NHH

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 2018

The Board of Directors (the "Board") of Ngai Hing Hong Company Limited (the "Company") would like to announce the audited annual consolidated results of the Company and its subsidiaries (the "Group") for the year ended 30th June 2018 as follows:

Consolidated Income Statement

	Note	**2018** **HK$'000**	2017 HK$'000
Revenue	2	**1,995,313**	1,580,329
Cost of sales	5	**(1,741,381)**	(1,362,805)
Gross profit		**253,932**	217,524
Rental income	3	**6,603**	6,503
Other gains, net	4	**16,101**	17,126
Distribution costs	5	**(80,493)**	(76,572)
Administrative expenses	5	**(115,706)**	(105,416)
Operating profit		**80,437**	59,165
Finance income		**553**	1,550
Finance costs		**(14,561)**	(11,140)
Finance costs, net	6	**(14,008)**	(9,590)
Profit before income tax		**66,429**	49,575
Income tax expense	7	**(16,307)**	(12,790)
Profit for the year		**50,122**	36,785
Attributable to:			
Equity holders of the Company		**46,171**	34,430
Non-controlling interests		**3,951**	2,355
		50,122	36,785
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in HK cent per share)			
– Basic and diluted	9	**12.51**	9.33

Consolidated Statement of Comprehensive Income

	2018 HK$'000	2017 HK$'000
Profit for the year	**50,122**	36,785
Other comprehensive loss:		
Item that will not be reclassified subsequently to income statement:		
Revaluation gain of property, plant and equipment on transfer to investment properties	**—**	363
Items that may be reclassified subsequently to income statement:		
Currency translation differences	**14,684**	(4,226)
Other comprehensive income/(loss) for the year	**14,684**	(3,863)
Total comprehensive income for the year	**64,806**	32,922
Total comprehensive income attributable to:		
– Equity holders of the Company	**60,679**	30,607
– Non-controlling interests	**4,127**	2,315
	64,806	32,922

Consolidated Balance Sheet

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**129,143**	117,412
Leasehold land and land use rights		**18,399**	18,531
Investment properties		**141,380**	127,801
Intangible assets		**—**	—
Available-for-sale financial asset		**2,000**	2,000
Deferred income tax assets		**7,497**	5,655
Deposits and prepayments for property, plant and equipment and renovation costs		**3,635**	4,929
		302,054	276,328
Current assets			
Inventories		**290,158**	255,767
Trade and bills receivables	10	**284,292**	264,882
Other receivables, prepayments and deposits		**19,466**	26,599
Income tax recoverable		**110**	501
Restricted bank deposits		**35,799**	22,989
Cash and bank balances		**117,716**	105,947
		747,541	676,685
Total assets		**1,049,595**	953,013
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**36,920**	36,920
Share premium		**62,466**	62,466
Other reserves		**57,948**	43,960
Retained earnings		**351,881**	316,786
		509,215	460,132
Non-controlling interests		**24,826**	23,065
Total equity		**534,041**	483,197

	Note	2018 HK$'000	2017 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**6,917**	6,863
Provision for reinstatement		**884**	—
		7,801	6,863
Current liabilities			
Trade and bills payables	11	**86,059**	88,513
Other payables, deposits received and accruals		**38,213**	35,127
Bank borrowings		**375,529**	331,830
Derivative financial instruments		**—**	29
Income tax payable		**7,952**	7,454
		507,753	462,953
Total liabilities		**515,554**	469,816
Total equity and liabilities		**1,049,595**	953,013

Notes:

1. **Basis of preparation**

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

The preparation of financial statements in conformity with HKFRSs 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

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

Amendments to Hong Kong Accounting Standard ("HKAS") 12	Income Taxes
Amendments to HKAS 7	Statement of Cash Flows
Amendment to HKFRS 12	Disclosure of Interest in Other Entities

The adoption of the above new standards, amendments to standards and interpretation has had no material effect on the Group's result and financial position.

(b) The following new standards and amendments to standards have been issued but are not effective for the annual period beginning 1st July 2017 and have not been early adopted:

HKFRS 9	Financial Instruments [1]
HKFRS 15	Revenue from Contracts with Customers [1]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions [1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts [1]
Amendment to HKFRS 1	First Time Adoption of HKFRS [1]
Amendment to HKAS 28	Investments in Associates and Joint Ventures [1]
Amendments to HKAS 40	Transfers of investment property [1]
Hong Kong International Financial Reporting Interpretations Committee ("HK (IFRIC)") Interpretation 22	Foreign Currency Transactions and Advance Consideration [1]

HKFRS 16	Leases [2]
HK(IFRIC) Interpretation 23	Uncertainty over Income Tax Treatment [2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [3]

1 Effective for annual periods beginning on or after 1st January 2018

2 Effective for annual periods beginning on or after 1st January 2019

3 To be determined

The Group has commenced, but not yet completed, an assessment of the impact of the new standards and amendments to standards on its results of operations and financial position. However, none of the above new standards and amendments to standards is expected to have a significant effect on the financial statements, except the following set out below:

HKFRS 9: "Financial Instruments"

HKFRS 9 addresses the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 Financial Instruments: Recognition and Measurement. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The Group has reviewed its financial assets and liabilities and expects that the Group's financial asset that is currently classified as available-for-sale ("AFS") will satisfy the condition for classification as at fair value through other comprehensive income ("FVTOCI") and hence there will be no change to the accounting for these assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39: Financial Instruments: Recognition and Measurement and have not been changed.

In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. Based on the historical experience of the Group, the default rates of the outstanding balances with customers are low. The Directors are of the view that if the expected credit losses ("ECL") model under HKFRS 9 were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1st July 2018 would not be significantly different as compared to the accumulated amount recognised under HKAS 39.

The Group will apply the new rules retrospectively from 1st July 2018, with the practical expedients permitted under the standard.

HKFRS 15: "Revenue from Contracts with Customers"

HKFRS 15 replaces the previous revenue standards: HKAS 18 Revenue and HKAS 11 Construction Contracts, and the related Interpretations on revenue recognition. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an "earnings processes" to an "asset-liability" approach based on transfer of control. HKFRS 15 provides specific guidance on capitalisation of contract cost, license arrangements and principal versus agent commissions. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. HKFRS 15 is effective for annual periods beginning on or after 1st January 2018 and earlier application is permitted. The Group does not plan to early adopt HKFRS 15. The Group assessed the impact of the adoption of HKFRS 15 by analysing the Group's key revenue streams against the 5-step approach and did not expect the adoption would have a material impact at the Group's result and financial position.

HKFRS 16: "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the 30th June 2018, the Group has non-cancellable operating lease commitments of HK$14,950,000. The Directors do not expect the adoption of HKFRSs would result in significant impact on the Group's result but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated balance sheet as lease liabilities.

HKFRS 16 is mandatory for financial years commencing on or after 1st January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

2. Revenue and segment information

	2018	2017
	HK$'000	HK$'000
Revenue		
Sales of goods	**1,994,880**	1,577,965
Provision of logistic services	**433**	2,364
	1,995,313	1,580,329

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

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

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 consolidated financial statements.

The segment information provided to the CODM for the reportable segments for the year ended 30th June 2018 is as follows:

	Trading	**Colorants**	**Engineering plastics**	**Others**	**Group**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Turnover					
– Gross revenue	**1,491,695**	**327,781**	**239,759**	**441**	**2,059,676**
– Inter-segment revenue	**(60,217)**	**(3,051)**	**(1,087)**	**(8)**	**(64,363)**
Revenue from external customers	**1,431,478**	**324,730**	**238,672**	**433**	**1,995,313**
Operating profit	**37,138**	**12,536**	**25,258**	**5,505**	**80,437**
Finance income	**95**	**444**	**14**	**—**	**553**
Finance costs	**(11,539)**	**(1,247)**	**(1,570)**	**(205)**	**(14,561)**
Profit before income tax	**25,694**	**11,733**	**23,702**	**5,300**	**66,429**

	Trading HK$'000	Colorants HK$'000	Engineering plastics HK$'000	Others HK$'000	Group HK$'000
Other information:					
Additions to non-current assets (other than financial instruments and deferred tax assets)	**827**	**12,352**	**11,150**	**422**	**24,751**
Depreciation of property, plant and equipment	**877**	**6,763**	**8,655**	**513**	**16,808**
Amortisation of leasehold land and land use rights	**374**	**195**	**32**	**78**	**679**
Provision for impairment of inventories, net	**323**	**2,171**	**1,005**	**—**	**3,499**
Provision for impairment of trade receivables	**—**	**58**	**—**	**1,130**	**1,188**
Fair value gains on derivative financial instruments, net	**(1,834)**	**—**	**—**	**—**	**(1,834)**
Fair value losses/(gains) on investment properties	**171**	**(238)**	**—**	**(12,630)**	**(12,697)**

The segment information provided to the CODM for the reportable segments as at 30th June 2018 is as follows:

	Trading HK$'000	Colorants HK$'000	Engineering plastics HK$'000	Others HK$'000	Group HK$'000
Segment assets	**450,909**	**307,647**	**161,283**	**129,756**	**1,049,595**
Total assets					**1,049,595**
Segment liabilities	**(89,916)**	**(26,946)**	**(19,257)**	**(3,906)**	**(140,025)**
Borrowings	**(315,947)**	**(23,810)**	**(27,896)**	**(7,876)**	**(375,529)**
Total liabilities	**(405,863)**	**(50,756)**	**(47,153)**	**(11,782)**	**(515,554)**

The segment information provided to the CODM for the reportable segments for the year ended 30th June 2017 is as follows:

	Trading HK$'000	Colorants HK$'000	Engineering plastics HK$'000	Others HK$'000	Group HK$'000
Turnover					
– Gross revenue	1,124,448	319,604	199,208	2,396	1,645,656
– Inter-segment revenue	(60,760)	(3,985)	(559)	(23)	(65,327)
Revenue from external customers	1,063,688	315,619	198,649	2,373	1,580,329
Operating profit/(loss)	6,029	39,040	17,616	(3,520)	59,165
Finance income	817	496	237	—	1,550
Finance costs	(8,556)	(1,235)	(1,012)	(337)	(11,140)
(Loss)/profit before income tax	(1,710)	38,301	16,841	(3,857)	49,575

	Trading HK$'000	Colorants HK$'000	Engineering plastics HK$'000	Others HK$'000	Group HK$'000
Other information:					
Additions to non-current assets (other than financial instruments and deferred tax assets)	1,023	13,600	7,334	264	22,221
Depreciation of property, plant and equipment	688	5,542	7,849	531	14,610
Amortisation of leasehold land and land use rights	361	225	32	78	696
(Reversal of)/provision for impairment of inventories, net	(1,329)	399	141	(18)	(807)
(Reversal of)/provision for impairment of trade receivables, net	(5)	53	—	222	270
Provision for impairment of other receivables	—	—	—	2,566	2,566
Reversal of impairment of deposit for acquisition of properties	—	(8,218)	—	—	(8,218)
Provision for impairment of property, plant and equipment	—	—	—	227	227
Fair value gains on derivative financial instruments, net	(2,417)	—	—	—	(2,417)
Fair value gains on investment properties	(322)	(793)	—	(4,730)	(5,845)

The segment information provided to the CODM for the reportable segments as at 30th June 2017 is as follows:

	Trading HK$'000	Colorants HK$'000	Engineering plastics HK$'000	Others HK$'000	Group HK$'000
Segment assets	379,700	293,466	159,016	120,831	953,013
Total assets					953,013
Segment liabilities	(83,700)	(29,688)	(19,288)	(5,310)	(137,986)
Borrowings	(264,877)	(22,989)	(37,005)	(6,959)	(331,830)
Total liabilities	(348,577)	(52,677)	(56,293)	(12,269)	(469,816)

The entity is domiciled in Hong Kong. The revenue from external customers from Hong Kong for the year ended 30th June 2018 is approximately HK$987,243,000 (2017: HK$703,304,000), and the total of its revenue from external customers from other locations (mainly The People's Republic of China (the "PRC")) is approximately HK$1,008,070,000 (2017: HK$877,025,000).

At 30th June 2018, the total of non-current assets other than financial instruments and deferred tax assets located in Hong Kong is approximately HK$169,796,000 (2017: HK$160,722,000), and the total of these non-current assets located in other locations (mainly the PRC) is approximately HK$122,761,000 (2017: HK$107,951,000).

3. Rental income

	2018	2017
	HK$'000	HK$'000
Rental income	**6,603**	6,503

Outgoings in respect of investment properties that generate rental income amounted to approximately HK$1,656,000 (2017: HK$224,000).

4. Other gains, net

	2018	2017
	HK$'000	HK$'000
Fair value gains on investment properties	**12,697**	5,845
Fair value gains on forward foreign exchange contracts held for trading		
– Realised	**1,834**	1,862
– Unrealised	**—**	555
Reversal of impairment of deposit for acquisition of properties (Note (a))	**—**	8,218
Gain on disposal of a subsidiary	**398**	—
Government grant (Note (b))	**1,148**	830
Net exchange gains/(losses)	**24**	(184)
	16,101	17,126

Notes:

(a) During the year ended 30th June 2007, the Group paid a deposit of RMB7,150,000 (equivalent to approximately HK$8,218,000) for the acquisition of certain properties in the PRC, in which the deposit paid represented the value of the building portion of the properties. However, the transaction has not been completed for years as defects in certain title documents were yet to be rectified despite continuous efforts had been made to obtain those documents. During the year ended 30th June 2013, the management concluded that there were significant uncertainties over the recoverability of the deposit as a result, a full provision was made on the deposit.

During the year ended 30th June 2018, the Group has obtained the property right certificate of the foresaid properties. Accordingly, the impairment of the deposit of RMB7,150,000 (equivalent to approximately HK$8,218,000) was reversed to consolidated income statement.

(b) Pursuant to the PRC local government policies, the Group obtained RMB964,000 (equivalent to approximately HK$1,148,000) (2017: RMB722,000) cash from the PRC local government authorities to support the operations in certain PRC regions with no special conditions attached.

5. Expenses by nature

	2018	2017
	HK$'000	HK$'000
Cost of inventories sold excluding manufacturing costs	**1,646,422**	1,283,753
Amortisation of leasehold land and land use rights	**679**	696
Auditor's remuneration		
– Audit services	**2,285**	2,192
– Non-audit services	**542**	536
Depreciation of property, plant and equipment	**16,808**	14,610
Provision for impairment of trade receivables	**1,188**	270
Provision for impairment of other receivables	**—**	2,566
Provision for/(reversal of) impairment of inventories, net	**3,499**	(807)
Provision for impairment of property, plant and equipment	**—**	227
(Gain)/loss on disposal of property, plant and equipment	**(108)**	123
Employee benefit expenses, including Directors' emoluments	**138,160**	126,800
Operating lease rentals in respect of land and buildings	**9,361**	7,755
Repairs and maintenance expenses	**5,850**	3,889
Transportation and packaging expenses	**30,164**	26,601
Travelling and office expenses	**9,323**	9,624
Utility expenses	**15,215**	15,207
Other expenses	**58,192**	50,751
Total cost of sales, distribution costs and administrative expenses	**1,937,580**	1,544,793
Representing:		
Cost of sales	**1,741,381**	1,362,805
Distribution costs	**80,493**	76,572
Administrative expenses	**115,706**	105,416
	1,937,580	1,544,793

6. Finance income and costs

	2018 HK$'000	2017 HK$'000
Finance income:		
– Interest income from bank deposits	**553**	582
– Net exchange gains on financing activities	**—**	968
	553	1,550
Finance costs:		
– Interest on bank borrowings	**(13,086)**	(11,140)
– Net exchange loss on financing activities	**(1,475)**	—
	(14,561)	(11,140)
Finance costs, net	**(14,008)**	(9,590)

7. Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the year. Taxation on the Group's subsidiaries established and operate in the PRC has been calculated on the estimated assessable profit for the year at the rate of 25% (2017: 25%), other than a subsidiary in Dongguan which was certified as High and New Technology Enterprises is entitled to a concessionary tax rate of 15% for three consecutive years. This subsidiary is entitled to re-apply for the preferential tax treatment when the preferential tax period expires.

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

	2018 HK$'000	2017 HK$'000
Current income tax:		
Hong Kong profits tax	**2,011**	1,606
PRC corporate income tax	**16,154**	9,926
Under-provision in prior years	**96**	155
	18,261	11,687
Deferred income tax	**(1,954)**	1,103
	16,307	12,790

8. Dividends

	2018	2017
	HK$'000	HK$'000
Interim, paid, of HK1.0 cent (2017: HK1.0 cent) per ordinary share	**3,692**	3,692
Final, proposed, of HK2.0 cents (2017: HK2.0 cents) per ordinary share	**7,384**	7,384
	11,076	11,076

Notes:

(a) 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, which was paid during the year ended 30th June 2017.

(b) On 28th September 2017, the Directors proposed a final dividend of HK2.0 cents per share, totalling HK$7,384,000 for the year ended 30th June 2017, which was paid during the year ended 30th June 2018, and has been reflected as an appropriation of retained earnings for the year ended 30th June 2018.

(c) On 26th February 2018, the Directors declared an interim dividend of HK1.0 cent per share, totaling HK$3,692,000 for the six months ended 31st December 2017, which was paid during the year ended 30th June 2018.

(d) On 27th September 2018, the Directors proposed a final dividend of HK2.0 cents per share, totalling HK$7,384,000. This proposed dividend was not reflected as a dividend payable in these financial statements and will be reflected as an appropriation of retained earnings for the year ending 30th June 2019.

9. 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.

	2018	2017
Profit attributable to equity holders of the Company (HK$'000)	**46,171**	34,430
Weighted average number of ordinary shares in issue	**369,200,000**	369,200,000
Basic earnings per share (HK cents per share)	**12.51**	9.33

Diluted

Dilutive earnings per share for the years ended 30th June 2018 and 2017 equal basic earnings per share as there was no dilutive potential ordinary share as at the years ended 30th June 2018 and 2017.

10. Trade and bills receivables

	2018	2017
	HK$'000	HK$'000
Trade receivables	**266,367**	236,285
Less: provision for impairment of receivables	**(4,389)**	(4,902)
	261,978	231,383
Bills receivable	**22,314**	33,499
	284,292	264,882

The majority of the Group's sales were made with credit terms of 30 to 90 days. The remaining amounts are on letter of credit or bank's acceptance bill. The ageing analysis of trade receivables by invoice date is as follows:

	2018	2017
	HK$'000	HK$'000
Below 90 days	**252,698**	218,020
91 - 180 days	**7,701**	9,963
Over 180 days	**5,968**	8,302
	266,367	236,285

Bills receivable are mainly with maturity period of within 180 days.

Certain subsidiaries of the Group transferred certain bank's acceptance bills amounting to approximately HK$2,997,000 (2017: HK$18,566,000) with recourse in exchange for cash as at 30th June 2018. The transactions have been accounted for as collateralised bank advances.

11. Trade and bills payables

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

	2018	2017
	HK$'000	HK$'000
Below 90 days	**84,434**	87,425
91 - 180 days	**111**	60
Over 180 days	**1,514**	1,028
	86,059	88,513

12. Commitments

(a) Capital commitments

At 30th June 2018, the Group had the following capital commitments for addition of property, plant and equipment:

	2018	2017
	HK$'000	HK$'000
Contracted but not provided for	**2,550**	3,187

(b) Commitment under operating leases

As at 30th June 2018, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2018	2017
	HK$'000	HK$'000
Not later than one year	**6,391**	4,946
Later than one year and not later than five years	**8,559**	10,360
	14,950	15,306

Note:

On 15th June 2017, the Group entered into a non-cancellable operating lease agreement with an agent of the local PRC government authority to lease an industrial building premise for 5 years with a minimum lease payment of RMB8.5 per square meter. During the non-cancellable lease period, the Group commits an annual tax payment of RMB3,000,000 (equivalent to approximately HK$3,571,000), including the corporate income tax and value added tax, from its business operation in the region to the local PRC government authority. Any shortfall on the committed tax payment would be paid in form of cash to the agent of the local PRC government authority. The above lease commitments only include commitments for basic rentals, and do not include commitments for additional rentals payable, if any, when future tax payment falls short of the pre-determined level as it is not possible to determine in advance the amount of such additional rentals.

13. Contingent liabilities

During the year ended 30th June 2016, the Group received a claim from a customer in respect of the sales of alleged defective goods with claim amount approximately RMB5,000,000 (equivalent to approximately HK$5,952,000).

On 10th July 2018, the Wenling City People's Court of Zhejiang Province (the "Court") has issued a judgement (the "Judgement") and granted an order to invalidate the claim against the Group. On 28th August 2018, an appeal was lodged with the Court against the Judgement.

As at 30th June 2018, the legal adviser of the Group on this claim is of the opinion that the Group has a good case to defend. On this basis, the Directors consider that the claim will unlikely result in any material financial impact on the Group as at 30th June 2018.

DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of HK2.0 cents per share for the year ended 30th June 2018 (2017: HK2.0 cents). The proposed final dividend, together with the interim dividend of HK1.0 cent (2017: HK1.0 cent), will make a total distribution of HK3.0 cents per share for the year (2017: HK3.0 cents). The proposed final dividend, if approved at the forthcoming Annual General Meeting of the Company to be held on Thursday, 22nd November 2018 (the "AGM"), will be payable in cash on Friday, 14th December 2018 to members whose names appear on the register of members of the Company on Monday, 3rd December 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 19th November 2018 to Thursday, 22nd November 2018 (both dates inclusive) during which period no transfer of shares will be registered for determining the shareholders who are entitled to attend and vote at the meeting. In order to be eligible to attend and vote at the meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Friday, 16th November 2018.

The register of members of the Company will be closed from Thursday, 29th November 2018 to Monday, 3rd December 2018 (both dates inclusive) during which period no transfer of shares will be registered for determining the shareholders who are entitled to the proposed final dividend for the year ended 30th June 2018. In order to qualify for the proposed final dividend for the year ended 30th June 2018, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 28th November 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The global economy has been stable in the past year. Benefitting from the relatively stable exchange rate of the Renminbi, the rising global oil price and the proven strategies to enhance product quality and expand its customer base, both selling price and quantity of the Group's products improved and turnover of three major businesses also recorded growth. For the year ended 30th June 2018, the Group delivered an outstanding business performance with a total turnover amounting to HK$1,995,313,000 (2017: HK$1,580,329,000), representing a substantial year-on-year growth of 26.3%.

During the year, the Group's gross profit grew by 16.7% to HK$253,932,000 (2017: HK$217,524,000). The increase in income from the plastics trading business has changed the Group's product mix in the year, causing the gross profit margin to drop slightly by one percentage point to 12.7%. Nevertheless, the notable increase in shipment and product selling price of the business segment led to a surge of 34.1% in the profit attributable to equity holders of the Company to HK$46,171,000 (2017: profit attributable to equity holders of the Company: HK$34,430,000). Basic earnings per share were HK12.51 cents (2017: basic earnings per share: HK9.33 cents).

To reward shareholders for their unwavering support, the Board of Directors recommends the payment of a final dividend of HK2.0 cents per share. Together with the interim dividend of HK1.0 cent per share for the six months ended 31st December 2017, the total dividend for the year was HK3.0 cents per share.

Among the Group's three major businesses, the plastics trading business has achieved the strongest performance. With the success of the Group's effort to adjust its sales strategy, its cooperation with world-renowned fast food restaurant chains has become progressively more mature. In addition to domestic sales, its products are now exported to ASEAN countries. As a result, the Group has secured considerably more bulk orders when compared with last year, driving segmental turnover to jump by 34.6% year-on-year to HK$1,431,478,000. The proportion of turnover from the plastics trading business also increased from 67.3% last year to 71.7%. Gross profit margin rose by 0.7 percentage point and profit before taxation recorded HK$25,694,000 respectively. The Group will continue to further implement the current cooperation model in order to actively prospect for other renowned brands and expand its customer base, hoping to promote this mature operation model to other customers. Besides, the Group has paid close attention to the raw material supply of new energy electric vehicles and the fact that the market is looking for low petroleum consumption and low emission features in traditional internal combustion engine-powered automobiles. As the market prefers to use turbo engines with smaller capacity and shows a stronger demand for high heat-resistant and heat-insulating function plastic materials, the Group will strive to capture the opportunities arising from related market growth. Apart from serving traditional home appliance producers, the Group also provides necessary raw materials to a new generation of Internet of Things ("IoT") household product developers in order to create new income sources.

As for the engineering plastic business targeting the Hong Kong local market and the export market in Europe, the Group has implemented measures to broaden income sources and reduce expenditure and invest more resources in Research and Development ("R&D"). Shipments in this business segment continued to increase, resulting in a 20.1% rise in turnover to HK$238,672,000. Gross profit margin maintained stable and profit before taxation surged 40.7%. Considerable orders were received as the Group's environmentally-friendly foldable household items and high-end brands for infant toys have been well-received by branded customers. The Group's Shanghai and Dongguan branches reported the most satisfactory performance. Turnover from these two branches climbed 28.6% year-on-year and profit before taxation also soared 62.9%. With the completion of optimisation of the production facilities and commencement of operation, the Group's production capacity and product quality have been enhanced as it further realises its strengths in production technologies and R&D and bolsters its overall profitability.

Regarding the colorants, pigments and compounded plastic resin business segment, turnover has increased by 2.9% to HK$324,730,000. Due to the keen competition in the food packaging market and the impact from the consumer electronic product cycle, gross profit margin was 1.6 percentage points lower than last year. The Group also recorded a one-off additional expense item generated from the relocation of plants in Xiamen, the absence of the reversal of the impairment of deposit for acquisition of properties recorded last year and the rising of labour, administration and logistics costs during the year, meant that profit before taxation declined by 69.4%. To enhance the overall business performance and mitigate potentially adverse effects arising from the external economic environment, the Group has strategically strengthened its cooperation with renowned automobile brands in China in order to capture a larger market share there. In addition, Shanghai branch will continue to manufacture automobile-related products while Xiamen branch will continue manufacture high quality sanitary products and provide value-added services. With the aim of exploring more business prospects in China, the Group hopes to open up new income sources and find new customers.

PROSPECTS

The stable supply in the oil market and moderate rises in the price of oil are expected to have a positive impact on boosting the demand for and price of industrial raw materials. However, the trade friction between China and the United States (“US”) will lead to increasing risks in the Chinese economy, and the fluctuation of Renminbi exchange rate and the production costs in China will exert additional pressure on companies. Thus, the management remains cautious about the future development of the Group’s overall business.

With respect to business development, the Group will continue to execute its set development direction – broadening its customer base, creating new income sources, and exploring more potential markets and regions. Apart from continuously manufacturing traditional home appliances and maintaining stable relationships with major toy manufacturers, the Group will directly negotiate with end-customers and will allocate more resources in prospecting for more end-customers such as sanitary products and construction materials companies in order to support China’s policy of boosting the domestic sales market. Furthermore, to create new income sources, the Group plans to work with new technical institutions to jointly invest in R&D resources in developing high value-added products with high margins. Meanwhile, the Group is actively preparing for expanding into the Greater Bay Area market in order to seize the development opportunities in different markets through domestic and overseas business development, thereby generating long-term stable income and enhancing its overall profit performance.

As for cost control, the Group will continue implementing strict cost control measures. While lowering administrative and distribution expenses and borrowing costs, the Group will also promote electronic administration processes in full strength. This initiative not only will help streamline the many and complicated workflows, but also will improve the overall administration in turn achieving greater operational efficiency.

The Group will engage in executing sound and pragmatic business strategies as it has previously done in a bid to achieve long-term stable growth and bring long-term promising returns to its shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cashflow and banking facilities provided by its principal bankers. As at 30th June 2018 the Group has available aggregate banking facilities of approximately HK$573,071,000, of which approximately HK$470,311,000 have been utilised and were secured by corporate guarantees issued by the Company and legal charges on certain leasehold land and buildings, investment properties and restricted bank deposits in The People's Republic of China and Hong Kong owned by the Group. The Group's cash and bank balances as at 30th June 2018 amounted to approximately HK$117,716,000. The Group's gearing ratio as at 30th June 2018 was approximately 73.7%, based on the total bank borrowings of approximately HK$375,529,000 and the shareholders' funds of approximately HK$509,215,000.

FOREIGN EXCHANGE RISK

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

At 30th June 2018, the Group had outstanding commitments in respect of forward contracts in order to manage the Group's exposure in foreign currencies from its operations as follows:

	2018	2017
	HK$'000	HK$'000
Sell HK dollars for US dollars	**148,200**	148,200

EMPLOYEE INFORMATION

As at 30th June 2018, the Group had approximately 716 full-time employees. The Group's emolument policies are formulated on the performance of individual employees and are reviewed annually. The Group has an incentive scheme which is geared to the profit of the Group and the performance of its employees, as an incentive to motivate its employees to increase their contribution to the Group. The Group also provides social or medical insurance coverage, and provident fund scheme (as the case may be) to its employees depending on the location of such employees.

BASIS OF DETERMINING EMOLUMENT TO DIRECTORS

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

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

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Thursday, 22nd November 2018 and the Notice of Annual General Meeting will be published and despatched in the manner as required by the Listing Rules in due course.

CORPORATE GOVERNANCE PRACTICE

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

The Company has complied with all the applicable code provisions as set out in Corporate Governance Code and Corporate Governance Report to the Appendix 14 of the Listing Rules (the "CG Code") throughout the year ended 30th June 2018, except for the deviation as mentioned below.

According to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer (chief executive for CG Code) should be separate and should not be performed by the same individual. Up to the date of this announcement, 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 as chief executive when it thinks appropriate.

AUDIT COMMITTEE AND REVIEW OF RESULTS

The Audit Committee of the Company (the "Audit Committee") provides an important link between the Board and the Company's auditor in matters coming within the scope of the group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Audit Committee comprises three independent non-executive Directors, namely Mr HO Wai Chi, Paul, Mr CHAN Dit Lung and Mr CHING Yu 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 annual financial statements for the year ended 30th June 2018 with the Directors.

The figures in respect of the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto for the year ended 30th June 2018 as set out in the results announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on this results announcement.

REMUNERATION COMMITTEE

The Company has formulated written terms of reference for the remuneration committee of the Company (the "Remuneration Committee") which stated clearly its authorities and duties in accordance with the requirements of HKSE. The Remuneration Committee consists of three independent non-executive Directors, namely Mr HO Wai Chi, Paul, Mr 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 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 two meetings during the year ended 30th June 2018.

NOMINATION COMMITTEE

A nomination committee of the Company (the "Nomination Committee") was established on 26th March 2012 with written terms of reference in accordance with the requirements of HKSE. The Nomination Committee consists of three independent non-executive Directors, namely Mr HO Wai Chi, Paul, Mr 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. The Nomination Committee held two meetings during the year ended 30th June 2018 to review the structure, size and composition (including the skills, knowledge and experience) of the Board.

CORPORATE GOVERNANCE COMMITTEE

A corporate governance committee of the Company (the "Corporate Governance Committee") was established on 26th March 2012 with written terms of reference in accordance with the CG Code. The Corporate Governance Committee consists of all independent non-executive Directors, namely Mr HO Wai Chi, Paul, Mr 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. The Corporate Governance Committee held two meetings during the year ended 30th June 2018 to review the corporate governance policy in the Group and recommend the training arrangement on corporate governance to the employees of the Group.

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

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

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

Hong Kong, 27th September 2018

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.