

NGAI HING HONG COMPANY LIMITED

(Incorporated in Bermuda with limited liability)



Ngai Hing Hong

interim

report

2002 / 2003



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The Board of Directors (the "Board") of Ngai Hing Hong Company Limited (the "Company") is pleased to present the unaudited condensed interim accounts of the Company and its subsidiaries (the "Group") for the six months ended 31st December 2002 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 31ST DECEMBER 2002

	Note	Unaudited Six months ended 31st December	
		2002 HK\$'000	2001 HK\$'000
Turnover	2	452,588	368,734
Cost of sales		(383,189)	(318,156)
Gross profit		69,399	50,578
Other revenues	2	783	367
Distribution costs		(14,374)	(10,993)
Administrative expenses		(30,895)	(24,582)
Operating profit	3	24,913	15,370
Finance costs	4	(754)	(805)
Profit before taxation		24,159	14,565
Taxation	5(a)	(2,380)	(1,548)
Profit after taxation		21,779	13,017
Minority interests		(1,677)	(803)
Profit attributable to shareholders		20,102	12,214
Earnings per share	7	HK cents 6.70	HK cents 4.07

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER 2002

	Note	Unaudited 31st December 2002 HK\$'000	Audited 30th June 2002 HK\$'000
Fixed assets	8	103,257	83,855
Current assets			
Inventories		78,919	70,245
Trade receivables	9	166,364	166,124
Other receivables, prepayments and deposits		24,721	13,820
Cash and bank balances		46,513	46,486
		316,517	296,675
Current liabilities			
Trade payables	10	41,673	47,071
Other payables		10,407	12,586
Accruals		15,746	9,985
Taxation		4,397	2,934
Obligations under finance leases - current portion		—	87
Trust receipt loans - secured		50,384	21,519
Short-term bank loans - secured		12,722	7,731
		135,329	101,913
Net current assets		181,188	194,762
Total assets less current liabilities		284,445	278,617
Financed by:			
Share capital	11	30,000	30,000
Reserves		35,424	35,424
Retained earnings		203,638	192,536
Proposed dividend	6	9,000	15,000
Shareholders' funds		278,062	272,960
Minority interests		6,097	5,371
Long-term liabilities			
- deferred taxation	5(b)	286	286
		284,445	278,617

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31ST DECEMBER 2002

	Unaudited Six months ended 31st December	
	2002	2001
	HK\$'000	HK\$'000
Net cash inflow from operating activities	9,926	35,205
Net cash used in investing activities	(22,726)	(5,619)
Net cash used in financing activities	(16,038)	(7,170)
(Decrease)/increase in cash and cash equivalents	(28,838)	22,416
Cash and cash equivalents at 1st July	24,967	6,788
Cash and cash equivalents at 31st December	(3,871)	29,204
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	46,513	38,915
Trust receipt loans	(50,384)	(9,711)
	(3,871)	29,204

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31ST DECEMBER 2002

	Unaudited						
	Share	Share	Capital	Investment	Exchange	Retained	Total
	capital	premium	reserve	properties	fluctuation	earnings	
HK\$'000	HK\$'000	HK\$'000	revaluation	reserve	HK\$'000	HK\$'000	
At 1st July 2002	30,000	28,475	408	1,312	5,229	207,536	272,960
Profit for the period	—	—	—	—	—	20,102	20,102
2001//2002 final dividend paid	—	—	—	—	—	(15,000)	(15,000)
At 31st December 2002	30,000	28,475	408	1,312	5,229	212,638	278,062
At 1st July 2001	30,000	28,475	408	1,562	5,255	179,628	245,328
Profit for the period	—	—	—	—	—	12,214	12,214
2000//2001 final dividend paid	—	—	—	—	—	(4,500)	(4,500)
At 31st December 2001	30,000	28,475	408	1,562	5,255	187,342	253,042

NOTES TO CONDENSED INTERIM ACCOUNTS

1 Basis of preparation and accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These condensed accounts should be read in conjunction with the annual accounts for the year ended 30th June 2002.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 30th June 2002 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 15 (revised)	:	Cash flow statements
SSAP 25 (revised)	:	Interim financial reporting
SSAP 34 (revised)	:	Employee benefits

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below:

(a) SSAP 15 (revised): Cash flow statements

The presentation and classification of items in the condensed consolidated cash flow statement have been changed due to the adoption of SSAP 15 (revised). As a result, cash flow during the period has been reclassified by operating, investing and financing activities. For the six months ended 31st December 2001, taxation paid of HK\$2,089,000 has been reclassified as operating cash flow. Interest paid of HK\$735,000 has been reclassified as operating cash flow. Dividend paid of HK\$4,976,000 has been reclassified as financing cash flow.

(b) SSAP 34 (revised): Employee benefits

The new SSAP prescribes the accounting and disclosure for employee benefits. There is no material impact on financial results and financial position of the Group by the adoption of this new SSAP and accordingly comparative figures have not been restated.

2 Segment information

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the trading and manufacturing of plastic materials, pigments, colorants, compounded plastic resins and engineering plastic products.

An analysis of the Group's revenues and results for the period by geographical segment is as follows:

	Six months ended 31st December 2002			
	The People's Republic of China excluding Hong Kong			
	Hong Kong	("PRC")	Elimination	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	426,471	122,424	(96,307)	452,588
Other revenues	728	55	—	783
Total revenues	427,199	122,479	(96,307)	453,371
Segment results	16,595	8,157		24,752
Unallocated costs				(593)
Profit before taxation				24,159
Taxation				(2,380)
Profit after taxation				21,779
Minority interests				(1,677)
Profit attributable to shareholders				20,102

2 Segment information (Cont'd)

	Six months ended 31st December 2001			
	Hong Kong	PRC	Elimination	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	357,332	84,770	(73,368)	368,734
Other revenues	367	—	—	367
Total revenues	357,699	84,770	(73,368)	369,101
Segment results	7,886	7,332		15,218
Unallocated costs				(653)
Profit before taxation				14,565
Taxation				(1,548)
Profit after taxation				13,017
Minority interests				(803)
Profit attributable to shareholders				12,214

Turnover and segment results are presented based on the operating locations of group companies. Unallocated costs represent corporate expenses.

All the Group's turnover and operating profit are attributable to the manufacturing and trading of plastic products and accordingly no analysis of the Group's turnover and contribution to operating profit by business segment is provided.

3 Operating profit

Operating profit is stated after crediting and charging the following:

	Unaudited Six months ended 31st December	
	2002 HK\$'000	2001 HK\$'000
Crediting		
Gain on disposal of fixed assets	124	173
Charging		
Depreciation:		
Owned fixed assets	3,324	5,099
Leased fixed assets	—	46

4 Finance costs

	Unaudited Six months ended 31st December	
	2002 HK\$'000	2001 HK\$'000
Interest on bank borrowings	738	760
Interest element of finance leases	16	45
	754	805

5 Taxation

- (a) Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the period. The Group's subsidiaries operating in the PRC have no assessable income and accordingly no provision for PRC taxation has been made in the accounts.
- (b) Deferred taxation is provided for in respect of the accelerated depreciation allowances. There is no material potential deferred taxation not provided for in the accounts.

6 Dividends

The directors declare an interim dividend of HK 3 cents per share for the period (2001: HK 2 cents).

7 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$20,102,000 (2001: HK\$12,214,000) and 300,000,000 (2001: 300,000,000) ordinary shares in issue during the period. Diluted earnings per share for the periods are not disclosed as there were no dilutive potential ordinary shares.

8 Capital expenditure

	Fixed assets
	HK\$'000
Six months ended 31st December 2002	
Opening net book amount	83,855
Additions	22,748
Disposals	(22)
Depreciation	(3,324)
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Closing net book amount	103,257
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9 Trade receivables

The aging analysis of trade receivables is as follows:

	Unaudited 31st December 2002 HK\$'000	Audited 30th June 2002 HK\$'000
Below 90 days	149,627	146,075
91-180 days	15,329	17,099
Over 180 days	1,408	2,950
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	166,364	166,124
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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.

10 Trade payables

The aging analysis in trade payables is as follows:

	Unaudited 31st December 2002 HK\$'000	Audited 30th June 2002 HK\$'000
Below 90 days	40,259	45,054
91-180 days	796	1,514
Over 180 days	618	503
	41,673	47,071

11 Share capital

	Unaudited 31st December 2002 HK\$'000	Audited 30th June 2002 HK\$'000
Authorised:		
800,000,000 (30th June 2002: 800,000,000) ordinary share of HK\$0.10 each	80,000	80,000
Issued and fully paid:		
300,000,000 (30th June 2002: 300,000,000) ordinary share of HK\$0.10 each	30,000	30,000

12 Contingent liabilities

As at 31st December 2002, the Company had the following contingent liabilities:

	Unaudited 31st December 2002 HK\$'000	Audited 30th June 2002 HK\$'000
Guarantee in respect of the due performance of a subsidiary under a contract manufacturing agreement	20,000	20,000
Guarantees given to banks for banking facilities granted to its subsidiaries	195,000	175,000
	215,000	195,000

13 Commitments

- (a) Capital commitments for property, plant and equipment

	Unaudited 31st December 2002 HK\$'000	Audited 30th June 2002 HK\$'000
Contracted but not provided for	23,942	16,429

- (b) Commitments under operating leases

As at 31st December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Unaudited 31st December 2002 HK\$'000	Audited 30th June 2002 HK\$'000
Not later than one year	6,798	5,354
Later than one year and not later than five years	18,085	14,489
Later than five years	4,431	2,954
	29,314	22,797

INTERIM DIVIDEND

The directors are pleased to declare an interim dividend of Hong Kong 3 cents per share for the six months ended 31st December 2002 to members whose names appear on the Register of Members on 7th April 2003. The dividend will be paid on or before 10th April 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 4th April 2003 to Monday, 7th April 2003 (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 Registrars in Hong Kong, Abacus Share Registrars Limited, G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 3rd April 2003.

BUSINESS REVIEW AND PROSPECTS

For the six months ended 31st December 2002, the Group recorded a turnover of HK\$452,588,000, representing an increase of 22.7% against the HK\$368,734,000 recorded in the corresponding period in the previous year and made a profit attributable to shareholders of HK\$20,102,000 representing a surge of 64.6% from HK\$12,214,000. Earnings for the period amounted to HK 6.70 cents (2001: HK 4.07 cents) per share. The Board has recommended an interim dividend of HK 3 cents per share (2001: HK 2 cents).

The slow recovery in global market conditions during the review period created significant impact on the overall business environment. Against this backdrop, the Group, riding on its clearly-defined and prudent business strategies as well as its solid business foundation, managed to achieve positive development during the first six-month period. This was attributed to the satisfactory contribution of the colourants and engineering plastics manufacturing business and the plastics trading business of the Group and its implementation of effective and prudent cost controls.

BUSINESS REVIEW AND PROSPECTS (Cont'd)

Compared to the results of previous corresponding period which were adversely affected by the 911 incident, the growth in turnover and profits during the review period demonstrating signs of steady recovery of the Group's business after the incident. Such results were further augmented by the increase in market demand. During this period, the Group's colourants and engineering plastics manufacturing business recorded a significant increase in both turnover and sales volumes. In particular, the manufacturing business, which commanded a higher gross profit margin than the trading business, accounted for a significantly higher portion in the total turnover, contributing to the overall rise in the Group's gross profit margin.

With regard to its plastics trading business, the Group managed to achieve its initial success in penetrating the PRC market. Ngai Hing (GZFTZ) Trading Co., Ltd., commencing business in the Guangzhou Free Trade Zone in May 2002, has established new customer networks in southern China, providing additional source of revenue for the Group. If such encouraging responses persist, the Group will set up additional trading offices in other major cities in the PRC.

With the Group's committed goals in recent years, the manufacturing business continued to deliver satisfactory results. The turnover and sales volumes of the colourants and engineering plastics manufacturing business recorded a promising growth, particularly in the latter. The Group's tailor-made engineering plastics have persistently received overwhelming responses from the market. At the same time, the performances of markets in the eastern and southern parts of the PRC were also improving steadily during the review period. The full commencement of the production lines at the Qingdao plant greatly increased the production capacities, generating further contributions to the revenue of the Group.

The Group also explored new business segments to strengthen its marketing edges. Capitalising on its extensive experience in the colourants business, the Group entered into a cooperation with a sizable building materials company, in which, the Group has provided the know-how for the use and application of colourants in the production of construction materials during the review period. This new market exploration broadened the revenue base of the Group.

BUSINESS REVIEW AND PROSPECTS (Cont'd)

For the growing market demand, the Group has committed resources to raise its production capacity. The construction of the Group's new plant in Shanghai completed at the end of 2002, replacing its previous rented plant. The new plant commenced production in February 2003, enabling the Group to have a more flexible control in its production capacities leading to savings in production costs. Further, the installation of production machineries in its newly leased plant at the Tai Po Industrial Estate in Hong Kong completed in March 2003 and the production has already been commenced thereat.

As the future becomes increasingly promising for the PRC, especially after its accession to the World Trade Organisation, the Group envisages that there are tremendous opportunities for its further development in marketing its products in the PRC. To accelerate its business operations in the PRC, the Group will continue its pursuit of quality products and value-added services. It will also increase its investment in research and development to widen the range of products that it will offer, and to strengthen its technical ability for better serving its customers to meet their needs. At the same time, with the commencement of production of the additional plants, the Group will begin consolidating internal resources in the next half year to optimize overall operating efficiencies.

Finally, the Board would like to express its thankfulness to the Group's suppliers, customers and shareholders for their continuing support, and all the members of the staff for their hard work and contribution.

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 2002, the Group has available aggregate bank loan facilities of approximately HK\$152,114,000, of which HK\$63,106,000 have been utilized and were secured by corporate guarantee issued by the Company and legal charges on certain leasehold land and buildings in the PRC and Hong Kong owned by the Group. The Group's cash and bank balances and short term bank deposits as at 31st December 2002 amounted to approximately HK\$46,513,000. The Group's gearing ratio as at 31st December 2002 was approximately 22.7%, based on the total bank borrowings of approximately HK\$63,106,000 and the shareholders' funds of approximately HK\$278,062,000. As the Group's borrowings and cash balances are primarily denominated in Hong Kong dollars, the Group has no significant exposure to foreign currency fluctuations.

Details of the Company's contingent liabilities and the Group's capital commitments are disclosed in notes 12 and 13 to the condensed interim accounts respectively.

EMPLOYEE INFORMATION

As at 31st December 2002, the Group employed a total of 790 full-time employees. The Group's emolument policies are formulated on the performance of individual employees and are reviewed annually. The Group has introduced 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.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st December 2002, the Directors, chief executives and their associates had the following interests in the share capital of the Company or any its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

Name of Directors	Number of shares of the Company beneficially held			
	Personal interests	Corporate interests	Family interests	Other interests
Mr HUI Sai Chung	11,218,000	158,000,000(a)	—	—
Mr HUI Kwok Kwong	13,616,000	154,735,000(b)	—	—
Mr NG Siu Kuen, Nelson	1,230,000	1,230,000(c)	—	(d)
Madam LIU Sau Lai	1,102,500	—	—	(d)

Notes:

- (a) 153,000,000 of these shares are held by Good Benefit Limited ("Good Benefit"), a company in which Ever Win Limited ("Ever Win") holds a 45.1% interest (note (d)). In addition, 5,000,000 shares are held by Ever Win directly.

50,000 ordinary shares of one Canadian dollar each in Ever Win are held by a trustee on behalf of a discretionary trust, the discretionary objects of which include Mr HUI Sai Chung and his family members. Mr HUI Sai Chung and his spouse further own 30,834 and 5 class A non-convertible redeemable preferred shares of no par value in Ever Win respectively.

- (b) 153,000,000 of these shares are held by Good Benefit, a company in which Evergrow Company Limited ("Evergrow") holds a 45.1% interest (note (d)). In addition, 1,735,000 shares are held by Evergrow directly.

50,000 ordinary shares of one Canadian dollar each in Evergrow are held by a trustee on behalf of a discretionary trust, the discretionary objects of which include Mr HUI Kwok Kwong and his family members. Mr HUI Kwok Kwong further owns 30,823 class A non-convertible redeemable preferred shares of no par value in Evergrow.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES (Cont'd)

- (c) These shares are held by Gain Time Investments Limited, the entire issued share capital of which is beneficially owned by Mr NG Siu Kuen, Nelson.
- (d) The beneficial interests of the Directors in the share capital of Good Benefit, which held 153,000,000 shares of the Company as at 31st December 2002, are as follows:

Name of Directors	Number of shares	Percentage of holding
Mr HUI Sai Chung	4,510	45.1%
Mr HUI Kwok Kwong	4,510	45.1%
Mr NG Siu Kuen, Nelson	900	9.0%
Madam LIU Sau Lai	80	0.8%
	10,000	100.0%

At 31st December 2002, the following Directors owned interests in non-voting deferred shares in Ngai Hing Hong Plastic Materials Limited, which are subject to an option granted to Ngai Hing (International) Company Limited to acquire the said non-voting deferred shares.

Name of Directors	Number of non-voting deferred shares held	
	Personal interests	Other interest
Mr HUI Sai Chung	200,000	50,000(i)
Mr HUI Kwok Kwong	200,000	50,000(ii)

Notes:

- (i) These shares are held by Ever Win.
- (ii) These shares are held by Evergrow.

Save as disclosed above and other than certain nominee shares in the subsidiaries of the Company held by certain Directors of the Company in trust for the Group as at 31st December 2002, none of the Directors, chief executives and their associates have any beneficial or non-beneficial interests in the share capital of the Company and associated corporations required to be disclosed pursuant to the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the Company's share option scheme which became effective on 5th December 2002, the Board of Directors of the Company may at their discretion grant options to directors and employees of the Company or any of its subsidiaries to subscribe for shares in the Company subject to the terms and conditions stipulated therein. No share options were granted during the period or outstanding as at 31st December 2002.

Apart from the above,

- (a) at no time during the period was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate; and
- (b) none of the Directors, chief executives, their spouses or children under the age of 18 had been granted any right to subscribe for shares in, or debentures of, the Company, or exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2002, other than the interests disclosed above in respect of the Directors, no other person is recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance as having 10% or more of the issued share capital of the Company.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months period ended 31st December 2002 except that the term of office for the Independent Non-executive Directors of the Company are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Company's Bye-laws. This does not comply with Paragraph 7 of the Code of Best Practice which suggests that Independent Non-executive Directors should be appointed for a specific term.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board of Directors and the Company's auditors 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 two independent non-executive directors, namely Mr LAI Kam Wah and Dr WONG Chi Ying, Anthony. 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 accounts for the six months ended 31st December 2002 with the Directors.

On behalf of the Board

HUI Sai Chung

Chairman

Hong Kong,
20th March 2003