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## NGAI HING HONG COMPANY LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1047)**

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

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST DECEMBER 2016

The Board of Directors (the “Board”) of Ngai Hing Hong Company Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 31st December 2016 as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>31st December</b>	
		<b>2016</b>	<b>2015</b>
	Note	<b>HK\$'000</b>	<b>HK\$'000</b>
Revenue	3	<b>770,443</b>	846,060
Cost of sales		<b>(661,219)</b>	(747,321)
Gross profit		<b>109,224</b>	98,739
Rental income		<b>3,304</b>	2,752
Other gains/(losses), net	4	<b>9,796</b>	(17,371)
Distribution costs		<b>(38,960)</b>	(42,301)
Administrative expenses		<b>(51,093)</b>	(54,882)
Operating profit/(loss)	5	<b>32,271</b>	(13,063)
Finance income	6	<b>111</b>	118
Finance costs	6	<b>(3,896)</b>	(4,573)
Finance costs, net		<b>(3,785)</b>	(4,455)
Profit/(loss) before income tax		<b>28,486</b>	(17,518)
Income tax expense	7	<b>(6,968)</b>	(6,070)
Profit/(loss) for the period		<b>21,518</b>	(23,588)

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>31st December</b>	
		<b>2016</b>	2015
Note		<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Attributable to:			
	Equity holders of the Company	<b>19,870</b>	(24,605)
	Non-controlling interests	<b>1,648</b>	1,017
		<u><b>21,518</b></u>	<u>(23,588)</u>
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the period (expressed in HK cent per share)			
	– Basic	9 <u><b>5.38</b></u>	<u>(6.66)</u>
	– Diluted	9 <u><b>5.38</b></u>	<u>(6.66)</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31st December</b>	
	<b>2016</b>	2015
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Profit/(loss) for the period	<b>21,518</b>	(23,588)
Other comprehensive loss:		
Item that may be reclassified subsequently to income statement:		
Currency translation differences	<u>(14,958)</u>	<u>(14,515)</u>
Other comprehensive loss for the period	<u>(14,958)</u>	<u>(14,515)</u>
Total comprehensive income/(loss) for the period	<u><b>6,560</b></u>	<u>(38,103)</u>
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	<b>5,042</b>	(38,845)
Non-controlling interests	<u>1,518</u>	<u>742</u>
	<u><b>6,560</b></u>	<u>(38,103)</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 31st December 2016 <i>HK\$'000</i>	Audited 30th June 2016 <i>HK\$'000</i>
	Note		
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment		113,375	118,172
Leasehold land and land use rights		18,426	22,397
Investment properties		120,801	106,050
Available-for-sale financial asset		2,000	2,000
Deferred income tax assets		5,860	6,052
Prepayment for property, plant and equipment and renovation costs		5,278	1,339
		265,740	256,010
Current assets			
Inventories		228,103	228,571
Trade and bills receivables	10	259,494	248,086
Other receivables, prepayments and deposits		23,766	17,347
Income tax recoverable		463	248
Restricted bank deposits		22,346	23,256
Cash and bank balances		92,134	73,821
		626,306	591,329
Total assets		892,046	847,339

		<b>Unaudited</b>	Audited
		<b>31st December</b>	30th June
		<b>2016</b>	2016
	Note	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>EQUITY</b>			
Capital and reserves attributable to the Company's equity holders			
Share capital		<b>36,920</b>	36,920
Share premium		<b>62,466</b>	62,466
Other reserves		<b>35,075</b>	49,903
Retained earnings		<b>305,918</b>	286,048
		<b>440,379</b>	435,337
Non-controlling interests		<b>20,149</b>	20,384
Total equity		<b>460,528</b>	455,721
<b>LIABILITIES</b>			
Non-current liabilities			
Deferred income tax liabilities		<b>6,238</b>	6,151
Current liabilities			
Trade payables	11	<b>65,962</b>	72,875
Other payables, deposits received and accruals		<b>30,124</b>	24,079
Borrowings		<b>321,635</b>	280,843
Derivative financial instruments		–	584
Income tax payable		<b>7,559</b>	7,086
		<b>425,280</b>	385,467
Total liabilities		<b>431,518</b>	391,618
Total equity and liabilities		<b>892,046</b>	847,339
Net current assets		<b>201,026</b>	205,862
Total assets less current liabilities		<b>466,766</b>	461,872

## 1 Basis of preparation

The condensed consolidated interim financial information for the six months ended 31st December 2016 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 30th June 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

## 2 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30th June 2016, as described in those annual financial statements.

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

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1st July 2016 and have not been early adopted by the Group:

Amendments to HKAS 12	Income Taxes <sup>1</sup>
Amendments to HKAS 7	Statement of Cash Flows <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>2</sup>
HKFRS 9	Financial Instruments <sup>2</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>2</sup>
HKFRS 16	Leases <sup>3</sup>
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>

<sup>(1)</sup> Effective for annual periods beginning on or after 1st January 2017

<sup>(2)</sup> Effective for annual periods beginning on or after 1st January 2018

<sup>(3)</sup> Effective for annual periods beginning on or after 1st January 2019

<sup>(4)</sup> Effective for annual periods beginning on or after a date to be determined

The Directors anticipate that the adoption of above new standards and amendments to standards will not result in a significant impact on the results and financial position of the Group.

### 3 Revenue and segment information

	Unaudited	
	Six months ended	
	31st December	
	2016	2015
	HK\$'000	HK\$'000
Turnover		
Sales of goods	769,329	844,267
Provision of logistics services	1,114	1,793
	<u>770,443</u>	<u>846,060</u>

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

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

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

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

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

	Unaudited				Group HK\$'000
	Trading HK\$'000	Colorants HK\$'000	Engineering plastic HK\$'000	Others HK\$'000	
Turnover					
– Gross revenue	544,612	166,007	97,687	1,124	809,430
– Inter-segment revenue	(37,189)	(1,627)	(171)	—	(38,987)
Revenue from external customers	<u>507,423</u>	<u>164,380</u>	<u>97,516</u>	<u>1,124</u>	<u>770,443</u>
Segment results	<u>(3,875)</u>	<u>29,244</u>	<u>9,139</u>	<u>(2,237)</u>	<u>32,271</u>
Finance income	40	69	2	—	111
Finance costs	(2,671)	(618)	(421)	(186)	(3,896)
(Loss)/profit before income tax	(6,506)	28,695	8,720	(2,423)	28,486
Income tax expense					(6,968)
Profit for the period					21,518
Non-controlling interests					(1,648)
Profit attributable to equity holders of the Company					<u>19,870</u>
Other information:					
Additions to non-current assets (other than financial instruments and deferred tax assets)	407	8,352	4,171	76	13,006
Depreciation of property, plant and equipment	340	2,588	3,957	265	7,150
Amortisation of leasehold land and land use rights	179	130	16	39	364
Provision for impairment of inventories	809	347	375	6	1,537
(Reversal of)/provision for impairment of trade receivables	(5)	26	—	—	21
Fair value gains on derivative financial instruments	(1,122)	—	—	—	(1,122)
Reversal of impairment of deposit for acquisition of properties	—	(8,148)	—	—	(8,148)
Impairment of property, plant and equipment	—	—	—	201	201



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

	<b>Unaudited</b>				
	<b>Trading</b>	<b>Colorants</b>	<b>Engineering plastic</b>	<b>Others</b>	<b>Group</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets	346,546	281,136	144,508	119,856	<u>892,046</u>
Total assets					<u><u>892,046</u></u>
Segment liabilities	(60,730)	(29,132)	(15,315)	(4,706)	(109,883)
Borrowings	(256,971)	(22,346)	(33,582)	(8,736)	<u>(321,635)</u>
Total liabilities					<u><u>(431,518)</u></u>

The segment information provided to the CODM for the reportable segments for the six months ended 31st December 2015 is as follows:

	Unaudited				Group HK\$'000
	Trading HK\$'000	Colorants HK\$'000	Engineering plastic HK\$'000	Others HK\$'000	
Turnover					
– Gross revenue	591,665	189,896	101,466	1,832	884,859
– Inter-segment revenue	(36,724)	(1,903)	(133)	(39)	(38,799)
Revenue from external customers	<u>554,941</u>	<u>187,993</u>	<u>101,333</u>	<u>1,793</u>	<u>846,060</u>
Segment results	<u>(37,975)</u>	<u>22,416</u>	<u>6,170</u>	<u>(3,674)</u>	<u>(13,063)</u>
Finance income	43	72	3	—	118
Finance costs	(3,238)	(609)	(558)	(168)	(4,573)
(Loss)/profit before income tax	(41,170)	21,879	5,615	(3,842)	(17,518)
Income tax expense					<u>(6,070)</u>
Loss for the period					(23,588)
Non-controlling interests					<u>(1,017)</u>
Loss attributable to equity holders of the Company					<u><u>(24,605)</u></u>
Other information:					
Additions to non-current assets (other than financial instruments and deferred tax assets)	48	2,258	2,525	46	4,877
Depreciation of property, plant and equipment	392	3,029	5,291	412	9,124
Amortisation of leasehold land and land use rights	192	139	16	39	386
Provision for/(reversal of) impairment of inventories	1,882	(675)	460	(11)	1,656
Fair value losses from forward foreign exchange contracts held for trading	<u>15,880</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>15,880</u>

The segment information provided to the CODM for the reportable segments as at 30th June 2016 is as follows:

	Audited				Group <i>HK\$'000</i>
	Trading <i>HK\$'000</i>	Colorants <i>HK\$'000</i>	Engineering plastic <i>HK\$'000</i>	Others <i>HK\$'000</i>	
Segment assets	315,548	276,975	135,495	119,321	<u>847,339</u>
Total assets					<u><u>847,339</u></u>
Segment liabilities	(67,776)	(29,119)	(10,835)	(3,045)	(110,775)
Borrowings	(220,568)	(24,306)	(28,140)	(7,829)	<u>(280,843)</u>
Total liabilities					<u><u>(391,618)</u></u>

The entity is domiciled in Hong Kong. The revenue from external customers from Hong Kong for the six months ended 31st December 2016 is approximately HK\$319,654,000 (2015: HK\$363,030,000) and the total of its revenue from external customers from other locations (mainly The People's Republic of China ("the PRC")) is approximately HK\$450,789,000 (2015: HK\$483,030,000).

At 31st December 2016, the total of non-current assets other than financial instruments and deferred income tax assets located in Hong Kong is approximately HK\$154,500,000 (30th June 2016: HK\$153,244,000) and the total of these non-current assets located in other locations (mainly the PRC) is approximately HK\$103,380,000 (30th June 2016: HK\$94,714,000).

#### 4 Other gains/(losses), net

	Unaudited	
	Six months ended	
	31st December	
	2016	2015
	HK\$'000	HK\$'000
Net exchange losses	(636)	(3,075)
Gain on disposal of property, plant and equipment	123	133
Gain on disposal of subsidiaries	—	308
Fair value gains/(losses) from forward foreign exchange contracts held for trading	1,122	(15,880)
Fair value gains on investment properties	331	—
Reversal of impairment of deposit for acquisition of properties	8,148	—
Others	708	1,143
	<u>9,796</u>	<u>(17,371)</u>

#### 5 Operating profit/(loss)

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

	Unaudited	
	Six months ended	
	31st December	
	2016	2015
	HK\$'000	HK\$'000
Cost of inventories recognised as expenses included in cost of sales	618,579	702,901
Depreciation of property, plant and equipment	7,150	9,124
Amortisation of leasehold land and land use rights	364	386
Operating lease rentals in respect of land and buildings	3,803	4,761
Employee benefit expenses, including Directors' emoluments	59,126	61,521
Provision for/(reversal of) impairment of trade receivables	21	(345)
Provision for impairment of inventories	1,537	1,656
Gain on disposal of property, plant and equipment	(123)	(133)
Fair value (gains)/losses from forward foreign exchange contracts held for trading	(1,122)	15,880
Fair value gains on investment properties	(331)	—
Impairment of property, plant and equipment	201	—
	<u>201</u>	<u>—</u>

## 6 Finance income and costs

	Unaudited Six months ended 31st December	
	2016	2015
	HK\$'000	HK\$'000
Finance income:		
– Interest income from bank deposits	111	118
	-----	-----
Finance costs:		
– Interest on bank borrowings wholly repayable within five years	(4,983)	(5,963)
– Net exchange gains on financing activities	1,087	1,390
	-----	-----
	(3,896)	(4,573)
	-----	-----
Finance costs, net	<u>(3,785)</u>	<u>(4,455)</u>

## 7 Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the period. Income tax on the Group's subsidiaries established and operate in the PRC has been calculated on the estimated assessable profit for the period at the rates of taxation as applicable to the relevant subsidiaries.

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

	Unaudited Six months ended 31st December	
	2016	2015
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	933	972
– PRC corporate income tax	5,772	4,296
	-----	-----
	6,705	5,268
Deferred income tax	263	802
	-----	-----
	<u>6,968</u>	<u>6,070</u>

## 8 Dividends

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

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

On 19th November 2015, the Directors declared a final dividend of HK1.0 cent per share, totaling HK\$3,692,000 for the year ended 30th June 2015, which was paid during the six months ended 31st December 2015.

## 9 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity holders of the Company for the period of HK\$19,870,000 (2015: loss attributable to equity holders of HK\$24,605,000) and 369,200,000 (2015: 369,200,000) ordinary shares in issue during the period.

Dilutive earnings/(loss) per share for the period ended 31st December 2016 and 2015 equal basic earnings/(loss) per share as there was no dilutive potential ordinary share as at the period ended 31st December 2016 and 2015.

## 10 Trade and bills receivables

	<b>Unaudited</b>	Audited
	<b>31st December</b>	30th June
	<b>2016</b>	2016
	<b>HK\$'000</b>	HK\$'000
Trade receivables	<b>233,840</b>	222,098
Less: provision for impairment of receivables	<b>(4,614)</b>	(4,738)
	<b>229,226</b>	217,360
Bills receivables	<b>30,268</b>	30,726
	<b>259,494</b>	248,086

At 31st December 2016, the aging analysis of trade receivables, based on invoice date, is as follows:

	<b>Unaudited</b>	Audited
	<b>31st December</b>	30th June
	<b>2016</b>	2016
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Below 90 days	<b>214,102</b>	201,736
91-180 days	<b>11,290</b>	11,478
Over 180 days	<b>8,448</b>	8,884
	<u><b>233,840</b></u>	<u>222,098</u>

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

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

At 31st December 2016, there are bills of exchange HK\$11,897,000 (30th June 2016: HK\$20,594,000) transferred to banks with recourse in exchange for cash. The transactions had been accounted for as collateralised bank advances.

## **11 Trade payables**

At 31st December 2016, the aging analysis of trade payables, based on invoice date, is as follows:

	<b>Unaudited</b>	Audited
	<b>31st December</b>	30th June
	<b>2016</b>	2016
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Below 90 days	<b>64,821</b>	71,615
91-180 days	<b>111</b>	172
Over 180 days	<b>1,030</b>	1,088
	<u><b>65,962</b></u>	<u>72,875</u>

## **INTERIM DIVIDEND**

The Directors are pleased to declare an interim dividend of Hong Kong 1.0 cent per share for the six months ended 31st December 2016 to members whose names appear on the Register of Members on 24th March 2017. The dividend will be paid on or before 6th April 2017.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Wednesday, 22nd March 2017 to Friday, 24th March 2017 (both dates inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 4:00 p.m. on Tuesday, 21st March 2017.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

In 2016, the Chinese economy grew slower and the Renminbi depreciation continued, then there were the Brexit and Donald Trump becoming President of the United States. These trends and happenings weighed on global market confidence and brought uncertainties to the Group's development. For the six months ended 31st December 2016, the Group's total turnover was HK\$770,443,000, declined by 8.9% year-on-year.

Nevertheless, with its operating strategy of developing and selling higher margin products and carefully selecting customers continuing to bear fruit, the Group reported an improved business performance. Gross profit grew by 10.6% to HK\$109,224,000, while gross profit margin increased from 11.7% to 14.2% year-on-year. And the Group managed to turn around its core businesses in the first half year by implementing strict cost control measures to lower administrative and distribution expenses as well as borrowing costs. Adding the reversal of impairment of deposit for the completion of acquisition of properties, profit attributable to equity holders of the Company was HK\$19,870,000 (2015: loss attributable to equity holders of the Company: HK\$24,605,000) and basic earnings per share was HK5.38 cents (2015: loss per share: HK6.66 cents).

To reward shareholders for their unwavering support, the Board of Directors (the 「Board」) recommended the payment of an interim dividend of HK1.0 cent per share (2015: no interim dividend paid).



Among the Group's three major businesses, the engineering plastics business afforded the most satisfactory performance. Although the segmental turnover was down by 3.8% to HK\$97,516,000 against the same period last year, the strategic move made by the Group to transform its sales model started to bring the harvest. The Group was able to win more new customers including major overseas high-end toy and household goods brands during the period, hence secured new profit streams. The segment's gross profit margin increased by 4.6 percentage points year-on-year and profit before taxation also rose by 55.3% year-on-year. These products are required to comply with more stringent international safety standards thus have a higher entry barrier. Hence, the Group has an advantage over its peers. The Group has top-notch technological edges in production that allow it to meet customers' product specifications and provide better quality, high-tech and high value-added products, all conducive to fortifying its position in the industry. With the market placing more and more importance on safety of toys and household goods, related new regulations and safety requirements are expected to become more demanding. The Group's ability to deliver high quality products will give it the competitive advantage to continue to expand its customer base and find new revenue streams.

Selling mainly to domestic customers, the colorants, pigments and compounded plastic resin business segment had steady performance during the review period, with turnover down by 12.6% year-on-year to HK\$164,380,000. However, with the Group focused on developing high-margin products, gross profit margin of the segment rose by 2.6 percentage points when compared with the last corresponding period and profit before taxation was HK\$28,695,000. During the review period, the Group continued to invest in the market and product development for medical application-related packaging and automobile-related products and services, an initiative yet to bring a significant return. On the other hand, effort to tap the potential of such contemporary products as smartphones, smart electronic healthcare products and drones of growing popularity has enabled the Group to expand related clienteles. The Group believes the surfacing of user experience oriented new products enabled by Augmented Reality (AR), Virtual Reality (VR) and Internet of Things (IoT) technologies has given technologies in those realms very promising development prospects. These technologies developing at rocket speed are pushing up the market expectation of the technologies themselves and the quality of the new products and associated devices. The Group hopes to further cooperate with mid-range to high-end smartphone clients in China, with the aim of gaining a bigger market share.

Impacted by the weak Chinese economy, the turnover of the plastics trading business declined by 8.6% to HK\$507,423,000. During the review period, the Group found more high potential customers including internationally renowned fast food restaurants via liaising with them directly regarding supplying raw materials to their designated premiums manufacturers. The move has not only enabled the Group to secure large scale, long-term and stable orders complementary to its strict credit management policy, but has also poised it for exploring business with other premiums manufacturers

and broadening its customer base. In addition, the change to selling higher margin specialised raw materials as demanded by customers resulted in a 2.4 percentage points growth in gross profit margin and loss before taxation of the segment markedly narrowed to HK\$6,506,000. With Renminbi exchange rate stabilising and prices of plastic raw material climbing steadily in the past few months, the Group expects customers to change from being conservative to more aggressive in placing purchase orders. The Group will capitalise on its competitive advantages and development strategy of focusing on high-margin products so that it may seize development opportunities in both domestic and overseas markets.

## **PROSPECTS**

Looking at 2017, countries in the Organisation of the Petroleum Exporting Countries (“OPEC”) and non-OPEC countries have agreed to decrease production. The management believes oil price will remain stable and that will push up demand for and prices of industrial raw materials. The management is cautiously optimistic about the Group’s future development. It will continue to adhere to the development direction of focusing on high-tech and high-margin products, embracing such acts as technological exchange with overseas high-tech suppliers and customers. The Group believes its top quality products will allow the Group to stand out among its peers and maintain stronger bargaining power on product price. It will also explore markets with room for growth by keeping in close partnership with the International Colour Alliance and widening customer sources using various channels. The two-pronged approach will help enhance the Group’s overall profitability.

As for cost control, the Group will keep studying different ways and means to keep the cost down and strictly implement cost control measures already in place. It will also bring in more automated production equipment and expand production lines to lower labour costs and boost production capacity, so as to achieve greater economies of scale for supporting the Group’s long-term development.

Facing a global economy still fraught with challenges, the Group will keep a close watch on market conditions. The Group is confident of standing out in the market at the brace of its unique business development strategy and first mover advantage in the industry. It will continue to adopt a professional and pragmatic yet proactive approach in striving for a long-term sustainable growth and to present lucrative rewards 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 31st December 2016, the Group has available aggregate bank loan facilities of approximately HK\$475,855,000 of which HK\$321,635,000 have been utilised and were secured by corporate guarantee issued by the Group and legal charges on certain leasehold land and buildings, investment properties and machinery and equipment in the PRC and Hong Kong owned by the Group. The Group’s cash and bank balances as at 31st December 2016 amounted to approximately HK\$92,134,000. The Group’s gearing ratio as at 31st December 2016 was approximately 73%, based on the total bank borrowings of approximately HK\$321,635,000 and the shareholders’ funds of approximately HK\$440,379,000.

## **FOREIGN EXCHANGE RISK**

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

As at 31st December 2016, the Group did not have any outstanding forward foreign exchange contracts mainly to purchase US dollars and Renminbi.

## **EMPLOYEE INFORMATION**

As at 31st December 2016, the Group employed a total of approximately 700 full-time employees. The Group's emolument policies are formulated on the performance of individual employees and are reviewed annually. The Group has an incentive scheme which is geared to the profit of the Group and the performance of its employees, as an incentive to motivate its employees to increase their contribution to the Group. The Group also provides social and medical insurance coverage, and provident fund scheme (as the case may be) to its employees depending on the location of such employees.

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

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

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

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

## **CORPORATE GOVERNANCE PRACTICE**

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

The Company has complied with all the applicable code provisions as set out in Corporate Governance Code and Corporate Governance Report to the Appendix 14 of the Listing Rules (the "CG Code") throughout the six months ended 31st December 2016, except for the deviation as mentioned below.

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

For the purpose of further enhancing the risk management and internal control systems, the Company has engaged an external consultant to carry out an on-going project to conform the compliance with the revised CG Code. The Board of Directors has reviewed the effectiveness of the system of internal control of the Company and its subsidiaries with no material issues noted.

### **NOMINATION COMMITTEE**

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

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

### **AUDIT COMMITTEE**

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

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

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed consolidated interim financial information for the six months ended 31st December 2016 with the Directors.

## **REMUNERATION COMMITTEE**

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

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

## **CORPORATE GOVERNANCE COMMITTEE**

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

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

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

Hong Kong, 27th February 2017

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