



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 2006

The Board of Directors of Ngai Hing Hong Company Limited (the "Company") would like to announce the audited results of the Company and its subsidiaries (the "Group") for the year ended 30th June 2006 as follows:

Consolidated Profit and Loss Account

	Notes	2006 HK\$'000	2005 HK\$'000 (Restated)
Turnover	2	1,332,120	1,243,849
Cost of sales		<u>(1,209,281)</u>	<u>(1,111,906)</u>
Gross profit		122,839	131,943
Other gains	3	1,618	1,098
Distribution costs		(35,459)	(34,261)
Administrative expenses		<u>(68,131)</u>	<u>(71,351)</u>
Operating profit	4	20,867	27,429
Finance costs	5	<u>(9,789)</u>	<u>(6,125)</u>
Profit before taxation		11,078	21,304
Taxation	6	<u>(3,509)</u>	<u>(4,973)</u>
Profit for the year		<u>7,569</u>	<u>16,331</u>
Attributable to:			
Equity holders of the Company		7,082	14,951
Minority interests		487	1,380
		<u>7,569</u>	<u>16,331</u>
Dividends	7	<u>7,200</u>	<u>6,600</u>
		HK cents	HK cents
Earnings per share for profit attributable to equity holders of the Company during the year			
- Basic	8	1.97	4.93
- Diluted	8	1.97	4.93

Consolidated Balance Sheet

	Notes	2006 HK\$'000	2005 HK\$'000 (Restated)
Non-current assets			
Property, plant and equipment		114,285	117,106
Leasehold land and land use rights		16,177	15,054
Investment properties		12,260	12,040
Deferred tax assets		2,056	2,360
		<u>144,778</u>	<u>146,560</u>
Current assets			
Inventories		142,560	186,373
Trade and bills receivables	9	281,389	275,438
Other receivables, prepayments and deposits		14,635	15,804
Cash and cash equivalents		62,187	55,019
		<u>500,771</u>	<u>532,634</u>
Current liabilities			
Trade payables	10	93,856	102,012
Other payables		7,232	8,102
Accruals		11,201	12,975
Taxation		5,588	5,382
Obligations under finance leases - current portion		7,699	7,488
Trust receipts loans – secured		103,649	121,709
Short-term bank loans – secured		50,155	61,215
Bank advances for discounted bills	9	4,549	-
Derivative financial instruments		27	-
		<u>283,956</u>	<u>318,883</u>
Net current assets		<u>216,815</u>	<u>213,751</u>
Total assets less current liabilities		<u>361,593</u>	<u>360,311</u>
Non-current liabilities			
Obligations under finance leases		10,216	17,765
Deferred tax liabilities		3,129	3,275
		<u>13,345</u>	<u>21,040</u>
Net assets		<u>348,248</u>	<u>339,271</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		36,000	36,000
Other reserves		75,722	73,623
Retained earnings		221,162	215,854
Proposed dividends		3,600	3,600
		<u>336,484</u>	<u>329,077</u>

Minority interests	<u>11,764</u>	<u>10,194</u>
Total equity	<u>348,248</u>	<u>339,271</u>

Notes:

1. Basis of preparation

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of investments properties, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of consolidated accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

In the current year, the Group adopted the new/revised HKFRS below, which are relevant to its operations. Last year’s comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 33, 36 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest and other disclosures.
- HKASs 2, 7, 8, 10, 16, 23, 27, 33, 36 and HKAS-Int 15 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land and land use rights was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in the recognition of derivative financial instruments at fair value.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values of investment properties are recorded in the profit and loss account as part of other income/expenses. In prior years, the increases in fair values were credited to the investment properties revaluation reserve. Decreases in fair values were first set off against increases on earlier valuations on a portfolio basis and thereafter were debited to operating profit.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 30th June 2005, the provision of share options to employees did not result in an expense in the profit and loss account. Effective on 1st July 2005, the Group expenses the cost of share options in the profit and loss account. As a transitional provision, the cost of share options granted after 7th November 2002 and had not yet vested on 1st July 2005 was expensed retrospectively in the profit and loss account of the respective periods.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;
- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis;
- HKAS 40 – since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1st July 2005, including the reclassification of any amount held in revaluation surplus for investment properties;
- HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1st July 2005; and
- HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st July 2005.

(i) The adoption of revised HKAS 17 resulted in a decrease in retained earnings at 1st July 2004 by approximately HK\$1,130,000. The details of the adjustments to the balance sheets at 30th June 2005 and 30th June 2006, profit and loss accounts for the year ended 30th June 2005 and 2006 are as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Decrease in property, plant and equipment	(17,297)	(16,170)
Increase in leasehold land and land use rights	16,177	15,054
Decrease in retained earnings	(1,120)	(1,116)
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Increase/(decrease) in administrative expenses	4	(14)

(ii) The adoption of HKAS 39 resulted in an increase in retained earning at 1st July 2005 by approximately HK\$2,109,000. The details of the adjustments to the balance sheet at 30th June 2006 and profit and loss account for the year ended 30th June 2006 are as follows:

	2006 <i>HK\$'000</i>
Increase in derivative financial instruments (liabilities)	27
Increase in trade and bills receivables	4,549
Increase in collateralised bank advances	4,549
Decrease in retained earnings	(27)
	2006 <i>HK\$'000</i>
Increase in administrative expenses	2,136

(iii) The adoption of HKAS 40 resulted in the following adjustments to the balance sheet at 30th June 2006:

	2006 <i>HK\$'000</i>
Decrease in investment properties revaluation reserve	(3,600)
Increase in retained earnings at 1st July 2005	3,600

(iv) The adoption of HKFRS 2 resulted in a decrease in retained earnings at 1st July 2004 by approximately HK\$4,644,000. The details of the adjustments to the balance sheets at 30th June 2005 and 2006, profit and loss accounts for the year ended 30th June 2005 and 2006 are as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Increase in share option reserve	7,777	6,809
Decrease in retained earnings	(7,777)	(6,809)

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Increase in administrative expenses	968	2,165

2. Turnover and segment information

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

	Group	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover		
Sale of goods, net of returns and discounts	<u>1,332,120</u>	<u>1,243,849</u>

An analysis of the Group's turnover and results for the year ended 30th June 2006 by geographical segment is as follows:

	2006			
	Hong Kong	The People's Republic of China excluding Hong Kong ("the PRC")	Elimination	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>1,168,550</u>	<u>268,922</u>	<u>(105,352)</u>	<u>1,332,120</u>

Segment results	<u>14,286</u>	<u>(130)</u>	14,156
Unallocated costs			<u>(3,078)</u>
Profit before taxation			11,078
Taxation			<u>(3,509)</u>
Profit after taxation			7,569
Minority interests			<u>(487)</u>
Profit attributable to equity holders of the Company			<u>7,082</u>

The segment assets and liabilities at 30th June 2006 and other segment information for the year ended are as follows:

	2006		
	Hong Kong	The PRC	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets	407,134	236,104	643,238
Unallocated assets			<u>2,311</u>
Total assets			<u>645,549</u>
Segment liabilities	198,091	90,082	288,173
Unallocated liabilities			<u>9,128</u>
Total liabilities			<u>297,301</u>
Other information:			
Capital expenditure	5,430	5,113	10,543
Depreciation of property, plant and equipment	6,725	8,140	14,865
Amortisation of leasehold land and land use rights	200	155	415

An analysis of the Group's turnover and results for the year ended 30th June 2005 by geographical segment is as follows:

	2005		
	Hong Kong	The PRC	Elimination
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Restated)</i>	<i>(Restated)</i>	<i>(Restated)</i>
Turnover	<u>1,112,254</u>	<u>243,684</u>	<u>(112,089)</u>
Segment results	<u>26,263</u>	<u>(2,886)</u>	
Unallocated costs			<u>(2,073)</u>
Profit before taxation			21,304
Taxation			<u>(4,973)</u>
Profit after taxation			16,331
Minority interests			<u>(1,380)</u>
Profit attributable to equity holders of the Company			<u>14,951</u>

The segment assets and liabilities at 30th June 2005 and other segment information for the year ended are as follows:

	2005		
	Hong Kong <i>HK\$'000</i> <i>(Restated)</i>	The PRC <i>HK\$'000</i> <i>(Restated)</i>	Group <i>HK\$'000</i> <i>(Restated)</i>
Segment assets	438,735	237,561	676,296
Unallocated assets			<u>2,898</u>
Total assets			<u><u>679,194</u></u>
Segment liabilities	231,847	96,491	328,338
Unallocated liabilities			<u>11,585</u>
Total liabilities			<u><u>339,923</u></u>
Other information:			
Capital expenditure	7,359	16,160	23,519
Amortisation of leasehold land and land use rights	167	150	317
Depreciation of property, plant and equipment	8,520	6,125	14,645
Write-off of property, plant and equipment	2,122	-	2,122
Provision for slow moving inventories	195	3,575	3,770

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. Other gains

	Group	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Rental income	1,094	1,056
Interest income	304	42
Fair value gain on investment properties	<u>220</u>	<u>-</u>
	<u><u>1,618</u></u>	<u><u>1,098</u></u>

4. Expenses by Nature

Expenses included in cost of sales, distribution costs and administrative expenses are analysed as follows:

	Group	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> <i>(Restated)</i>
Crediting		
Write-back of provision for slow moving inventories	<u>1,051</u>	<u>-</u>
Charging		
Depreciation:		
Owned property, plant and equipment	10,280	11,129
Leased property, plant and equipment	4,585	3,516
Amortisation of leasehold land and land use rights	415	317
Write-off of property, plant and equipment	-	2,122
Loss on disposal of property, plant and equipment	32	41
Staff costs, including directors' emoluments	67,837	69,662
Operating lease rentals in respect of land and buildings	7,262	7,093
Fair value loss on derivative financial instruments		

- forward foreign exchange contracts: not qualifying as hedges	2,136	-
Auditors' remuneration	1,015	981
Provision for slow moving inventories	-	3,770
Cost of inventories sold	<u>1,144,642</u>	<u>1,048,505</u>

5. Finance costs

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	8,704	5,491
Interest element of finance leases	<u>1,085</u>	<u>634</u>
	<u><u>9,789</u></u>	<u><u>6,125</u></u>

6. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Taxation on profits of PRC subsidiaries has been calculated on the estimated assessable profit for the year at the rates of taxation as applicable to the local subsidiaries.

The amount of taxation charged to the consolidated profit and loss account represents:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Current taxation:		
Hong Kong profits tax	2,619	5,758
PRC income tax	943	561
Overprovision in previous years	<u>(211)</u>	<u>(151)</u>
	3,351	6,168
Deferred taxation	<u>158</u>	<u>(1,195)</u>
	<u><u>3,509</u></u>	<u><u>4,973</u></u>

7. Dividends

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interim, paid, of HK1.0 cent (2005: HK1.0 cent) per ordinary share	3,600	3,000
Final, proposed, of HK1.0 cent (2005: HK1.0 cent) per ordinary share (note)	<u>3,600</u>	<u>3,600</u>
	<u><u>7,200</u></u>	<u><u>6,600</u></u>

Note:

At a meeting held on 16th October 2006, the Directors proposed a final dividend of HK1.0 cent per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts.

8. Earnings per share

Basic

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

2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> <i>(Restated)</i>
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Profit attributable to equity holders of the Company	<u>7,082</u>	<u>14,951</u>
Weighted average number of ordinary shares in issue	<u>360,000,000</u>	<u>302,958,904</u>
Basic earnings per share (HK cents)	<u>1.97</u>	<u>4.93</u>

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares which is the share options granted. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

There were no dilutive earnings per share for the years ended 30th June 2005 and 2006. The exercise of the outstanding share options would be anti-dilutive for the years ended 30th June 2005 and 2006.

9. Trade and bills receivables

The aging analysis of trade and bills receivables is as follows:

	Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Below 90 days	241,940	241,259
91 - 180 days	29,837	29,746
Over 180 days	<u>9,612</u>	<u>4,433</u>
	<u>281,389</u>	<u>275,438</u>

There was no concentration of credit risk with respect to trade and bills receivables as the Group has a large number of customers. The carrying value of the trade and bills receivables approximate their fair value.

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.

A subsidiary of the Group transferred certain bills of exchange amounting to approximately HK\$4,549,000 to banks with recourse in exchange for cash during the year. The transactions have been accounted for as collateralised bank advances.

10. Trade payables

The aging analysis of trade payable is as follows:

	Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Below 90 days	91,646	99,615
91 - 180 days	1,334	823
Over 180 days	<u>876</u>	<u>1,574</u>
	<u>93,856</u>	<u>102,012</u>

The carrying value of trade payable approximates its fair value.

11. Contingent liabilities

As at 30th June 2006, the Company and the Group had the following contingent liabilities:

- (a) Guarantee in respect of the due performance of a subsidiary under a contract manufacturing agreement to the extent of HK\$20,000,000 (2005: HK\$20,000,000);
- (b) Guarantees given to banks for banking facilities granted to its subsidiaries to the extent of approximately HK\$410,294,000 (2005: HK\$399,168,000); and
- (c) In April 2003, a customer (the "Customer") issued a Writ of Summons in the High Court of the Hong Kong Special Administrative Region (the "Proceedings") against a subsidiary of the Company (the "Subsidiary") and filed a Statement of Claim in June 2003 claiming against the Subsidiary for US\$589,590.53 (the "Claim") for losses and damages alleged to have been suffered by the Customer as a result of alleged breach of contract entered into between the Customer and the Subsidiary for goods sold by the Subsidiary to the Customer (the "Goods"). On basis of independent legal advice, the Subsidiary has (i) filed a defence and counterclaim to the Claim and (ii) taken out Third Party Proceedings against the company, which supplied the Goods to the Subsidiary for resale to the Customer (the "Third Party"). The Third Party has also taken out the Fourth Party Proceedings against the company, which supplied the Goods to the Third Party for resale to the Subsidiary. The trial of the Proceedings had completed on 27th September 2006 and the Judgment has yet to be delivered. Counsel for the Subsidiary has advised that the likely outcome of the Proceedings would be the Subsidiary either succeeds in defending the Claim and obtaining judgment on its counterclaim or if the Claim shall succeed, being indemnified by the Third Party. In such circumstances, the Directors are of the view that the Subsidiary is unlikely to suffer any loss for the Claim, therefore, no provision is considered necessary.

12. Commitments

(a) Capital commitments

At 30th June 2006, the Group had the following capital commitments for property, plant and equipment:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Contracted but not provided for	6,251	1,429
Authorised but not contracted for	-	-
	<u>6,251</u>	<u>1,429</u>

(b) Commitment under operating leases

At 30th June 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Not later than one year	6,800	2,029

Later than one year and not later than five years	12,399	5,155
Later than five years	<u>3,868</u>	<u>4,496</u>
	<u>23,067</u>	<u>11,680</u>

- (c) At 30th June 2006, the Group had maximum outstanding commitments in respect of forward contracts in order to hedge the Group's exposure in foreign currencies from its operations as follows:

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sell HK dollars for US dollars	<u>886,964</u>	<u>836,267</u>

DIVIDENDS

The directors have resolved to recommend the payment of a final dividend of HK1.0 cent per share for the year ended 30th June 2006 (2005: HK1.0 cent). The proposed final dividend, together with the interim dividend of HK1.0 cent (2005: HK1.0 cent) paid on 13th April 2006, will make a total distribution of HK2.0 cents per share for the year. The proposed final dividend, if approved at the forthcoming Annual General Meeting, will be payable in cash on or about 8th December 2006 to members whose names appear on the Register of Members of the Company on 30th November 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 27th November 2006 to Thursday, 30th November 2006 (both dates inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend to be approved 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, Room 1803 Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not later than 4:00 p.m. on Friday, 24th November 2006.

BUSINESS REVIEW

In the past year, the plastic materials and plastics related industries had to face a very testing business environment. Persistently climbing crude oil and raw material prices and keen market competition posed severe challenges to the Group. Nevertheless, the Group achieved double-digit growth in turnover in the first half of the year, and despite the slower growth in the second half, a 7% growth in turnover was recorded for the full year.

During the year under review, surge in raw material prices pushed up the Group's production costs. As the increase in costs could not be totally transferred to customers, the Group's overall gross margin declined. The high raw material prices also dampened purchasing sentiment of customers and accordingly the Group's business growth was affected. In addition, finance costs increased by approximately HK\$3,664,000 mainly due to the surge in interest rate. Furthermore, the change in the Group's accounting policies at the adoption of new Hong Kong Financial Reporting Standards has led to the decrease in the Group's profit by approximately HK\$2,888,000.

To counter the difficult business environment, the Group adopted various concrete measures including taking orders with lower risks and shortening account receivables recovery period. At the same time, the Group also actively expanded its customer base by securing more large enterprises as customers. Apart from placing mass orders, these customers also offer shorter account receivables period, thus lower the credit risk of the Group.

During the period under review, the Group conducted detailed review of its inventory mix and adjusted its inventory levels in order to minimize the impact on material cost from surge in plastics price. The move had helped to notably increase the Group's cash flow, which was used to reduce debts, and accordingly lower the Group's gearing ratio and improve its overall financial position. Moreover, the Group has strived to maintain close relationship with suppliers with the aim of improving communication as well as securing extended credit period.

PROSPECTS

To minimize the impact of consistently high crude oil and raw materials prices on its business, the Group will seek to broaden its income sources and at the same time reduce expenditure. On the one hand, it will implement aggressive sales and marketing activities to expand its customer base, adding to it especially more large enterprise customers. On the other hand, it will continue to apply cost control measures to heighten cost effectiveness of production and enhance overall operational efficiency. In addition, the Group will seek to effectively increase cash flows and reduce gearing through lowering inventory levels and shortening recovery of account receivables. Such moves will help to ensure the Group's financial stability and flexibility.

The Group will develop and grow its businesses steadily according to plan. Its aims are to provide customers with quality products and value added services as well as enhance its own market competitiveness and broaden income streams. For its plastics trading business, the Group will further explore opportunities in the booming PRC market.

For its engineering plastic products and colorants, the Group will continue to work with customers' R&D teams to jointly develop new products. It will strive to develop more new products and applications of products in various industries, such as the packaging industry, so as to expand its income sources and fully realize its production efficiency and economies of scale advantages while satisfying different customer demands.

The Group has established a Greater China regional team to oversee the domestic and overseas sales of colorants and ensure optimum sharing of resources and know-how among operations in different regions. The team will also focus on securing more large enterprise customers.

The Group has joined the International Colour Alliance, a platform for it to maintain close business relationship and exchange technical know-how with industry players in different countries. It hopes the move will aid its building of a global business network.

Last but not least, on behalf of the Board, I would like to take this opportunity to thank our suppliers, customers and shareholders for their continuous support over the years. My gratitude also goes to my fellow Directors, the management team and all staff for their hard work throughout this challenging year. As always, with prudence and enthusiasm, Ngai Hing Hong will continue to strive for long-term development and maximum shareholders' values, and work towards better results in the coming year.

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 2006, the Group has available aggregate bank loan facilities of approximately HK\$267,150,000, of which approximately HK\$176,268,000 have been utilized and were secured by corporate guarantees 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 as at 30th June 2006 amounted to approximately HK\$62,187,000. The Group's gearing ratio as at 30th June 2006 was approximately 52%, based on the total bank borrowings of approximately HK\$158,353,000, together with obligations under finance leases of approximately HK\$17,915,000 and the shareholders' funds of approximately HK\$336,484,000.

FOREIGN EXCHANGE RISK

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

At 30th June 2006, the Group had maximum outstanding commitments in respect of forward contracts in order to hedge the Group's exposure in foreign currencies from its operations as follows:

	2006 HK\$'000	2005 HK\$'000
Sell HK dollars for US dollars	886,964	836,267

EMPLOYEE INFORMATION

As at 30th June 2006, the Group had approximately 905 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 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.

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 emphasizes on maintaining and carrying out sound, solid and effective corporate governance principles and structures.

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout year ended 30th June 2006, except for deviation of the code provisions A.2.1 and A.4.1 of the Code as mentioned below.

According to the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Up to the date of this annual report, the Board has not appointed an individual to the post of chief executive officer. The roles of the chief executive officer 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 officer when it thinks appropriate.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The Company's independent non-executive directors were not appointed for a specific term but is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

The Board has received a high level risk assessment from an external consultant and has also reviewed the effectiveness of the internal control system of the Group with no material issues noted.

AUDIT COMMITTEE

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 three Independent Non-executive Directors, namely Mr HO Wai Chi, Paul, Mr FONG Pong Hing and Mr CHAN Dit Lung. 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 audited accounts for the year ended 30th June 2006 with the Directors.

REMUNERATION COMMITTEE

The Company has formulated written terms of reference for the Remuneration Committee which stated clearly its authorities and duties 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 FONG Pong Hing and Mr CHAN Dit 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 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 one meeting during the year ended 30th June 2006.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE HKSE

A detailed announcement of final results of the Group for the year ended 30th June 2006 containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the HKSE in due course.

On behalf of the Board
HUI Sai Chung
Chairman

Hong Kong, 16th October 2006

As at the date of this announcement, the Board of Directors comprises six Executive Directors, namely Mr HUI Sai Chung, Mr HUI Kwok Kwong, Dr WONG Chi Ying, Anthony, Mr LAI Kam Wah, Mr CHING Yu Lung and Madam LIU Sau Lai and three Independent Non-executive Directors, namely Mr HO Wai Chi, Paul, Mr FONG Pong Hing and Mr CHAN Dit Lung.