group's revenue from its major products:

Analysis by type of products

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
LED backlight		
– Small dimension	**131,578**	161,694
– Medium dimension	**190,324**	107,459
– Large dimension	**55,984**	53,719
Sub-total	**377,886**	322,872
LED lighting		
– Indoor lighting	**32,342**	12,469
– Outdoor lighting	**15,994**	17,168
Sub-total	**48,336**	29,637
Sourcing business	**1,018,858**	271,647
Total	**1,445,080**	624,156

6. SEGMENT INFORMATION (continued)

Revenue from major products (continued)

Analysis by application of products

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
LED backlight		
– Automobile displays	**222,558**	145,651
– Equipment displays	**98,869**	123,283
– Televisions	**56,459**	53,938
Sub-total	**377,886**	322,872
LED lighting		
– Public lighting	**15,994**	16,839
– Commercial lighting	**32,342**	12,798
Sub-total	**48,336**	29,637
Sourcing business	**1,018,858**	271,647
Total	**1,445,080**	624,156

6. SEGMENT INFORMATION (continued)

Geographical information

The Group's operations are located in Hong Kong and the PRC (country of domicile). The Group's customers are mainly located in Hong Kong and the PRC.

An analysis of the Group's revenue from external customers is presented based on the location of customers as below:

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
The PRC	**1,389,434**	573,394
Hong Kong	**11,439**	11,769
Others	**44,207**	38,993
	1,445,080	624,156

The Group's information about its non-current assets is presented based on location of the assets as below:

	30 June	31 December
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Hong Kong	**517**	749
The PRC	**278,292**	282,154
	278,809	282,903

Non-current assets excluded deferred tax assets.

6. SEGMENT INFORMATION (continued)

Information about major customers

Details of the customers accounting for 10% or more of aggregate revenue of the Group are as follows:

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Customer A***	**746,904**	N/A*
Customer B**	**183,405**	144,000
Customer C***	**172,056**	N/A*

* The corresponding revenue does not contribute over 10% of the total revenue of the Group in the respective period.

** Revenue from LED backlight.

*** Revenue from sourcing business.

7. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interest expenses on:		
– bank borrowings wholly repayable within five years	**14,172**	9,400
– finance leases	**18**	100
– corporate bond	**99**	99
	14,289	9,599

8. INCOME TAX EXPENSE

The Group calculates the income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the condensed consolidated statement of profit or loss are:

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
PRC Enterprise Income tax		
– Current period	**4,187**	3,356
– Over-provision in prior year	**(629)**	–
Total income tax expense for the period	**3,558**	3,356

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 2018 and 2017.

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 2018 and 2017.

Pursuant to the relevant laws and regulation 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 each accredited as a high-tech enterprise. They are entitled to the preferential tax rate of 15% for both of the six months ended 30 June 2018 and 2017.

* For translation purpose only

9. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging:		
Salaries and allowances (excluding directors' emoluments)	**82,561**	65,775
Retirement benefit scheme contributions (excluding directors)	**9,222**	6,933
Total staff costs	**91,783**	72,708
Amortisation of prepaid lease payments	**866**	435
Amounts of inventories recognised as expenses	**1,336,673**	533,528
Depreciation of property, plant and equipment	**17,745**	17,614
Net loss on disposal of property, plant and equipment	**85**	676
Write-off of property, plant and equipment	**–**	36
Impairment loss on inventories	**4,751**	–
Impairment loss on trade and other receivables	**–**	6,533
Operating lease payment on premises	**2,961**	3,232

10. DIVIDENDS

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interim dividend declared and paid after the interim period of HK$nil cent per share (2017: HK$nil cent per share)	**–**	–

11. EARNINGS PER SHARE

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic earnings per share	**16,929**	10,533
Number of shares held		
Weighted average number of ordinary shares for the purpose of basic earnings per share (Note)	**216,825,000**	216,825,000
Basic earnings per share (HK cents per share)	**7.81**	4.86

Note: Diluted earnings per share was the same as the basic earnings per share as there were no dilutive potential ordinary shares outstanding during the six months ended 30 June 2018 and 2017.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired items of property, plant and equipment with a cost of approximately HK$14,246,000 (unaudited) (for the six months ended 30 June 2017 (unaudited): approximately HK$17,034,000) for the expansion of production facilities. Items of property, plant and equipment with a carrying amount of approximately HK$125,000 (unaudited) were disposed of during the six months ended 30 June 2018 (for the six months ended 30 June 2017 (unaudited): approximately HK$1,213,000), with approximately HK$85,000 (unaudited) loss on disposal (for the six months ended 30 June 2017 (unaudited): approximately HK$676,000).

13. PREPAID LEASE PAYMENTS

Prepaid lease payments comprise leasehold land held in the PRC under medium-term lease and are analysed for reporting purposes as follows:

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Current assets	**915**	915
Non-current assets	**38,099**	37,665
	39,014	38,580

As at 30 June 2018, leasehold land with carrying values of approximately HK$22,471,000 (unaudited) (31 December 2017 (audited): approximately HK$21,658,000) have been pledged to secure banking facilities granted to the Group.

14. TRADE AND BILLS RECEIVABLES

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Trade receivables	**368,249**	427,722
Less: Impairment	**(34,212)**	(34,975)
	334,037	392,747
Bills receivables	**73,594**	26,922
	407,631	419,669

The Group generally allows a credit period of 15 to 180 days to its trade customers. The Group does not hold any collateral over these balances.

14. TRADE AND BILLS RECEIVABLES (continued)

The following is an aged analysis of trade receivables net of accumulated impairment losses presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
0 to 90 days	**327,762**	375,159
91 to 180 days	**6,039**	4,387
181 to 365 days	**64**	723
Over 365 days	**172**	12,478
	334,037	392,747

All the bills receivables are aged within 365 days.

15. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The bank balances and cash comprised cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank balances as at 30 June 2018 carried interest at the variable interest rates ranging from 0.01% to 0.35% per annum (unaudited) (31 December 2017 (audited): 0.01% to 0.35% per annum). The pledged deposits carried interest rates ranging from 0.3% to 2% per annum (unaudited) (31 December 2017 (audited): 0.3% to 2% per annum) as at 30 June 2018.

Pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to approximately HK$97,319,000 (unaudited) (31 December 2017 (audited): approximately HK$144,353,000) as at 30 June 2017 had been pledged to secure bank borrowings and bills falling due within one year and are therefore classified as current assets.

16. TRADE, BILLS AND OTHER PAYABLES AND ACCRUALS

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Trade payables (Note a)	**152,792**	194,387
Bills payables (Note a)	**281,519**	327,304
	434,311	521,691
Receipt in advance (Note b)	**125,252**	207,179
Construction cost payables	**1,427**	758
Other payables	**21,036**	18,031
Accrued expenses	**18,273**	16,020
Value added tax payables	**14,952**	9,041
Government grants	**11,861**	11,963
	192,801	262,992
	627,112	784,683

Notes:

(a) The ageing analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
0 to 90 days	**122,389**	143,412
91 to 180 days	**22,520**	41,173
181 to 365 days	**3,916**	3,075
Over 365 days	**3,967**	6,727
	152,792	194,387

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.

The bills payables aged within 365 days.

(b) Receipt in advance represented advance payments from customers pursuant to the respective sales and purchase contracts.

17. BANK BORROWINGS

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Secured:		
Trust receipts loans (Note a)	**14,676**	4,490
Other bank loans (Note b)	**272,233**	251,154
	286,909	255,644
Unsecured:		
Other bank loans (Note c)	**99,751**	65,797
	386,660	321,441
Bank borrowings repayable:		
On demand or within one year	**377,660**	310,359
More than one year but not exceeding two years	**–**	5,082
More than two years but not exceeding five years	**9,000**	6,000
	386,660	321,441
Less: Carrying amount of bank borrowings that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	**–**	(11,082)
Less: Carrying amount of bank borrowings that are repayable within one year from the end of the reporting period but contain a repayment on demand clause	**(4,486)**	(4,918)
Less: Amounts due within one year shown under current liabilities	**(373,174)**	(305,441)
Amount shown under current liabilities	**(377,660)**	(321,441)
Amount shown under non-current liabilities	**(9,000)**	–

17. BANK BORROWINGS (continued)

Notes:

(a) As at 30 June 2018, trust receipts loan with carrying amounts of approximately HK$14,676,000 (unaudited) (31 December 2017 (audited): approximately HK$4,490,000) carried fixed rate of interest of 4.83% (31 December 2017 (audited): 3.81%) per annum and was due within 3 months.

(b) As at 30 June 2018, other bank loans (unaudited) with carrying amounts of approximately HK$177,915,000 (31 December 2017 (audited): approximately HK$179,445,000) bore interest at floating rates and were due within one year. The floating rate borrowing carried interest rates at Loan Prime Rate ("LPR") plus 0.92% to 1.1375% (31 December 2017 (audited): Loan Prime Rate ("LPR") plus 0.92% to 1.1375% per annum) during the six months ended 30 June 2018.

As at 31 December 2017 (audited), revolving loans with carrying amounts of approximately HK$30,000,000 (30 June 2018 (unaudited): nil) bore interest at floating rate and was due within 1 year. The floating rate borrowings carried interest at the 1-month HIBOR/London Interbank Borrowing Rate ("LIBOR") plus 2.75% (30 June 2018 (unaudited): nil) per annum during the year ended 31 December 2017.

As at 30 June 2018 (unaudited), other bank loans with carrying amounts of approximately HK$54,318,000 (31 December 2017 (audited): approximately HK$45,709,000) bore interest at fixed rate and was due within 1 year. The fixed rate borrowings carried interest ranging from 4.30% to 6.20% (31 December 2017 (audited): 3.15% to 5.22%) per annum during the period ended 30 June 2018.

As at 31 December 2017 (audited), straight line loans with principal amount of approximately HK$6,000,000 (30 June 2018 (unaudited): nil) bore interest at floating rate and was due within 2 years. The floating rate borrowings carried interest at HKD BLR plus 0.15% per annum during the year ended 31 December 2017 (30 June 2018 (unaudited): nil).

As at 30 June 2018 (unaudited), other bank loans with the principal amount of approximately HK$10,000,000 (31 December 2017 (audited): HK$10,000,000) bore interest at floating rate and was due within 5 years. The floating rate borrowings carried interest at 3-months HIBOR/LIBOR plus 3% (31 December 2017 (audited): HIBOR/LIBOR plus 3%) per annum during the period ended 30 June 2018.

(c) As at 30 June 2018, other bank loans with carrying amounts of approximately HK$47,444,000 (unaudited) (31 December 2017 (audited): approximately HK$41,871,000) bore interest at floating rate and was due within 1 year. The floating rate borrowings carried interest at PBOC rate plus 1.85% (31 December 2017 (audited): PBOC rate plus 0.5% to 1.2%) per annum during the six months ended 30 June 2018.

As at 30 June 2018, other bank loans with carrying amounts of approximately HK$52,307,000 (unaudited) (31 December 2017 (audited): HK$23,926,000) bore interest at fixed rate and was due within 1 year. The fixed rate borrowings carried interest rate of 6.2% (31 December 2017 (audited): 4.80% to 5.22%) per annum during the six months ended 30 June 2018.

17. BANK BORROWINGS (continued)

Notes: (continued)

(d) The Group's bank borrowings at the end of each reporting period were secured or guaranteed by the followings:

(i) As at 30 June 2018, secured banking facilities of the Group with outstanding balances of approximately HK$177,915,000 (unaudited) (31 December 2017 (audited): approximately HK$179,445,000) were secured by land and properties of a subsidiary as set out in notes 11 and 12.

(ii) As at 30 June 2018, secured banking facilities of the Group with outstanding balances of approximately HK$63,674,000 (unaudited) (31 December 2017 (audited): approximately HK$24,490,000) were secured by a property held by a related company, in which Ms. Yiu Kwan Yu is the common director.

(iii) As at 30 June 2018, secured banking facilities of the Group with outstanding balances of approximately HK$21,350,000 (unaudited) (31 December 2017 (audited): approximately HK$21,533,000) were secured by the Group's plant and machinery as set out in Note 11.

(iv) As at 30 June 2018, secured banking facilities of the Group with outstanding balances of approximately HK$23,970,000 (unaudited) (31 December 2017 (audited): approximately HK$24,176,000) were secured by available-for-sale investment.

(v) As at 31 December 2017 (audited), secured banking facilities of the Group with outstanding balances of approximately HK$6,000,000 (30 June 2018 (unaudited): nil) were secured by the assignment of life insurance policies covering Mr. Yiu Chi To, the Controlling Shareholder and Mr. Chen Chung Po, the Executive Director and Chief Executive Officer.

18. CORPORATE BOND

During the year ended 31 December 2016, the Group issued a 7.5 year corporate bond with principal amount of HK$2,000,000 to an independent third party, net of direct expenses of HK$300,000, which will be due in September 2023. The corporate bond carried interest at a fixed rate of 8% per annum with interest payable annually in arrears. The corporate bond is unsecured. The effective interest rate of the corporate bond is approximately 11.05%.

	HK$'000
At 1 January 2017	1,736
Effective interest expenses	200
Interest paid during the year	(160)
At 31 December 2017 and 1 January 2018	1,776
Effective interest expenses	99
At 30 June 2018	1,875

19. SHARE CAPITAL

	Number of shares		Share capital	
	30 June 2018	31 December 2017	**30 June 2018 HK$'000**	31 December 2017 HK$'000
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
Ordinary shares of HK$0.01 each				
Authorised				
At the beginning and end of period/year	**1,000,000,000**	1,000,000,000	**10,000**	10,000
Issued and fully paid				
At the beginning and end of period/year	**216,825,000**	216,825,000	**2,168**	2,168

20. OPERATING LEASES COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
Within one year	**2,615**	2,900
In the second to fifth year, inclusive	**898**	2,086
	3,513	4,986

The Group leases certain of its factory premise offices under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two (2017: one to two) years with fixed rentals as at 30 June 2018.

21. RELATED PARTY TRANSACTIONS AND BALANCES

In addition to the transactions detailed elsewhere in the consolidated condensed interim financial information, the Group has entered into the following significant transactions with related parties.

(a) Compensation of key management personnel

	Six months ended 30 June	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Salaries and other allowances	**2,494**	2,643
Retirement benefit scheme contributions	**27**	44
	2,521	2,687

21. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) Other related parties transactions

		Six months ended 30 June	
		2018	2017
		HK$'000	HK$'000
Name of company	**Nature of transaction**	**(Unaudited)**	(Unaudited)
Maxtone Electronics Limited ("Maxtone")	Rental expenses	**540**	525

The director of the Company has beneficial interest in Maxtone. The above transactions were at terms determined and agreed by the Company and the relevant parties.

(c) Other guarantees

During the six months ended 30 June 2018 and 2017, the Company's obligations under a finance lease were guaranteed by a related company.