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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 2019

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 2019 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended	
		31st December	
		2019	2018
	Note	HK\$'000	HK\$'000
Revenue from contracts with customers	3	906,580	1,024,235
Cost of sales		(801,817)	(916,476)
Gross profit		104,763	107,759
Rental income		3,986	3,701
Other gains, net	4	568	3,185
Distribution costs		(37,864)	(39,859)
Administrative expenses		(54,906)	(56,707)
Operating profit	5	16,547	18,079
Finance income	6	469	111
Finance costs	6	(9,659)	(10,762)
Finance costs, net		(9,190)	(10,651)
Profit before income tax		7,357	7,428
Income tax expense	7	(4,478)	(4,088)
Profit for the period		2,879	3,340

		Unaudited	
		Six months ended	
		31st December	
		2019	2018
	Note	<i>HK\$'000</i>	<i>HK\$'000</i>
Attributable to:			
Equity holders of the Company		587	1,878
Non-controlling interests		2,292	1,462
		<u>2,879</u>	<u>3,340</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>0.16</u>	<u>0.51</u>
– Diluted	9	<u>0.16</u>	<u>0.51</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended	
	31st December	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	<u>2,879</u>	<u>3,340</u>
Other comprehensive loss:		
Item that may be reclassified subsequently to income statement:		
Currency translation differences	<u>(7,873)</u>	<u>(21,403)</u>
Other comprehensive loss for the period	<u>(7,873)</u>	<u>(21,403)</u>
Total comprehensive loss for the period	<u>(4,994)</u>	<u>(18,063)</u>
Total comprehensive loss attributable to:		
Equity holders of the Company	<u>(7,174)</u>	<u>(19,218)</u>
Non-controlling interests	<u>2,180</u>	<u>1,155</u>
	<u>(4,994)</u>	<u>(18,063)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 31st December 2019 <i>HK\$'000</i>	Audited 30th June 2019 <i>HK\$'000</i>
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment		111,810	118,278
Right-of-use assets		20,869	—
Leasehold land and land use rights		—	16,000
Investment properties		159,484	159,973
Financial assets at fair value through other comprehensive income		1,677	1,677
Deferred income tax assets		9,726	10,018
Prepayments		3,135	1,503
		306,701	307,449
Current assets			
Inventories		277,121	319,251
Trade and bills receivables	10	264,575	234,446
Other receivables, prepayments and deposits		29,112	29,431
Income tax recoverable		2,350	560
Restricted bank deposits		34,508	35,135
Cash and bank balances		139,617	93,601
		747,283	712,424
Total assets		1,053,984	1,019,873

		Unaudited	Audited
		31st December	30th June
		2019	2019
	Note	HK\$'000	HK\$'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		36,920	36,920
Share premium		62,466	62,466
Other reserves		29,541	37,302
Retained earnings		352,618	352,031
		481,545	488,719
Non-controlling interests		22,866	23,874
Total equity		504,411	512,593
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		6,846	6,723
Lease liabilities		3,654	—
		10,500	6,723
Current liabilities			
Trade payables	11	86,274	56,979
Other payables and accruals		44,749	28,913
Lease liabilities		1,878	—
Borrowings		394,870	406,977
Derivative financial instruments		177	74
Income tax payable		11,125	7,614
		539,073	500,557
Total liabilities		549,573	507,280
Total equity and liabilities		1,053,984	1,019,873
Net current assets		208,210	211,867
Total assets less current liabilities		514,911	519,316

1 Basis of preparation

The condensed consolidated interim financial information for the six months ended 31st December 2019 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The condensed consolidated interim financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, the condensed consolidated interim financial information is to be read in conjunction with the annual financial statements for the year ended 30th June 2019, 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 2019, 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.

2.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

HKFRS 16	Leases
Hong Kong International Financial Reporting Interpretations Committee (“HK(IFRIC)”) – Interpretation 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 28	Long-term interests in Associates and Joint Ventures
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Annual improvements to HKFRSs 2015-2017 cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

The impact of adoption of HKFRS 16 “Leases” is disclosed in Note 2.3 below. The adoption of other new and amended HKFRSs does not have any material impact on the Group’s condensed consolidated interim financial statements for the Current Period.

2.2 Impact of standards issued but not yet applied by the Group

The following new and amended HKFRSs have been issued, but are not effective for the Group's accounting period beginning on 1st July 2019 and have not been early adopted:

Amendments to HKAS 1 and HKAS 8	Definition of Material ¹
Amendments to HKFRS 3	Definition of a Business ¹
Amendments to HKFRSs	Amendments to References to Conceptual Framework in HKFRS Standards ¹
HKFRS 17	Insurance Contracts ²
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture ³

- (1) Effective for annual periods beginning on or after 1st January 2020
(2) Effective for annual periods beginning on or after 1st January 2021
(3) To be determined

2.3 Impact of adoption of HKFRS 16 "Leases" ("HKFRS 16")

(i) Impact on financial statements

The change in accounting policy affected the following items in the balance sheet on 1st July 2019:

	Unaudited 1st July 2019 HK\$'000
Right-of-use assets	23,366
Leasehold land and land use rights	(16,000)
Lease liabilities	<u>(7,366)</u>

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 “Leases”. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1st July 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1st July 2019 was 5.00%.

	Unaudited 1st July 2019 <i>HK\$’000</i>
Operating lease commitments disclosed as at 30th June 2019	9,156
Discounted using the lessee’s annual incremental borrowing rate of at the date of initial application	7,798
Less:	
Short-term leases recognised on a straight-line basis as expenses	(342)
Low-value leases recognised on a straight-line basis as expenses	(90)

Lease liabilities recognised as at 1st July 2019	<u>7,366</u>
Of which are:	
Lease liabilities – non-current	3,654
Lease liabilities – current	3,712

	<u>7,366</u>

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30th June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	Unaudited 31st December 2019 <i>HK\$’000</i>	Unaudited 1st July 2019 <i>HK\$’000</i>
Factory	76	164
Warehouse	4,276	5,024
Office	1,180	2,178
	<u> </u>	<u> </u>

(ii) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) - Interpretation 4 "Determining whether an Arrangement contains a Lease".

(iii) Changes in accounting policies

The Group leases various warehouses, factories and offices. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the year ended 30th June 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1st July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate

- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Some property leases contain variable payment terms. Variable lease payments are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

3 Revenue from contracts with customers and segment information

	Unaudited	
	Six months ended	
	31st December	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from contracts with customers		
Sales of goods	906,580	1,024,235

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

The Group derived revenue from the sales of goods at a point in time.

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 (“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 from contracts with customers and operating profit including corporate expenses, which is in a manner consistent with that of the condensed consolidated interim financial information.

The segment information provided to the CODM for the reportable segments for the six months ended 31st December 2019 is as follows:

	Unaudited				Group HK\$'000
	Trading HK\$'000	Colorants HK\$'000	Engineering plastic HK\$'000	Others HK\$'000	
Revenue from contracts with customers					
- Gross revenue	646,971	187,627	101,029	—	935,627
- Inter-segment revenue	(28,326)	(633)	(88)	—	(29,047)
Revenue from external customers	618,645	186,994	100,941	—	906,580
Operating (loss)/profit	(10,539)	16,057	12,241	(1,212)	16,547
Finance income	25	420	24	—	469
Finance costs	(8,363)	(776)	(520)	—	(9,659)
(Loss)/profit before income tax	(18,877)	15,701	11,745	(1,212)	7,357
Other information:					
Additions to non-current assets (other than financial instruments and deferred income tax assets)	195	2,128	964	—	3,287
Depreciation of property, plant and equipment	437	4,032	3,792	260	8,521
Amortisation of right-of-use assets	161	1,973	105	39	2,278
Provision for impairment of inventories, net	2,784	501	—	—	3,285
Reversal of provision for loss allowance on trade receivables	—	—	(140)	—	(140)
Fair value gains on derivative financial instruments	(330)	—	—	—	(330)

The segment information provided to the CODM for the reportable segments as at 31st December 2019 is as follows:

	Unaudited				
	Trading	Colorants	Engineering plastic	Others	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	<u>450,453</u>	<u>326,893</u>	<u>133,682</u>	<u>142,956</u>	<u>1,053,984</u>
Total assets					<u><u>1,053,984</u></u>
Segment liabilities	(98,378)	(37,931)	(15,509)	(2,885)	(154,703)
Borrowings	<u>(350,916)</u>	<u>(22,612)</u>	<u>(21,342)</u>	—	<u>(394,870)</u>
Total liabilities	<u><u>(449,294)</u></u>	<u><u>(60,543)</u></u>	<u><u>(36,851)</u></u>	<u><u>(2,885)</u></u>	<u><u>(549,573)</u></u>

The segment information provided to the CODM for the reportable segments for the six months ended 31st December 2018 is as follows:

	Unaudited				Group HK\$'000
	Trading HK\$'000	Colorants HK\$'000	Engineering plastic HK\$'000	Others HK\$'000	
Revenue from contracts with customers					
- Gross revenue	778,222	157,983	121,345	—	1,057,550
- Inter-segment revenue	(31,924)	(1,310)	(81)	—	(33,315)
Revenue from external customers	<u>746,298</u>	<u>156,673</u>	<u>121,264</u>	<u>—</u>	<u>1,024,235</u>
Operating (loss)/profit	<u>(2,309)</u>	<u>11,209</u>	<u>10,879</u>	<u>(1,700)</u>	<u>18,079</u>
Finance income	62	47	2	—	111
Finance costs	(9,158)	(625)	(790)	(189)	(10,762)
(Loss)/profit before income tax	<u>(11,405)</u>	<u>10,631</u>	<u>10,091</u>	<u>(1,889)</u>	<u>7,428</u>
Other information:					
Additions to non-current assets (other than financial instruments and deferred income tax assets)	470	3,140	3,422	73	7,105
Depreciation of property, plant and equipment	448	3,883	4,526	258	9,115
Amortisation of leasehold land and land use rights	179	93	16	39	327
Provision/(reversal) for impairment of inventories, net	1,115	(68)	547	—	1,594
Provision for loss allowance on trade receivables	—	—	—	31	31
Fair value gains on derivative financial instruments	<u>(1,785)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,785)</u>

The segment information provided to the CODM for the reportable segments as at 30th June 2019 is as follows:

	Audited				Group HK\$'000
	Trading HK\$'000	Colorants HK\$'000	Engineering plastic HK\$'000	Others HK\$'000	
Segment assets	431,322	301,566	143,505	143,480	1,019,873
Total assets					<u>1,019,873</u>
Segment liabilities	(55,540)	(27,072)	(13,735)	(3,956)	(100,303)
Borrowings	(357,672)	(23,275)	(26,030)	—	(406,977)
Total liabilities	<u>(413,212)</u>	<u>(50,347)</u>	<u>(39,765)</u>	<u>(3,956)</u>	<u>(507,280)</u>

The entity is domiciled in Hong Kong. The revenue from external customers from Hong Kong for the six months ended 31st December 2019 is approximately HK\$383,416,000 (2018: HK\$541,769,000) and the total of its revenue from external customers from other locations (mainly from Mainland China) is approximately HK\$523,164,000 (2018: HK\$482,466,000).

At 31st December 2019, the total of non-current assets other than financial instruments and deferred income tax assets located in Hong Kong is approximately HK\$176,711,000 (30th June 2019: HK\$179,050,000) and the total of these non-current assets located in other locations (mainly in Mainland China) is approximately HK\$118,587,000 (30th June 2019: HK\$116,704,000).

4 Other gains, net

	Unaudited	
	Six months ended 31st December	
	2019 HK\$'000	2018 HK\$'000
Net exchange (loss)/gain	(183)	639
Gain on disposal of property, plant and equipment	114	36
Fair value gains from derivative financial instruments	330	1,785
Others	307	725
	<u>568</u>	<u>3,185</u>

5 Operating profit

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

	Unaudited	
	Six months ended	
	31st December	
	2019	2018
	HK\$'000	HK\$'000
Cost of inventories recognised as expenses included in cost of sales	754,314	863,479
Depreciation of property, plant and equipment	8,521	9,115
Amortisation of right-of-use assets	2,278	—
Amortisation of leasehold land and land use rights	—	327
Operating lease rentals in respect of land and buildings	3,516	4,986
Employee benefit expenses, including Directors' emoluments	51,726	64,455
(Reversal of)/provision for loss allowance on trade receivables, net	(140)	31
Provision for impairment of inventories, net	3,285	1,594
Gain on disposal of property, plant and equipment	(114)	(36)
Fair value gains on derivative financial instruments	(330)	(1,785)

6 Finance income and costs

	Unaudited	
	Six months ended	
	31st December	
	2019	2018
	HK\$'000	HK\$'000
Finance income:		
- Interest income from bank deposits	469	111
Finance costs:		
- Interests on bank borrowings wholly repayable within five years	(8,764)	(8,169)
- Interests on lease liabilities	(191)	—
- Net exchange losses on financing activities	(704)	(2,593)
	(9,659)	(10,762)
Finance costs, net	(9,190)	(10,651)

7 Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the period. Income tax on the Group's subsidiaries established and operate in Mainland China 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	
	2019	2018
	HK\$'000	HK\$'000
Current income tax		
- Hong Kong profits tax	824	1,321
- The People's Republic of China corporate income tax	3,431	2,420
	<u>4,255</u>	<u>3,741</u>
Deferred income tax	223	347
	<u>4,478</u>	<u>4,088</u>

8 Dividends

On 27th September 2018, the Directors proposed a final dividend of HK2.0 cents per share, totaling HK\$7,384,000 for the year ended 30th June 2018, and had been reflected as an appropriation of retained earnings for the year ended 30th June 2019.

On 27th February 2019, the Directors resolved not to declare any interim dividend for the period ended 31st December 2018.

On 27th September 2019, the Directors resolved not to declare any final dividend for the year ended 30th June 2019.

On 27th February 2020, the Directors resolved not to declare any interim dividend for the period ended 31st December 2019.

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\$587,000 (2018: HK\$1,878,000) and 369,200,000 (2018: 369,200,000) ordinary shares in issue during the period.

Dilutive earnings per share for the period ended 31st December 2019 and 2018 equal basic earnings per share as there was no dilutive potential ordinary share as at the period ended 31st December 2019 and 2018.

10 Trade and bills receivables

	Unaudited 31st December 2019 HK\$'000	Audited 30th June 2019 HK\$'000
Trade receivables	243,427	217,103
Less: provision for impairment of receivables	<u>(2,723)</u>	<u>(4,760)</u>
	240,704	212,343
Bills receivables	<u>23,871</u>	<u>22,103</u>
	<u>264,575</u>	<u>234,446</u>

At 31st December 2019, the aging analysis of trade receivables, based on invoice date, is as follows:

	Unaudited 31st December 2019 HK\$'000	Audited 30th June 2019 HK\$'000
Below 90 days	231,848	197,326
91-180 days	8,742	15,017
Over 180 days	<u>2,837</u>	<u>4,760</u>
	<u>243,427</u>	<u>217,103</u>

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 2019, there are bills of exchange of HK\$11,511,000 (30th June 2019: HK\$10,660,000) 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 2019, the aging analysis of trade payables, based on invoice date, is as follows:

	Unaudited 31st December 2019 HK\$'000	Audited 30th June 2019 HK\$'000
Below 90 days	85,237	55,454
91-180 days	61	13
Over 180 days	<u>976</u>	<u>1,512</u>
	<u>86,274</u>	<u>56,979</u>

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31st December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Reviewing the second half of 2019, though the oil price has stabilised, it had nonetheless declined when compared with the high price level over the last year, leading to declining prices of plastic materials. As for the macroeconomic environment, the impact of the China-US trade negotiation on the businesses remained uncertain. The drop in Renminbi exchange rate and rising production costs in Mainland China also added to the pressure on businesses, resulting in a difficult operating environment. As customers placed orders prudently and maintained a low inventory, the order quantity secured by the Group was directly affected. Adjustments were also made to the price due to intense competition. For the six months ended 31 December 2019, the Group's total turnover amounted to HK\$906,580,000 (2018: HK\$1,024,235,000), 11.5% lower than last year.

To respond to the tough operating environment, the Group was prudent in taking orders and strictly implemented cost control measures. However, affected by the factors such as declining prices and quantity, rising costs and price adjustments, its overall gross profit decreased by 2.8% to HK\$104,763,000 (2018: HK\$107,759,000). During the period under review, the Group actively optimised product portfolio by lowering the proportion of the trading business segment and, at the same time, strengthening production of high margin products and effectively reducing administrative costs. Consequently, its gross profit margin increased by one percentage point to 11.6% when compared with the same period last year. Profit attributable to equity holders of the Company amounted to HK\$587,000 (2018: HK\$1,878,000). Basic earnings per share were HK0.16 cents (2018: HK0.51 cents).

To reserve sufficient capital for business development, the Board did not recommend the payment of an interim dividend.

In the second half of 2019, as the Chinese economy faced the challenge presented by external risks, national policy focuses on driving domestic demand in the market and stimulating the consumption power of the people. This direction benefits the Group's colorants, pigments and compounded plastic resins segment products which are mainly sold to the domestic market. The segment also stood out in the performance among its three major businesses during the interim period. With the market competition intensifying, the daily necessities-related market has undergone consolidation and only the strong enterprises survived while the weak ones were phased out. The small enterprises with relatively lower ability to control costs and maintain technical standards as low-end manufacturing businesses have been acquired and phased out. In this aspect, the Group, which is known for high quality products, strategically increased the production of high-end sanitary products and continuously enlarged its market share in the food-packaging related product market in Mainland China. In order to secure more new orders, the Group expanded its capacity of Xiamen and Qingdao plants. Thanks to the Group's appropriate strategy, the turnover jumped substantially by 19.4% to HK\$186,994,000 when compared with the same period last year. Gross profit margin slightly rose by 0.3 percentage points. Profit before taxation recorded a growth of 47.7%. Moreover, attentive to the upcoming introduction of 5G projects and strong demand in the Internet-of-Things smart home market in Mainland China, it has actively developed that market in order to explore future income sources.

During the period under review, prices of plastic material have continued to fall since the slide of the prices in the same period last year. The low oil price, among other factors, has affected the profit of the engineering plastic business. The Group's automobile manufacturer customers in Mainland China have received reduced orders due to the China-US trade negotiation and weak demand in the domestic market. As a result, the business segment was inevitably affected and recorded a turnover of HK\$100,941,000. The Group has strategically developed other export markets in response to shifting global trade conditions in the past. Towards this end, it has successfully secured orders with internationally-renowned brands and ventured into the European market. The Group has continued to reinforce its overall competitiveness, enhancing product quality while effectively controlling costs. Hence, its gross profit margin increased by 5 percentage points. Profit before taxation surged by 16.4% to HK\$11,745,000 when compared with the same period last year. Apart from continuously enriching its product portfolio, leveraging its business advantages and focusing on promoting higher margin products to maintain growth momentum, the Group will also actively approach and engage in discussions with end customers in order to open up new income streams and expand its client base.

The plastics trading business has been the segment most adversely affected by the China-US trade negotiation and domestic economic slowdown. The trade conflict has not only affected China's automobile exports to the US, but the revenue of automobile parts manufacturers focusing on domestic market has also dropped due to shrinking market scale. This trend has hit export-oriented customers in Southern China hard, leading them to be more cautious in placing orders. The fall in raw material prices and the RMB exchange rate has also had a negative impact on the plastics trading business. As a result, turnover of the business segment amounted to HK\$618,645,000. Despite these challenges, the Group has implemented set strategies to reduce and control inventory, resulting in substantial improvement in inventory turnover during the period. Gross profit margin markedly narrowed when compared with the corresponding period last year, recording a slight decrease of only 0.1 percentage point. Apart from continuing to implement stringent cost control measures, the Group will continue to maintain close ties with existing customers in order to secure higher margin orders and maintain stable business.

PROSPECTS

After experiencing escalating global tensions since more than two years ago, the Group is delighted to see the signing of the first phase of the trade agreement between China and the US in early 2020. While uncertainties remain regarding the second-phase negotiations, the improving relations between the two countries has given positive signals for the global economy. That plus the stability of the price of oil and the RMB exchange rate as well as retreat of interest rate hikes, the management is cautiously optimistic about the Group's long-term development in the future.

The Group's factories have been extended their holidays due to the new coronavirus outbreak, but they have resumed work already. As for business development, the Group expects customers to start replenishing inventory, which is believed would spur the placing of more orders. The Group will also cooperate with new technology providers in the second half of the year to jointly invest in the research and development of innovative environmental protection technologies to develop more high quality and value-added products, thereby consolidating its industry-leading position. In addition, the Group will continue to expand its customer base, open up new income sources, explore markets and regions rich with potential, actively extend its reach to international brands while it develops high value-added and high margin 5G and smart home products.

On top of producing conventional home appliances and maintaining stable relations with large toy companies, the Group has stepped up direct liaison with end-customers and put more resources into prospecting for end-customers of sanitary products, matching the country's policy to promote the domestic consumption market. The Group has also strengthened the development of food contact products, including setting up dedicated production and packaging workshops and investing in a specialised water cooling system to gain the confidence of customers with a high sanitary requirement on colour masterbatches. Through these measures, the Group aims to promote sales to the food, drugs and cosmetics industries.

As for cost controls, the Group will continue to implement strict cost control measures, including cutting administrative, distribution and production costs. It will also strive to raise overall administrative efficiency through sharing of internal resources so as to realise greater synergies in its operations. Furthermore, the Group will pay close attention to the development of the pandemic and make corresponding preparations and measures to ensure the safety of employees.

This year marks Ngai Hing Hong's 50th anniversary. The Group has been able to sustainably grow thanks to the dedication of the professional management team, leading the Group to overcome a variety of challenges over the years. As always, the Group will apply its business strategy with the objective of achieving strong and stable growth while engaging in prudent financial management with the ultimate end of delivering stable business growth and returns to shareholders in the long run.

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 2019, the Group has available aggregate bank loan facilities of approximately HK\$657,515,000 of which HK\$394,870,000 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 Mainland China and Hong Kong owned by the Group. The Group's cash and bank balances as at 31st December 2019 amounted to approximately HK\$139,617,000. The Group's gearing ratio as at 31st December 2019 was approximately 82%, based on the total bank borrowings of approximately HK\$394,870,000 and the shareholders' funds of approximately HK\$481,545,000.

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 2019, the Group had outstanding forward foreign exchange contracts mainly to purchase US dollars. The maximum notional principal amounts of these outstanding forward foreign exchange contracts at 31st December 2019 were as follows:

	2019
	<i>HK\$'000</i>
Sell HK dollars for US dollars	<u>229,320</u>

EMPLOYEE INFORMATION

As at 31st December 2019, the Group employed a total of approximately 647 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 2019, 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 2019 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, 27th February 2020

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, Mr. NG Chi Ming, Mr. HUI Yan Kuen, Mr. HUI Man Wai and Mr. HUI Yan Lung, Geoffrey and three Independent Non-executive Directors, namely Mr. HO Wai Chi, Paul, Mr. CHAN Dit Lung and Mr. CHING Yu Lung.