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NGAI HING HONG COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1047)

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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30TH JUNE 2021

The Board of Directors (the “Board”) of Ngai Hing Hong Company Limited (the “Company”) would like to announce the audited annual consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 30th June 2021 as follows:

Consolidated Income Statement

	Note	2021 HK\$'000	2020 HK\$'000
Revenue from contracts with customers	2	1,971,074	1,578,998
Cost of sales	5	<u>(1,623,857)</u>	<u>(1,390,269)</u>
Gross profit		347,217	188,729
Rental income	3	7,219	7,509
Other losses, net	4	(2,279)	(1,668)
Distribution costs	5	(86,125)	(70,799)
Administrative expenses	5	<u>(135,620)</u>	<u>(103,368)</u>
Operating profit		130,412	20,403
Finance income		1,137	1,109
Finance costs		<u>(9,952)</u>	<u>(18,122)</u>
Finance costs, net	6	<u>(8,815)</u>	<u>(17,013)</u>
Profit before income tax		121,597	3,390
Income tax expense	7	<u>(25,178)</u>	<u>(5,814)</u>
Profit/(loss) for the year		<u>96,419</u>	<u>(2,424)</u>
Attributable to:			
Equity holders of the Company		89,865	(6,212)
Non-controlling interests		<u>6,554</u>	<u>3,788</u>
		<u>96,419</u>	<u>(2,424)</u>
Earnings/(loss) per share for profit attributable to equity holders of the Company during the year (expressed in HK cent per share)			
– Basic and diluted	9	<u>24.34</u>	<u>(1.68)</u>

Consolidated Statement of Comprehensive Income

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) for the year	96,419	(2,424)
Other comprehensive income/(loss):		
<u>Item that will not be reclassified subsequently to income statement:</u>		
Fair value gain of financial asset at fair value through other comprehensive income (“FVOCI”)	363	186
<u>Item that may be reclassified subsequently to income statement:</u>		
Currency translation differences	41,242	(17,625)
Other comprehensive income/(loss) for the year	41,605	(17,439)
Total comprehensive income/(loss) for the year	138,024	(19,863)
Total comprehensive income/(loss) attributable to:		
– Equity holders of the Company	130,479	(23,397)
– Non-controlling interests	7,545	3,534
	138,024	(19,863)

Consolidated Balance Sheet

	<i>Note</i>	2021 HK\$'000	2020 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		113,126	105,307
Right-of-use assets		27,107	25,167
Investment properties		155,013	155,292
Intangible assets		—	—
Financial asset at fair value through other comprehensive income		2,226	1,863
Deferred income tax assets		8,132	13,841
Deposits and prepayments for property, plant and equipment and renovation costs		3,458	7,951
		<u>309,062</u>	<u>309,421</u>
Current assets			
Inventories		238,324	292,804
Trade and bills receivables	10	276,823	195,245
Other receivables, prepayments and deposits		32,240	36,005
Income tax recoverable		784	372
Restricted bank deposits		38,344	34,898
Cash and cash equivalents		206,579	126,094
		<u>793,094</u>	<u>685,418</u>
Total assets		<u>1,102,156</u>	<u>994,839</u>
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		60,731	20,117
Retained earnings		428,300	345,819
		<u>588,417</u>	<u>465,322</u>
Non-controlling interests		<u>31,727</u>	<u>25,199</u>
Total equity		<u>620,144</u>	<u>490,521</u>

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		4,496	6,559
Lease liabilities		4,014	3,216
Provision for reinstatement costs		23	884
		<u>8,533</u>	<u>10,659</u>
Current liabilities			
Trade and bills payables	11	78,252	87,257
Other payables, deposits received and accruals		57,655	27,656
Lease liabilities		4,784	3,803
Bank borrowings		319,708	365,377
Derivative financial instruments		23	1,246
Income tax payable		13,057	8,320
		<u>473,479</u>	<u>493,659</u>
Total liabilities		<u>482,012</u>	<u>504,318</u>
Total equity and liabilities		<u>1,102,156</u>	<u>994,839</u>

Notes:

1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, financial asset at fair value through other comprehensive income and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

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

The Group has applied the following new standards and amendments to standards for the first time for the annual period beginning on 1st July 2020:

Amendments to Hong Kong Accounting Standard (“HKAS”) 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Hedge Accounting
Amendments to HKFRS 16	COVID-19 Related Rent Concession
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

The adoption of the above new standards and amendments to standards did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) *The following new standards and amendments to standards have been issued but are not effective for the annual period beginning 1st July 2020 and have not been early adopted:*

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ¹
Amendments to HKFRS 16	COVID-19 Related Rent Concessions beyond 30th June 2021 ²
Amendments to HKFRS 3	Reference to the Conceptual Framework ³
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41 ³
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use ³
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ³
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combinations ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ⁴
HKFRS 17 and Amendments to HKFRS 17	Insurance Contracts ⁴
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁴
Amendments to HKAS 8	Definition of Accounting Estimates ⁴
Amendments to HKAS 12	Deferred Tax Related to Assets and Liabilities Aising from a Single Transaction ⁴
Amendments to Hong Kong Interpretation 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ⁴
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵

⁽¹⁾ Effective for annual periods beginning on or after 1st January 2021

⁽²⁾ Effective for annual periods beginning on or after 1st April 2021

⁽³⁾ Effective for annual periods beginning on or after 1st January 2022

⁽⁴⁾ Effective for annual periods beginning on or after 1st January 2023

⁽⁵⁾ To be determined

The Group has 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.

2. Revenue from contracts with customers and segment information

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue from contracts with customers		
Sales of goods	<u>1,971,074</u>	<u>1,578,998</u>

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

Liabilities related to contract with customers

The Group has recognised the following liabilities related to contracts with customers:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Contract liabilities, included in other payables and accruals	<u>8,355</u>	<u>3,880</u>

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	<u>3,880</u>	<u>4,053</u>

There are no unsatisfied nor partially unsatisfied performance obligation that has an original expected duration of one year or more.

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 plastics”) 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 consolidated financial statements.

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

The segment information provided to the CODM for the reportable segments for the year ended 30th June 2021 is as follows:

	Trading	Colorants	Engineering plastics	Others	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover					
– Gross revenue	1,402,379	376,556	263,048	—	2,041,983
– Inter-segment revenue	(68,964)	(1,820)	(125)	—	(70,909)
Revenue from external customers	<u>1,333,415</u>	<u>374,736</u>	<u>262,923</u>	<u>—</u>	<u>1,971,074</u>
Operating profit/(loss)	<u>61,250</u>	<u>30,102</u>	<u>39,578</u>	<u>(518)</u>	<u>130,412</u>
Finance income	178	804	155	—	1,137
Finance costs	(7,944)	(1,187)	(821)	—	(9,952)
Profit/(loss) before income tax	<u>53,484</u>	<u>29,719</u>	<u>38,912</u>	<u>(518)</u>	<u>121,597</u>
Other information:					
Additions to non-current assets (other than financial instruments and deferred tax assets)	114	12,172	9,644	—	21,930
Depreciation of property, plant and equipment	791	9,256	7,610	384	18,041
Depreciation of right-of-use assets	343	4,195	897	206	5,641
(Reversal of)/provision for impairment of inventories, net	(6,803)	191	(181)	—	(6,793)
Loss allowance/(reversal of loss allowance) on trade receivables	100	(444)	(86)	—	(430)
Fair value gains on derivative financial instruments	(1,476)	—	—	—	(1,476)
Fair value losses/(gains) on investment properties	<u>3,607</u>	<u>(220)</u>	<u>—</u>	<u>(710)</u>	<u>2,677</u>

The segment information provided to the CODM for the reportable segments as at 30th June 2021 is as follows:

	Trading	Colorants	Engineering plastics	Others	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	<u>396,127</u>	<u>367,330</u>	<u>196,950</u>	<u>141,749</u>	<u>1,102,156</u>
Segment liabilities	(88,863)	(37,487)	(32,256)	(3,698)	(162,304)
Borrowings	(272,504)	(9,524)	(37,680)	—	(319,708)
	<u>(361,367)</u>	<u>(47,011)</u>	<u>(69,936)</u>	<u>(3,698)</u>	<u>(482,012)</u>

The segment information provided to the CODM for the reportable segments for the year ended 30th June 2020 is as follows:

	Trading <i>HK\$'000</i>	Colorants <i>HK\$'000</i>	Engineering plastics <i>HK\$'000</i>	Others <i>HK\$'000</i>	Group <i>HK\$'000</i>
Turnover					
– Gross revenue	1,141,834	312,562	177,237	—	1,631,633
– Inter-segment revenue	(50,948)	(1,501)	(186)	—	(52,635)
Revenue from external customers	<u>1,090,886</u>	<u>311,061</u>	<u>177,051</u>	<u>—</u>	<u>1,578,998</u>
Operating (loss)/profit	<u>(15,039)</u>	<u>19,765</u>	<u>20,920</u>	<u>(5,243)</u>	<u>20,403</u>
Finance income	116	968	25	—	1,109
Finance costs	(15,682)	(1,495)	(945)	—	(18,122)
(Loss)/profit before income tax	<u>(30,605)</u>	<u>19,238</u>	<u>20,000</u>	<u>(5,243)</u>	<u>3,390</u>
Other information:					
Additions to non-current assets (other than financial instruments and deferred tax assets)	1,172	15,190	3,522	4	19,888
Depreciation of property, plant and equipment	821	7,952	7,399	390	16,562
Depreciation of right-of-use assets	315	4,094	196	206	4,811
Provision for impairment of inventories, net	1,914	928	300	—	3,142
Loss allowance/(reversal of loss allowance) on trade receivables	1,977	117	(92)	—	2,002
Fair value losses on derivative financial instruments	667	—	—	—	667
Fair value losses on investment properties	<u>612</u>	<u>612</u>	<u>—</u>	<u>2,340</u>	<u>3,564</u>

The segment information provided to the CODM for the reportable segments as at 30th June 2020 is as follows:

	Trading <i>HK\$'000</i>	Colorants <i>HK\$'000</i>	Engineering plastics <i>HK\$'000</i>	Others <i>HK\$'000</i>	Group <i>HK\$'000</i>
Segment assets	<u>424,868</u>	<u>296,882</u>	<u>132,536</u>	<u>140,553</u>	<u>994,839</u>
Segment liabilities	(91,706)	(29,958)	(13,530)	(3,747)	(138,941)
Borrowings	<u>(327,445)</u>	<u>(22,907)</u>	<u>(15,025)</u>	<u>—</u>	<u>(365,377)</u>
	<u>(419,151)</u>	<u>(52,865)</u>	<u>(28,555)</u>	<u>(3,747)</u>	<u>(504,318)</u>

The entity is domiciled in Hong Kong. The revenue from external customers from Hong Kong for the year ended 30th June 2021 is approximately HK\$923,925,000 (2020: HK\$698,213,000), and the total of its revenue from external customers from other locations (mainly Mainland China) is approximately HK\$1,047,149,000 (2020: HK\$880,785,000).

At 30th June 2021, the total of non-current assets other than financial instruments and deferred tax assets located in Hong Kong is approximately HK\$176,983,000 (2020: HK\$175,586,000), and the total of these non-current assets located in other locations (mainly Mainland China) is approximately HK\$121,721,000 (2020: HK\$118,131,000).

3. Rental income

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Rental income	<u>7,219</u>	<u>7,509</u>

Outgoings in respect of investment properties that generate rental income amounted to approximately HK\$520,000 (2020: HK\$179,000).

4. Other losses, net

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Fair value losses on investment properties	(2,677)	(3,564)
Fair value gains/(losses) on forward foreign exchange contracts held for trading		
– Realised	186	507
– Unrealised	1,290	(1,174)
Government grant (Note)	451	1,631
Net exchange (losses)/gains	(1,529)	724
Others	<u>—</u>	<u>208</u>
	<u>(2,279)</u>	<u>(1,668)</u>

Note:

Pursuant to Mainland China local government policies, the Group received government grant amounted to RMB379,000, equivalent to approximately HK\$451,000 (2020: RMB1,493,000, equivalent to approximately HK\$1,631,000), from Mainland China local government authorities to support the operations in certain Mainland China regions with no special conditions attached.

5. Expenses by nature

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Cost of inventories sold excluding manufacturing costs	1,538,983	1,310,278
Auditor's remuneration		
– Audit services	2,742	2,870
– Non-audit services	359	267
Depreciation of property, plant and equipment	18,041	16,562
Depreciation of right-of-use assets	5,641	4,811
(Reversal of)/loss allowance on trade receivables	(430)	2,002
(Reversal of)/provision for impairment of inventories, net	(6,793)	3,142
Loss/(gain) on disposal of property, plant and equipment	1	(72)
Employee benefit expenses, including Directors' emoluments	159,148	120,935
Operating lease rentals in respect of buildings	6,125	6,814
Provision for claim related to a legal case (Note (i))	3,802	—
Repairs and maintenance expenses	6,451	3,411
Transportation and packaging expenses	31,300	25,298
Travelling and office expenses	7,473	7,119
Utility expenses	16,061	12,653
Other expenses	56,698	48,346
	1,845,602	1,564,436
Total cost of sales, distribution costs and administrative expenses	1,845,602	1,564,436
Representing:		
Cost of sales	1,623,857	1,390,269
Distribution costs	86,125	70,799
Administrative expenses	135,620	103,368
	1,845,602	1,564,436

Notes:

- (i) In accordance with a judgement dated 29th January 2021 from Wenling City People's Court of Zhejiang Province, the Group was held liable to pay a customer compensation amounted to RMB3,193,000 (equivalent to approximately HK\$3,802,000). Full provision against such amount has been made.
- (ii) During the year ended 30th June 2021, the Hong Kong Special Administrative Region Government has launched the "Employment Support Scheme" (ESS) providing wage subsidies to eligible subsidiaries of the Group. Government grants amounted to HK\$4,043,000 are deducted in the employee benefit expenses. There are no unfulfilled conditions or other contingencies attached to the grants.

6. Finance income and costs

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Finance income:		
– Interest income from bank deposits	1,087	1,109
– Net exchange gains on financing activities	50	—
	<u>1,137</u>	<u>1,109</u>
Finance costs:		
– Interest on lease liabilities	(439)	(334)
– Interest on bank borrowings	(9,513)	(17,048)
– Net exchange losses on financing activities	—	(740)
	<u>(9,952)</u>	<u>(18,122)</u>
Finance costs, net	<u>(8,815)</u>	<u>(17,013)</u>

7. Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2020: 16.5%) on the estimated assessable profit for the year. Taxation on the Group's subsidiaries established and operate in Mainland China have been calculated on the estimated assessable profit for the year at the rate of 25% (2020: 25%), other than a subsidiary in Dongguan which was certified as High and New Technology Enterprises and is entitled to a concessionary tax rate of 15% for three consecutive years from 2020 to 2023. This subsidiary is entitled to re-apply for the preferential tax treatment when the preferential tax period expires.

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current income tax:		
– Hong Kong profits tax	3,970	1,519
– Mainland China corporate income tax	18,504	8,946
– Over-provision in prior years	(1,506)	(578)
	<u>20,968</u>	<u>9,887</u>
Deferred income tax	<u>4,210</u>	<u>(4,073)</u>
	<u>25,178</u>	<u>5,814</u>

8. Dividends

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interim, paid, of HK1.0 cent (2020: Nil) per ordinary share	3,692	—
Special, paid, of HK1.0 cent (2020: Nil) per ordinary share	3,692	—
Final, proposed, of HK1.0 cent (2020: Nil) per ordinary share	3,692	—
Special, proposed, of HK3.0 cents (2020: Nil) per ordinary share	11,076	—
	<u>22,152</u>	<u>—</u>

Notes:

- (a) On 27th February 2020, the Directors resolved not to declare any interim dividend for the six months ended 31st December 2019.
- (b) On 29th September 2020, the Directors resolved not to declare any final dividend for the year ended 30th June 2020.
- (c) On 25th February 2021, the Directors declared an interim dividend of HK1.0 cent per share, totalling HK\$3,692,000 for the six months ended 31st December 2020.
- (d) On 25th February 2021, the Directors declared a special dividend of HK1.0 cent per share, totalling HK\$3,692,000 for the six months ended 31st December 2020.
- (e) On 28th September 2021, the Directors proposed a final dividend of HK1.0 cent per share, totalling HK\$3,692,000. This proposed dividend was not reflected as a dividend payable in these financial statements and will be reflected as an appropriation of retained earnings for the year ending 30th June 2022.
- (f) On 28th September 2021, the Directors proposed a special dividend of HK3.0 cents per share, totalling HK\$11,076,000. This proposed dividend was not reflected as a dividend payable in these financial statements and will be reflected as an appropriation of retained earnings for the year ending 30th June 2022.

9. Earnings/(loss) per share

Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2021	2020
Profit/(loss) attributable to equity holders of the Company (HK\$'000)	<u>89,865</u>	<u>(6,212)</u>
Weighted average number of ordinary shares in issue	<u>369,200,000</u>	<u>369,200,000</u>
Basic earnings/(loss) per share (HK cents per share)	<u>24.34</u>	<u>(1.68)</u>

Diluted

Dilutive earnings/(loss) per share for the years ended 30th June 2021 and 2020 equal basic earnings/(loss) per share as there was no dilutive potential ordinary share as at the years ended 30th June 2021 and 2020.

10. Trade and bills receivables

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables	248,141	175,944
Less: loss allowance	<u>(4,770)</u>	<u>(4,797)</u>
	243,371	171,147
Bills receivables	<u>33,452</u>	<u>24,098</u>
	<u>276,823</u>	<u>195,245</u>

The carrying amount of trade receivables are denominated in the following currencies:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
HK\$	98,843	42,546
RMB	117,296	109,515
USD	<u>32,002</u>	<u>23,883</u>
	<u>248,141</u>	<u>175,944</u>

The carrying value of trade receivables approximates their fair values.

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

The majority of the Group's sales were made with credit terms of 30 to 90 days. The remaining amounts are on letter of credit or bank's acceptance bill.

Bills receivable are mainly with maturity period of within 180 days and are denominated in the following currencies:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$	573	—
USD	4,138	1,078
RMB	28,741	23,020
	<u>33,452</u>	<u>24,098</u>

The carrying value of bills receivable approximates their fair values and there is no recent history of default on bills receivable.

Certain subsidiaries of the Group transferred certain bank's acceptance bills amounting to approximately HK\$11,031,000 (2020: HK\$16,584,000) with recourse in exchange for cash as at 30th June 2021. The transactions have been accounted for as collateralised bank advances.

The maximum exposure to credit risk at the end of the reporting period is the carrying values of the receivables (2020: same). Other than the bank's acceptance bills collateralised as bank advances, the Group does not hold any collateral as security.

11. Trade and bills payables

The ageing analysis of the trade and bills payables by invoice date is as follows:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Below 90 days	76,975	85,622
91 - 180 days	367	1,279
Over 180 days	910	356
	<u>78,252</u>	<u>87,257</u>

The carrying values of trade and bills payables approximate their fair values, and are denominated in the following currencies:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
RMB	28,126	20,284
USD	50,126	66,973
	<u>78,252</u>	<u>87,257</u>

12. Commitments

(a) Capital commitments

At 30th June 2021, the Group had the following capital commitments for addition of property, plant and equipment:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for	<u>4,392</u>	<u>3,629</u>

(b) Other commitments

On 15th June 2017, the Group entered into a non-cancellable operating lease agreement with an agent of the Mainland China local government authority to lease an industrial building premise for 5 years with a minimum lease payment of RMB8.5 per square meter. During the non-cancellable lease period, the Group commits an annual tax payment of RMB3,000,000 (equivalent to approximately HK\$3,571,000), including the corporate income tax and value added tax, from its business operation in the region to the Mainland China local government authority. Any shortfall on the committed tax payment would be paid in form of cash to the agent of the Mainland China local government authority.

DIVIDEND

The Directors have resolved to recommend the payment of a final dividend and a special dividend of HK1.0 cent (2020: Nil) and HK3.0 cents per share respectively for the year ended 30th June 2021. The proposed final dividend and the special dividend, together with the interim dividend and the special dividend of HK1.0 cent (2020: Nil) and HK1.0 cent per share already paid, respectively, will make a total distribution of HK6.0 cents per share for the year under review (2020: Nil). The proposed final dividend and the special dividend, if approved at the forthcoming Annual General Meeting of the Company to be held on Thursday, 18th November 2021 (the “AGM”), will be payable in cash on Friday, 10th December 2021 to members whose names appear on the register of members of the Company on Monday, 29th November 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 15th November 2021 to Thursday, 18th November 2021 (both dates inclusive) during which period no transfer of shares will be registered for determining the shareholders of the Company who are entitled to attend and vote at the Meeting. In order to be eligible to attend and vote at the Meeting, 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 for registration not later than 4:00 p.m. on Friday, 12th November 2021.

The register of members of the Company will be closed from Thursday, 25th November 2021 to Monday, 29th November 2021 (both dates inclusive) during which period no transfer of shares will be registered for determining the shareholders of the Company who are entitled to the proposed final dividend and the proposed special dividend for the year ended 30th June 2021. In order to qualify for the proposed final dividend and the proposed special dividend for the year ended 30th June 2021, 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 for registration not later than 4:00 p.m. on Wednesday, 24th November 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The 2020/21 year was full of challenges. International oil prices rose from a trough, which in turn drove the prices of plastic materials to continuously higher levels. With respect to the COVID-19 pandemic, with vaccination drives launched across different regions in the first quarter of this year, the impact of the pandemic began to ease in the second quarter, and the global economy gradually returned to normal. As a result, overseas orders rebounded and the market demand for raw materials soared. Meanwhile, heavy snowstorms in the US at the beginning of this year and the surge in international shipping freight rates during the year under review further elevated the price of plastic materials.

An economic restart has stimulated the demand for raw materials from customers from different regions, which has led to a sharp increase in orders received by the Group. For the year ended 30 June 2021, the Group’s total turnover was HK\$1,971,074,000 (2020: HK\$1,578,998,000), an increase of 24.8% over the previous year.

During the year under review, the Group continued to optimise its product portfolio, endeavored to develop new customer sources and stepped up efforts to minimise costs. Consequently, overall gross profit has increased significantly since the fourth quarter of last year, rising by 84% year-on-year to HK\$347,217,000 (2020: HK\$188,729,000). Gross profit margin grew by 5.7 percentage points to 17.6% over the same period last year. The Group successfully achieved a turnaround in profit during the year. Profit attributable to equity holders of the Company amounted to HK\$89,865,000 (2020: loss attributable to equity holders of the Company of HK\$6,212,000). Basic earnings per share were HK24.34 cents (2020: basic loss per share of HK1.68 cents).

To reward shareholders for their unwavering support of the Group, the Board of Directors has recommended the payment of a final dividend of HK1.0 cent per share (2020: Nil) and a special dividend of HK3.0 cents per share.

During the year, the pandemic was basically under control in Mainland China, and the Group's production lines and sales network were able to resume full operation. Moreover, as the effects of the internal circulation policy were gradually apparent, domestic demand gradually recovered, thus benefiting domestic sales. The pandemic has raised public awareness of health and hygiene, leading to a sharp rise in demand for post-pandemic products such as medical equipment and air filtration systems. In addition, the automotive and certain heavy industries have benefited from the economic recovery, which in turn has led to demand soaring for plastic materials from various industries. The plastic trading business has therefore recorded the most significant improvement among the Group's three major businesses. During the year under review, the turnover of the plastic trading business increased by 22.2% year-on-year to HK\$1,333,415,000 (2020: HK\$1,090,886,000). Profit before taxation amounted to HK\$53,484,000 (2020: loss of HK\$30,605,000). General consumer electronics and traditional automobile manufacturer customers continued to submit a steady stream of orders to the Group. The Group also broadened its clientele and successfully secured new customers such as developers of smart products, household goods and high-end kitchenware. Its revenue stream was expanded accordingly. In addition, the price of plastic materials has continued to rise during the year. As the Group was able to effectively utilise its inventory, the inventory situation has improved significantly. Consequently, the gross profit margin has risen by 4.9 percentage points when compared with last year.

Owing to the sharp rise in the price of raw materials, instability in the plastics supply market, and increased orders from new customers, the turnover of the engineering plastic business grew by 48.5% year-on-year to HK\$262,923,000 (2020: HK\$177,051,000). Gross profit margin climbed by 5 percentage points. Profit before taxation surged by 94.6% to HK\$38,912,000 year-on-year (2020: HK\$20,000,000). The introduction of various anti-pandemic measures by different countries according to their pandemic situation have caused dramatic changes to people's work and life patterns. More companies have adopted flexible work-at-home arrangements, greatly increasing the length of time ordinary consumers stay at home, thus creating a series of "new" demands. The demand for general home appliances, such as kitchenware, has continued to rise. In light of this, the Group has flexibly adjusted its marketing strategy. It continues to receive orders from internationally renowned brands, while providing suitable plastic solutions to new customers from various industries. It will continue to enrich its existing product portfolio and enter the engineering plastic markets for high-end kitchenware products with higher margins to meet customers' needs for more and larger orders.

The colorant, pigment and compounded plastic resin business has also recorded growth in performance. Turnover increased by 20.5% year-on-year to HK\$374,736,000 (2020: HK\$311,061,000). Gross profit margin grew by 3.6 percentage points. Profit before taxation rose by 54.5% to HK\$29,719,000 (2020: HK\$19,238,000). Customers of the Group's colorant, pigment and compounded plastic resin business come from different industries and regions, and are mainly engaged in the automobile application, food packaging and construction materials sectors. Therefore, orders have been relatively stable and less affected by external economic factors. The Group will continue to focus on producing high-end sanitary products and electronic products. It will also constantly raise the production capacity of its factories to secure high gross profit margin orders and maintain stable business development.

PROSPECTS

International oil prices have been persistently high and raw material shortages have continued, and the global economy is expected to continue improving as the vaccination rate rises. However, the traditional peak season for Christmas orders is coming to an end. The Group expects overseas suppliers will become more cautious and will take a wait-and-see attitude in accordance with the trends in raw material prices and international shipping rates. Hence, the number of orders and the prices of products may fall modestly at the end of this year.

Given that domestic circulation will be the main theme of development in Mainland China, the tremendous domestic market demand will help drive the recovery. However, the dark cloud of the COVID-19 pandemic still hangs heavily over the European and American markets, and some regions are even facing different virus variants. Therefore, the outlook for global economic growth remains uncertain. Barring any large-scale COVID-19 outbreak, the Group's businesses are expected to sustain stable development in the first half of 2022. And the management is cautiously optimistic about the long-term development of its businesses in the future. In view of the generally uncertain conditions, however, the Group will adopt a more prudent strategy in relation to the receipt of orders and the management of inventory, so as to reduce risks associated with rising inventory, accounts receivable and number of related turnover days.

In the long run, the Group will direct greater resources toward exploring and attracting new customers while continuing to keep abreast of the needs of existing customers. At the same time, it will make good use of its advantages and years of industry experience, and continue to invest resources in enhancing its product quality and strengthening high-end production technologies, as well as in improving the overall gross profit margin and further optimising the product mix.

In the future, the Group will continue to implement stringent cost control measures, actively improve overall administrative and operational efficiency, and pragmatically manage its financial position in order to promote the sustainable and steady development of the Company.

The Group's success in reducing the impact of the pandemic on its business and achieving good results during the year under review is attributable to the support of the management team and customers, as well as the diligence of all employees. I would therefore like to express my sincere gratitude to all of the aforementioned parties. The Group, as always, will continue to make every effort to achieve lasting and sustainable growth as well as deliver long-term returns to 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 30th June 2021 the Group has available aggregate banking facilities of approximately HK\$553,548,000 of which approximately HK\$312,141,000 have been utilised and were secured by corporate guarantees issued by the Company and legal charges on certain leasehold land and buildings, investment properties and restricted bank deposits in Mainland China and Hong Kong owned by the Group. The Group's cash and cash equivalents as at 30th June 2021 amounted to approximately HK\$206,579,000. The Group's gearing ratio as at 30th June 2021 was approximately 54.3%, based on the total bank borrowings of approximately HK\$319,708,000 and the shareholders' funds of approximately HK\$588,417,000.

FOREIGN EXCHANGE RISK

The Group's borrowings and cash balances 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.

At 30th June 2021, the maximum notional amount for the outstanding settlement committed by the Group in respect of forward contracts in order to manage the Group's exposure in foreign currencies from its operations as follows:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sell HK dollars for US dollars	<u>78,000</u>	<u>507,000</u>

EMPLOYEE INFORMATION

As at 30th June 2021, the Group had approximately 626 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 or medical insurance coverage, and provident fund scheme (as the case may be) to its employees depending on the location of such employees.

BASIS OF DETERMINING EMOLUMENT TO DIRECTORS

The same remuneration philosophy is applicable to the Directors of the Company. Apart from benchmarking against the market, the Company looks at individual competence, contributions and the affordability of the Company in determining the exact level of remuneration for each Director. Appropriate benefits schemes are in place for the Directors similar to those offered to other employees of the Group.

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

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

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 set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited ("HKSE"). 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.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Thursday, 18th November 2021 and the Notice of Annual General Meeting will be published and despatched in the manner as required by the Listing Rules in due course.

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 year ended 30th June 2021, 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 officer (chief executive for CG Code) should be separate and should not be performed by the same individual. Up to the date of this annual report, the board (the "Board") of directors (the "Directors") of the Company 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 as chief executive when it thinks appropriate.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet as at 30th June 2021, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 30th June 2021 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

AUDIT COMMITTEE

The Audit Committee of the Company (the “Audit Committee”) provides an important link between the Board and the Company’s auditor in matters coming within the scope of the group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Audit Committee comprises three independent non-executive Directors, namely Mr. HO Wai Chi, Paul, Mr. CHING Yu Lung and Mr. YU Chi Kwong. 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 annual financial statements for the year ended 30th June 2021 with the Directors.

REMUNERATION COMMITTEE

The Company has formulated written terms of reference for the remuneration committee of the Company (the “Remuneration Committee”) which stated clearly its authorities and duties in accordance with the requirements of HKSE. The Remuneration Committee consists of three independent non-executive Directors, namely Mr. HO Wai Chi, Paul, Mr. CHING Yu Lung and Mr. YU Chi Kwong and an executive Director, Mr. HUI Sai Chung.

The Remuneration Committee is responsible for ensuring formal and transparent procedures for developing remuneration policies and overseeing the remuneration packages of the executive Directors and senior management. 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. The Remuneration Committee held three meetings during the year ended 30th June 2021.

NOMINATION COMMITTEE

A nomination committee of the Company (the “Nomination Committee”) was established on 26th March 2012 with written terms of reference in accordance with the requirements of HKSE. The Nomination Committee consists of three independent non-executive Directors, namely Mr. HO Wai Chi, Paul, Mr. CHING Yu Lung and Mr. YU Chi Kwong 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. The Nomination Committee held two meetings during the year ended 30th June 2021 to review the structure, size and composition (including the skills, knowledge and experience) of the Board.

CORPORATE GOVERNANCE COMMITTEE

A corporate governance committee of the Company (the “Corporate Governance Committee”) was established on 26th March 2012 with written terms of reference in accordance with the CG Code. The Corporate Governance Committee consists of all independent non-executive Directors, namely Mr. HO Wai Chi, Paul, Mr. CHING Yu Lung and Mr. YU Chi Kwong.

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. The Corporate Governance Committee held two meetings during the year ended 30th June 2021 to review the corporate governance policy in the Group and recommend the training arrangement on corporate governance to the employees of the Group.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT ON THE WEBSITE OF HKSE

The final results announcement is published on the websites of HKSE (<http://www.hkexnews.hk>) and the Company (<http://www.nhh.com.hk>). The annual report will be despatched to the shareholders and will be available on the websites of HKSE (<http://www.hkexnews.hk>) and the Company (<http://www.nhh.com.hk>) in due course.

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

Hong Kong, 28th September 2021

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. CHING Yu Lung and Mr. YU Chi Kwong.