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## NGAI HING HONG COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1047)

Website: <http://www.nhh.com.hk>

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST DECEMBER 2017

The Board of Directors (the “Board”) of Ngai Hing Hong Company Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 31st December 2017 as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>31st December</b>	
	Note	<b>2017</b>	2016
		<b>HK\$'000</b>	<b>HK\$'000</b>
Revenue	3	<b>985,116</b>	770,443
Cost of sales		<b>(851,508)</b>	(661,219)
Gross profit		<b>133,608</b>	109,224
Rental income		<b>3,294</b>	3,304
Other gains, net	4	<b>1,845</b>	9,796
Distribution costs		<b>(39,544)</b>	(38,960)
Administrative expenses		<b>(57,535)</b>	(51,093)
Operating profit	5	<b>41,668</b>	32,271
Finance income	6	<b>203</b>	111
Finance costs	6	<b>(6,349)</b>	(3,896)
Finance costs, net		<b>(6,146)</b>	(3,785)
Profit before income tax		<b>35,522</b>	28,486
Income tax expense	7	<b>(10,673)</b>	(6,968)
Profit for the period		<b>24,849</b>	21,518

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>31st December</b>	
Note		<b>2017</b>	2016
		<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Attributable to:			
	Equity holders of the Company	<b>22,569</b>	19,870
	Non-controlling interests	<b>2,280</b>	1,648
		<u><b>24,849</b></u>	<u>21,518</u>
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK cent per share)			
	– Basic	9 <u><b>6.11</b></u>	<u>5.38</u>
	– Diluted	9 <u><b>6.11</b></u>	<u>5.38</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31st December</b>	
	<b>2017</b>	2016
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Profit for the period	<b>24,849</b>	21,518
Other comprehensive income/(loss):		
Item that may be reclassified subsequently to income statement:		
Currency translation differences	<b>14,683</b>	(14,958)
Other comprehensive income/(loss) for the period	<b>14,683</b>	(14,958)
Total comprehensive income for the period	<b>39,532</b>	6,560
Total comprehensive income attributable to:		
Equity holders of the Company	<b>37,054</b>	5,042
Non-controlling interests	<b>2,478</b>	1,518
	<b>39,532</b>	6,560

## CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 31st December 2017 <i>HK\$'000</i>	Audited 30th June 2017 <i>HK\$'000</i>
	Note		
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment		123,902	117,412
Leasehold land and land use rights		18,738	18,531
Investment properties		128,683	127,801
Available-for-sale financial asset		2,000	2,000
Deferred income tax assets		5,684	5,655
Prepayment for property, plant and equipment and renovation costs		10,141	4,929
		<b>289,148</b>	276,328
Current assets			
Inventories		288,909	255,767
Trade and bills receivables	10	253,701	264,882
Other receivables, prepayments and deposits		27,371	26,599
Income tax recoverable		227	501
Derivative financial instruments		195	—
Restricted bank deposits		35,714	22,989
Cash and bank balances		106,900	105,947
		<b>713,017</b>	676,685
Total assets		<b>1,002,165</b>	953,013

		<b>Unaudited</b>	Audited
		<b>31st December</b>	30th June
		<b>2017</b>	2017
	Note	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>EQUITY</b>			
Capital and reserves attributable to the			
Company's equity holders			
Share capital		<b>36,920</b>	36,920
Share premium		<b>62,466</b>	62,466
Other reserves		<b>57,925</b>	43,960
Retained earnings		<b>331,971</b>	316,786
		<b>489,282</b>	460,132
Non-controlling interests		<b>23,177</b>	23,065
Total equity		<b>512,459</b>	483,197
<b>LIABILITIES</b>			
Non-current liabilities			
Deferred income tax liabilities		<b>7,085</b>	6,863
Current liabilities			
Trade payables	11	<b>73,287</b>	88,513
Other payables, deposits received and accruals		<b>37,059</b>	35,127
Borrowings		<b>362,407</b>	331,830
Derivative financial instruments		<b>—</b>	29
Income tax payable		<b>9,868</b>	7,454
		<b>482,621</b>	462,953
Total liabilities		<b>489,706</b>	469,816
Total equity and liabilities		<b>1,002,165</b>	953,013
Net current assets		<b>230,396</b>	213,732
Total assets less current liabilities		<b>519,544</b>	490,060

## 1 Basis of preparation

The condensed consolidated interim financial information for the six months ended 31st December 2017 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 30th June 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

## 2 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30th June 2017, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

### (a) Effect of adopting new standards, amendments/revises to standards and interpretation

Amendments to HKAS 12	Income Taxes
Amendments to HKAS 7	Statement of Cash Flows
Amendment to HKFRS 12	Disclosure of Interest in Other Entities

The adoption of the above new standards, amendments/revises to standards and interpretation has had no material effect on the Group’s result and financial position.

- (b) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1st July 2017 and have not been early adopted by the Group:

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>1</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
Amendment to HKFRS 1	First Time Adoption of HKFRS <sup>1</sup>
Amendment to HKAS 28	Investments in Associates and Joint Ventures <sup>1</sup>
Amendment to HKAS 40	Transfers of Investment Property <sup>1</sup>
Hong Kong International Financial Reporting Interpretations Committee (“HK (IFRIC)”) Interpretation 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
HK(IFRIC) Interpretation 23	Uncertainty over Income Tax Treatment <sup>2</sup>
HKFRS 16	Leases <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>

<sup>(1)</sup> Effective for annual periods beginning on or after 1st January 2018

<sup>(2)</sup> Effective for annual periods beginning on or after 1st January 2019

<sup>(3)</sup> Effective for annual periods beginning on or after a date to be determined

The Group has commenced, but not yet completed, an assessment of the impact of the new standards and amendments to standards on its results of operations and financial position. However, none of the above new standards and amendments to standards is expected to have a significant effect on the financial statements, except the following set out below:

*HKFRS 9: “Financial Instruments”*

HKFRS 9 addresses the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 Financial Instruments: Recognition and Measurement. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investment will either be measured as fair value through profit or loss or be designated as fair value through other comprehensive income (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review. HKFRS 9 is mandatory for financial years commencing on or after 1st January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

#### HKFRS 15: "Revenue from Contracts with Customers"

HKFRS 15 replaces the previous revenue standards: HKAS 18 Revenue and HKAS 11 Construction Contracts, and the related Interpretations on revenue recognition. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an "earnings processes" to an "asset-liability" approach based on transfer of control. HKFRS 15 provides specific guidance on capitalisation of contract cost, license arrangements and principal versus agent commissions. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. HKFRS 15 is effective for annual periods beginning on or after 1st January 2018 and earlier application is permitted. The Group does not plan to early adopt HKFRS 15. The Group assessed the impact of the adoption of HKFRS 15 by analysing the Group's key revenue streams against the 5-step approach and did not expect the adoption would have a material impact at the Group's result and financial position.



### HKFRS 16: “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group’s operating leases. As at 31st December 2017, the Group has non-cancellable operating lease commitments of HK\$13,813,000. The Directors do not expect the adoption of HKFRSs would result in significant impact on the Group’s result but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated balance sheet as lease liabilities.

HKFRS16 is mandatory for financial years commencing on or after 1st January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

### **3 Revenue and segment information**

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31st December</b>	
	<b>2017</b>	<b>2016</b>
	<b>HK\$’000</b>	<b>HK\$’000</b>
Revenue		
Sales of goods	<b>984,675</b>	769,329
Provision of logistics services	<b>441</b>	1,114
	<b>985,116</b>	<b>770,443</b>

The Group is principally engaged in the manufacturing and trading of plastic materials, pigments, colorants, compounded plastic resins and engineering plastic products.

The chief operating decision-maker (“CODM”) has been identified as the Executive Directors of the Company. Management has determined the operating segments based on the reports reviewed by the CODM that are used to assess performance and allocate resources. The CODM considers the business from the operations nature and the type of products perspective, including the trading of plastic materials (“Trading”), manufacturing and sale of colorants, pigments and compounded plastic resins (“Colorants”), manufacturing and sale of engineering plastic products (“Engineering plastic”) and other corporate and business activities including the provision of logistic services (“Others”).

Each of the Group's operating segments represents a strategic business unit that is managed by different business unit leaders. Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Information provided to the CODM is measured in a manner consistent with that in the condensed consolidated interim financial information.

The CODM assesses the performance of the operating segments based on a measure of revenue and operating profit, which is in a manner consistent with that of the condensed consolidated financial statements.

The segment information provided to the CODM for the reportable segments for the six months ended 31st December 2017 is as follows:

	Unaudited				Group HK\$'000
	Trading HK\$'000	Colorants HK\$'000	Engineering plastic HK\$'000	Others HK\$'000	
Revenue					
– Gross revenue	727,608	174,604	117,611	441	1,020,264
– Inter-segment revenue	(32,672)	(1,470)	(998)	(8)	(35,148)
Revenue from external customers	<u>694,936</u>	<u>173,134</u>	<u>116,613</u>	<u>433</u>	<u>985,116</u>
Segment results	<u>22,011</u>	<u>10,896</u>	<u>12,921</u>	<u>(4,160)</u>	<u>41,668</u>
Finance income	85	107	11	—	203
Finance costs	(4,861)	(619)	(699)	(170)	(6,349)
Profit/(loss) before income tax	<u>17,235</u>	<u>10,384</u>	<u>12,233</u>	<u>(4,330)</u>	<u>35,522</u>
Other information:					
Additions to non-current assets (other than financial instruments and deferred tax assets)	650	8,073	8,703	64	17,490
Depreciation of property, plant and equipment	423	3,211	4,187	258	8,079
Amortisation of leasehold land and land use rights	187	97	16	39	339
(Reversal of)/provision for impairment of inventories	(570)	1,560	771	—	1,761
Provision for impairment of trade and other receivables	—	58	—	2,446	2,504
Gain on disposal of a subsidiary	—	—	—	(398)	(398)
Fair value gains on derivative financial instruments	(960)	—	—	—	(960)

The segment information provided to the CODM for the reportable segments as at 31st December 2017 is as follows:

	<b>Unaudited</b>				
	<b>Trading</b>	<b>Colorants</b>	<b>Engineering plastic</b>	<b>Others</b>	<b>Group</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets	<u>402,093</u>	<u>308,047</u>	<u>173,947</u>	<u>118,078</u>	<u>1,002,165</u>
Total assets					<u><u>1,002,165</u></u>
Segment liabilities	(77,995)	(28,767)	(16,354)	(4,183)	(127,299)
Borrowings	<u>(288,970)</u>	<u>(23,810)</u>	<u>(42,469)</u>	<u>(7,158)</u>	<u>(362,407)</u>
Total liabilities					<u><u>(489,706)</u></u>

The segment information provided to the CODM for the reportable segments for the six months ended 31st December 2016 is as follows:

	Unaudited				Group HK\$'000
	Trading HK\$'000	Colorants HK\$'000	Engineering plastic HK\$'000	Others HK\$'000	
Revenue					
– Gross revenue	544,612	166,007	97,687	1,124	809,430
– Inter-segment revenue	(37,189)	(1,627)	(171)	—	(38,987)
Revenue from external customers	<u>507,423</u>	<u>164,380</u>	<u>97,516</u>	<u>1,124</u>	<u>770,443</u>
Segment results	<u>(3,875)</u>	<u>29,244</u>	<u>9,139</u>	<u>(2,237)</u>	<u>32,271</u>
Finance income	40	69	2	—	111
Finance costs	(2,671)	(618)	(421)	(186)	(3,896)
(Loss)/profit before income tax	<u>(6,506)</u>	<u>28,695</u>	<u>8,720</u>	<u>(2,423)</u>	<u>28,486</u>
Other information:					
Additions to non-current assets (other than financial instruments and deferred tax assets)	407	8,352	4,171	76	13,006
Depreciation of property, plant and equipment	340	2,588	3,957	265	7,150
Amortisation of leasehold land and land use rights	179	130	16	39	364
Provision for impairment of inventories	809	347	375	6	1,537
(Reversal of)/provision for impairment of trade receivables	(5)	26	—	—	21
Fair value gains on derivative financial instruments	(1,122)	—	—	—	(1,122)
Reversal of impairment of deposit for acquisition of properties	—	(8,148)	—	—	(8,148)
Impairment of property, plant and equipment	<u>—</u>	<u>—</u>	<u>—</u>	<u>201</u>	<u>201</u>

The segment information provided to the CODM for the reportable segments as at 30th June 2017 is as follows:

	Audited				Group <i>HK\$'000</i>
	Trading <i>HK\$'000</i>	Colorants <i>HK\$'000</i>	Engineering plastic <i>HK\$'000</i>	Others <i>HK\$'000</i>	
Segment assets	<u>379,700</u>	<u>293,466</u>	<u>159,016</u>	<u>120,831</u>	<u>953,013</u>
Total assets					<u><u>953,013</u></u>
Segment liabilities	(83,700)	(29,688)	(19,288)	(5,310)	(137,986)
Borrowings	<u>(264,877)</u>	<u>(22,989)</u>	<u>(37,005)</u>	<u>(6,959)</u>	<u>(331,830)</u>
Total liabilities					<u><u>(469,816)</u></u>

The entity is domiciled in Hong Kong. The revenue from external customers from Hong Kong for the six months ended 31st December 2017 is approximately HK\$460,569,000 (2016: HK\$319,654,000) and the total of its revenue from external customers from other locations (mainly The People's Republic of China (the "PRC")) is approximately HK\$524,547,000 (2016: HK\$450,789,000).

At 31st December 2017, the total of non-current assets other than financial instruments and deferred income tax assets located in Hong Kong is approximately HK\$159,630,000 (30th June 2017: HK\$160,722,000) and the total of these non-current assets located in other locations (mainly the PRC) is approximately HK\$121,834,000 (30th June 2017: HK\$107,951,000).

#### 4 Other gains, net

	Unaudited	
	Six months ended	
	31st December	
	2017	2016
	HK\$'000	HK\$'000
Net exchange losses	(512)	(636)
Gain on disposal of property, plant and equipment	51	123
Gain on disposal of a subsidiary	398	—
Fair value gains from forward foreign exchange		
contracts held for trading	960	1,122
Fair value gains on investment properties	—	331
Reversal of impairment of deposit for		
acquisition of properties	—	8,148
Others	948	708
	<u>1,845</u>	<u>9,796</u>

#### 5 Operating profit

Operating profit is stated after charging/(crediting) the following:

	Unaudited	
	Six months ended	
	31st December	
	2017	2016
	HK\$'000	HK\$'000
Cost of inventories recognised as expenses included in cost of sales	810,493	618,579
Depreciation of property, plant and equipment	8,079	7,150
Amortisation of leasehold land and land use rights	339	364
Operating lease rentals in respect of land and buildings	4,293	3,803
Employee benefit expenses,		
including Directors' emoluments	61,899	59,126
Provision for impairment of trade and other receivables	2,504	21
Provision for impairment of inventories	1,761	1,537
Gain on disposal of property, plant and equipment	(51)	(123)
Fair value gains from forward foreign exchange		
contracts held for trading	(960)	(1,122)
Fair value gains on investment properties	—	(331)
Impairment of property, plant and equipment	—	201
	<u>          </u>	<u>          </u>

## 6 Finance income and costs

	Unaudited	
	Six months ended	
	31st December	
	2017	2016
	HK\$'000	HK\$'000
Finance income:		
– Interest income from bank deposits	203	111
	-----	-----
Finance costs:		
– Interests on bank borrowings wholly repayable within five years	(6,105)	(4,983)
– Net exchange (losses)/gains on financing activities	(244)	1,087
	-----	-----
	(6,349)	(3,896)
	-----	-----
Finance costs, net	<u>(6,146)</u>	<u>(3,785)</u>

## 7 Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the period. Income tax on the Group's subsidiaries established and operate in the PRC has been calculated on the estimated assessable profit for the period at the rates of taxation as applicable to the relevant subsidiaries.

The amount of income tax charged to the interim consolidated income statement represents:

	Unaudited	
	Six months ended	
	31st December	
	2017	2016
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	724	933
– PRC corporate income tax	9,922	5,772
	-----	-----
	10,646	6,705
Deferred income tax	27	263
	-----	-----
	<u>10,673</u>	<u>6,968</u>

## 8 Dividends

On 27th September 2016, the Directors resolved not to declare any final dividend for the year ended 30th June 2016.

On 27th February 2017, the Directors declared an interim dividend of HK1.0 cent per share, totaling HK\$3,692,000 for the six months ended 31st December 2016.

On 28th September 2017, the Directors declared a final dividend of HK2.0 cents per share, totaling HK\$7,384,000 for the year ended 30th June 2017, which was paid during the period ended 31st December 2017.

On 26th February 2018, the Directors declared an interim dividend of HK1.0 cent per share, totaling HK\$3,692,000 for the period ended 31st December 2017.

## 9 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the period of HK\$22,569,000 (2016: HK\$19,870,000) and 369,200,000 (2016: 369,200,000) ordinary shares in issue during the period.

Dilutive earnings per share for the period ended 31st December 2017 and 2016 equal basic earnings per share as there was no dilutive potential ordinary share as at the period ended 31st December 2017 and 2016.

## 10 Trade and bills receivables

	<b>Unaudited</b> <b>31st December</b> <b>2017</b> <b>HK\$'000</b>	Audited 30th June 2017 HK\$'000
Trade receivables	<b>233,884</b>	236,285
Less: provision for impairment of receivables	<b>(4,508)</b>	(4,902)
	<b>229,376</b>	231,383
Bills receivables	<b>24,325</b>	33,499
	<b>253,701</b>	264,882



At 31st December 2017, the aging analysis of trade receivables, based on invoice date, is as follows:

	<b>Unaudited</b>	Audited
	<b>31st December</b>	30th June
	<b>2017</b>	2017
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Below 90 days	<b>220,245</b>	218,020
91-180 days	<b>7,106</b>	9,963
Over 180 days	<b>6,533</b>	8,302
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	<b>233,884</b>	236,285
	<hr/> <hr/>	<hr/> <hr/>

The majority of the Group's sales are with credit terms of 30 to 90 days. The remaining amounts are on letter of credit or documents against payment.

Bill receivables are mainly with maturity period of within 180 days.

At 31st December 2017, there are bills of exchange HK\$10,435,000 (30th June 2017: HK\$ 18,566,000) transferred to banks with recourse in exchange for cash. The transactions had been accounted for as collateralised bank advances.

## **11 Trade payables**

At 31st December 2017, the aging analysis of trade payables, based on invoice date, is as follows:

	<b>Unaudited</b>	Audited
	<b>31st December</b>	30th June
	<b>2017</b>	2017
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Below 90 days	<b>70,854</b>	87,426
91-180 days	<b>1,539</b>	60
Over 180 days	<b>894</b>	1,027
	<hr/>	<hr/>
	<b>73,287</b>	88,513
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## **INTERIM DIVIDEND**

The Directors are pleased to declare an interim dividend of Hong Kong 1.0 cent per share for the six months ended 31st December 2017 to members whose names appear on the Register of Members on 23rd March 2018. The dividend will be paid on or before 9th April 2018.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Wednesday, 21st March 2018 to Friday, 23rd March 2018 (both dates inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 4:00 p.m. on Tuesday, 20th March 2018.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

Looking back to the second half of 2017, the global economy gradually gained growth momentum, although challenges such as interest rate hikes in the United States and the North Korean nuclear threat have created uncertainties for the macroeconomic environment. However, the exchange rate of the Renminbi has stabilised and the balance of supply and demand in global oil markets has been achieved. In addition, the Group has continued to improve its product quality, expand its customer base and implement an effective cost reduction strategy. Thus, the Group's business has been steadily improved. For the six months ended 31 December 2017, the Group's total turnover amounted to HK\$985,116,000 (2016: HK\$770,443,000), 27.9% higher than the corresponding period last year. The Group was encouraged by the results.

During the period, the Group's gross profit increased by 22.3% to HK\$133,608,000 (2016: HK\$109,224,000). Although its gross profit margin decreased by 0.6 percentage points to 13.6%, profit attributable to equity holders of the Company climbed 13.6% to HK\$22,569,000 (2016: HK\$19,870,000) thanks to the continuous improvement of internal production and operating efficiency. Basic earnings per share were HK6.11 cents (2016: HK5.38 cents).

To reward its shareholders for their unwavering support, the Board of Directors has recommended the payment of an interim dividend of HK1.0 cent per share (2016: HK1.0 cent per share).

Among the Group's three major businesses, the performance of the plastics trading business has been outstanding, achieving a turnaround in the period. The Group strategically adjusted its sales model to liaise with world-renowned fast food restaurant chains, and such strategic move has started to yield a satisfactory result. More bulk orders were received compared with the same period last year. As a result, segmental turnover surged 37% to HK\$694,936,000 from the last corresponding period and gross profit margin also rose by 0.5 percentage points, generating a profit before taxation of HK\$17,235,000. Besides, the Group strived to enrich its product mix and has expanded into other technological applications for new energy, including solar energy panels. As the cooperation model of liaising directly with end-customers matures, the Group will persist with this strategy, and explore opportunities to work with end-customers in order to realise new income sources.

As for the engineering plastic business, the Group has entered potential markets, including environmentally-friendly foldable household items that have been popular in the market in recent years, high-end brands for infant toys, etc. These products are required to observe strict requirements on the design, production process and safety standards. Thanks to the Group's outstanding production technology and edge in R&D, the Group could stand out from its peers and capture the opportunities available in the market. During the period, turnover of this segment increased by 19.6% to HK\$116,613,000. Gross profit margin remained stable, while profit before taxation increased by 40.3%. Its Dongguan branch reported the most satisfactory performance. Apart from the water treatment pump for industrial use and traditional large plastic toys that were well received in the market, other tailor-made products contributed substantial orders to the Group so the profit before taxation of this branch increased more than double and the performance was encouraging. As the Group completes optimisation of its production facilities, production capacity and product quality are expected to be enhanced which will be reflected in 2018 and consequently bolster its overall profitability.

As for the colorants, pigments and compounded plastic resin business segment, turnover increased by 5.3% to HK\$173,134,000. Due to keen competition within certain market segments such as the food packaging market, gross profit margin was 1.7 percentage points lower than the corresponding period of last year. With the rising costs of labour, R&D, administration and logistics, profit before taxation declined by 63.8%. Meanwhile, the Group has continued to expand its high quality sanitary accessories clientele in China. Its Xiamen branch has maintained stable business performance with a 20% growth in turnover. In the face of the intensified competition in the new energy electric vehicle market, the Group has responded to the market conditions by adopting an appropriate development strategy. It has developed electric vehicle-related products with an internationally-renowned automobile brand. At the same time, the Group has focused on value-added products and service with the aim of exploring new income streams and expanding its customer base. The Group believes that high quality and attentive service not only enhances its corporate image, but also enables it to better develop good relationships with customers. The Group also continues to leverage its strong R&D capability to boost its core competitiveness, in order to attract domestic and overseas customers and broaden its customer base and profit streams in the long run.

## PROSPECTS

The interest rate hikes in the United States have led to the increased costs for corporations and the economy may continue to be affected by geopolitical tensions. Nevertheless, the petroleum exporting countries have agreed to decrease production and extend this agreement to the end of 2018. The oil price is expected to remain stable this year which will have positive impact on the demand for and prices of industrial raw materials. Moreover, given the stable foreign exchange market and more positive outlook on the Chinese and global economies, the management remains optimistic about the Group's business development.

Regarding business development, the Group will continue to implement its strategic direction. It will increase investment in R&D resources to facilitate the development of high value-added products with high gross profit margins. At the same time, it will broaden its customer base through direct negotiation with end-customers and will also maintain a stable relationship with major toy manufacturers, thereby bringing a long-term stable income to the Group and enabling it to seize development opportunities in different markets.

As for production capacity and cost control, the improvement project of the Group's Shanghai production base should be completed in the second half of this year while its newly relocated plant in Xiamen will commence production. The production capacity will be increased and the transformation and upgrade of automated production systems will reduce labour costs after optimisation of factories. Consequently, the Group will better focus on inventory management and flexibly adjust its production strategy, so as to realise a more cost-effective operations model and address the market trend to expand its business. The Group will implement stringent cost control measures as it aims to enhance overall profit performance through the integration of internal and external resources.

The Group will actively seize market opportunities and will adopt sound, pragmatic and aggressive business strategies as it has previously in a bid to achieve long-term stable growth and bring promising returns to its shareholders.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cashflow and banking facilities provided by its principal bankers. As at 31st December 2017, the Group has available aggregate bank loan facilities of approximately HK\$484,381,000 of which HK\$362,407,000 have been utilised and were secured by corporate guarantee issued by the Group and legal charges on certain leasehold land and buildings, investment properties and machinery and equipment in the PRC and Hong Kong owned by the Group. The Group's cash and bank balances as at 31st December 2017 amounted to approximately HK\$106,900,000. The Group's gearing ratio as at 31st December 2017 was approximately 74%, based on the total bank borrowings of approximately HK\$362,407,000 and the shareholders' funds of approximately HK\$489,282,000.

## **FOREIGN EXCHANGE RISK**

The Group's bank borrowings and cash and cash equivalents are primarily denominated in Hong Kong dollars, Renminbi and US dollars. The Group's purchases were principally denominated in US dollars. The Group closely monitors currency fluctuations and manages its exchange risk by entering into forward exchange contracts from time to time.

As at 31st December 2017, the Group had outstanding forward foreign exchange contracts mainly to sell/purchase US dollars. The maximum notional principal amounts of these outstanding forward foreign exchange contracts at 31st December 2017 were as follows:

	<b>2017</b> <b>HK\$'000</b>
Sell HK dollars for US dollars	23,400
Sell US dollars for HK dollars	<u>23,400</u>

## **EMPLOYEE INFORMATION**

As at 31st December 2017, the Group employed a total of approximately 697 full-time employees. The Group's emolument policies are formulated on the performance of individual employees and are reviewed annually. The Group has an incentive scheme which is geared to the profit of the Group and the performance of its employees, as an incentive to motivate its employees to increase their contribution to the Group. The Group also provides social and medical insurance coverage, and provident fund scheme (as the case may be) to its employees depending on the location of such employees.

## **PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the period.

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Having made specific enquiry to all Directors of the Company, all Directors have confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the period.

## **CORPORATE GOVERNANCE PRACTICE**

The Company is committed to the establishment of good corporate governance practices and procedures which serve as an important element of risk management throughout the growth and expansion of the Company. The Company emphasises on maintaining and carrying out sound, solid and effective corporate governance principles and structures.

The Company has complied with all the applicable code provisions as set out in Corporate Governance Code and Corporate Governance Report to the Appendix 14 of the Listing Rules (the “CG Code”) throughout the six months ended 31st December 2017, except for the deviation as mentioned below.

According to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Up to the date of this interim report, the Board has not appointed any individual to be the chief executive. The roles of the chief executive have been performed collectively by all the executive directors, including the chairman, of the Company. The Board considers that this arrangement allows contributions from all executive directors with different expertise and is beneficial to the continuity of the Company’s policies and strategies. Going forward, the Board will periodically review the effectiveness of this arrangement and considers appointing an individual to chief executive when it thinks appropriate.

For the purpose of enhancing the risk management and internal control systems, the Company has engaged an external consultant to assist the Board and the audit committee of the Company (the “Audit Committee”) in ongoing monitoring and in performing the internal audit functions for the Group. Deficiencies in the design and implementation of internal controls are identified and recommendations are proposed for improvement. Significant internal control deficiencies are reported to the Audit Committee and the Board on a timely basis to ensure prompt remediation actions are taken.

The Board has reviewed and considered the Group’s risk management and internal control systems were effective and adequate during the period. The risk management and internal control systems of the Group are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

## **NOMINATION COMMITTEE**

The Company has formulated written terms of reference for the nomination committee of the Company (the “Nomination Committee”) in accordance with the requirements of the Stock Exchange. The Nomination Committee consists of all independent non-executive Directors, namely Mr HO Wai Chi, Paul, Mr CHAN Dit Lung and Mr CHING Yu Lung and an executive Director, Mr HUI Sai Chung.

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board (including the skills, knowledge and experience) on a regular basis and make recommendations to the Board regarding any proposed changes; identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships; assessing the independence of independent non-executive Directors; and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors. The Nomination Committee would review the Board's composition from time to time where Board diversity would be considered from a number of aspects, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of services. The Nomination Committee meets at least once a year to assess the structure, size and composition of the Board.

#### **AUDIT COMMITTEE**

The Company has formulated written terms of reference for the Audit Committee in accordance with the requirements of the Stock Exchange. The Audit Committee consists of all independent non-executive Directors, namely Mr HO Wai Chi, Paul, Mr CHAN Dit Lung and Mr CHING Yu Lung.

The principal duties of the Audit Committee are to ensure the objectivity and credibility of financial reporting and internal control procedures as well as to maintain an appropriate relationship with the external auditor of the Company. The terms of reference of the Audit Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants and Listing Rules.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed consolidated interim financial information for the six months ended 31st December 2017 with the Directors.

#### **REMUNERATION COMMITTEE**

The Company has formulated written terms of reference for the remuneration committee of the Company (the "Remuneration Committee") in accordance with the requirements of the Stock Exchange. The Remuneration Committee consists of three independent non-executive Directors, namely Mr HO Wai Chi, Paul, Mr CHAN Dit Lung and Mr CHING Yu Lung and an executive Director, Mr HUI Sai Chung.

The Remuneration Committee is responsible for ensuring formal and transparent procedures for developing remuneration policies and making recommendations to the Board on the remuneration packages of the individual executive Director and senior management. This includes benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. It takes into consideration on factors such as salaries paid by comparable companies, time commitment and responsibilities of Directors and senior management. The Remuneration Committee meets at least once a year to assess the performance and review the annual salaries and bonus of the senior executives.

## **CORPORATE GOVERNANCE COMMITTEE**

The Company has formulated written terms of reference for the corporate governance committee of the Company (the “Corporate Governance Committee”) in accordance with the CG Code. The Corporate Governance Committee consists of all independent non-executive Directors, namely Mr HO Wai Chi, Paul, Mr CHAN Dit Lung and Mr CHING Yu Lung.

The Corporate Governance Committee is responsible for developing and reviewing the policies and practices on corporate governance of the Group and making recommendations to the Board; reviewing and monitoring the training and continuous professional development of Directors and senior management; reviewing and monitoring the Group’s policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and reviewing the Group’s compliance with the CG Code and disclosure in the Corporate Governance Report of the Company. The Corporate Governance Committee meets at least once a year to review the corporate governance functions.

On behalf of the Board  
**Ngai Hing Hong Company Limited**  
**HUI Sai Chung**  
*Chairman*

Hong Kong, 26th February 2018

*As at the date of this announcement, the Board of Directors comprises six Executive Directors, namely Mr HUI Sai Chung (Chairman), Mr HUI Kwok Kwong, Dr WONG Chi Ying, Anthony, Madam LIU Sau Lai, Mr NG Chi Ming and Mr HUI Yan Kuen and three Independent Non-executive Directors, namely Mr HO Wai Chi, Paul, Mr CHAN Dit Lung and Mr CHING Yu Lung.*