

INTERIM REPORT 2001/2002



Ngai Hing Hong

NGAI HING HONG COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

CONTENTS

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT	2
CONDENSED CONSOLIDATED BALANCE SHEET	3
CONDENSED CONSOLIDATED CASH FLOW STATEMENT	4
NOTES TO CONDENSED INTERIM ACCOUNTS	5-13
INTERIM DIVIDEND	13
CLOSURE OF REGISTER OF MEMBERS	13
BUSINESS REVIEW AND PROSPECTS	14-15
LIQUIDITY AND FINANCIAL RESOURCES	15
EMPLOYEE INFORMATION	16
PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES	16
DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES	16-18
DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES	18-19
SUBSTANTIAL SHAREHOLDERS	19
COMPLIANCE WITH THE CODE OF BEST PRACTICE	19
AUDIT COMMITTEE	20

The Board of Directors (the “Board”) of Ngai Hing Hong Company Limited (the “Company”) is pleased to present the unaudited condensed interim accounts of the Company and its subsidiaries (the “Group”) for the six months ended 31st December 2001 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 31ST DECEMBER 2001

	Note	Unaudited	
		Six months ended 31st December	
		2001	2000
		HK\$'000	HK\$'000
Turnover	2	368,734	433,929
Cost of sales		(318,156)	(381,753)
Gross profit		50,578	52,176
Other revenues	2	367	501
Distribution costs		(10,993)	(9,638)
Administrative expenses		(24,582)	(28,038)
Operating profit	3	15,370	15,001
Finance costs	4	(805)	(2,243)
Profit before taxation		14,565	12,758
Taxation	5	(1,548)	(1,996)
Profit after taxation		13,017	10,762
Minority interests		(803)	(346)
Profit attributable to shareholders		12,214	10,416
Earnings per share	7	HK cents 4.07	HK cents 3.47

The profit attributable to shareholders is the only component of the consolidated statement of recognised gains and losses for the period and accordingly no separate statement has been prepared.

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER 2001

	Note	Unaudited 31st December 2001 HK\$'000	Restated 30th June 2001 HK\$'000
Fixed assets	8	84,884	84,237
Current assets			
Inventories		60,030	61,816
Trade receivables	9	127,036	152,675
Other receivables, prepayments and deposits		8,255	11,092
Cash and bank balances		38,915	32,941
		234,236	258,524
Current liabilities			
Trade payables	10	22,561	38,383
Other payables		11,612	9,738
Accruals		8,120	6,677
Taxation		1,840	2,381
Obligations under finance leases - current portion	11	150	2,131
Trust receipt loans - secured		9,711	26,153
Short-term bank loans - secured		7,731	7,870
		61,725	93,333
Net current assets		172,511	165,191
Total assets less current liabilities		257,395	249,428
Financed by:			
Share capital	12	30,000	30,000
Reserves		35,700	35,700
Retained earnings	13	181,342	175,128
Proposed dividends	13	6,000	4,500
		187,342	179,628
Shareholders' funds		253,042	245,328
Minority interests		3,832	3,505
Long-term liabilities	11	521	595
		257,395	249,428

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31ST DECEMBER 2001

	Unaudited	
	Six months ended 31st December	
	2001	2000
	HK\$'000	<i>HK\$'000</i>
Net cash inflow from operating activities	38,029	20,324
Net cash outflow from returns on investments and servicing of finance	(5,711)	(11,037)
Total taxation paid	(2,089)	(1,908)
Net cash outflow from investing activities	(5,619)	(6,729)
Net cash (outflow)/inflow from financing	(2,194)	154
Increase in cash and cash equivalents	22,416	804
Cash and cash equivalents at 1st July	6,788	(21,212)
Cash and cash equivalents at 31st December	29,204	(20,408)
Analysis of balance of cash and cash equivalents:		
Cash and bank balances	38,915	26,542
Trust receipts loans	(9,711)	(46,950)
	29,204	(20,408)

NOTES TO CONDENSED INTERIM ACCOUNTS

1 Basis of preparation and accounting policies

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

These condensed interim accounts should be read in conjunction with the annual accounts for the year ended 30th June 2001.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 30th June 2001 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by The Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 13, opening retained earnings at 1st July 2000 have increased by HK\$9,000,000 which is the reversal of the provision for the 2000 proposed final dividend previously recorded as a liability as at 30th June 2000 although not declared until after balance sheet date. Opening retained earnings at 1st July 2001 have increased by HK\$4,500,000 which is the reversal of the provision for 2001 proposed final dividend previously recorded as a liability as at 30th June 2001 although not declared until after the balance sheet date.

This adjustment has resulted in a decrease in current liabilities at 30th June 2001 by HK\$4,500,000 for provision for proposed dividends that is no longer required.

Changes to headings used in the previously reported 30th June 2001 balance sheet and profit and loss account relating to dividends and profit for the year retained have also been made to reflect the changes resulting from SSAP 9 (revised).

2 Segment information

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

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

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

2 Segment information (Cont'd)

	Six months ended 31st December 2000			
	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Group <i>HK\$'000</i>
Turnover	430,208	92,672	(88,951)	433,929
Other revenues	501	—	—	501
Total revenues	<u>430,709</u>	<u>92,672</u>	<u>(88,951)</u>	<u>434,430</u>
Segment results	<u>8,423</u>	<u>4,883</u>	—	13,306
Unallocated costs				<u>(548)</u>
Profit before taxation				12,758
Taxation				<u>(1,996)</u>
Profit after taxation				10,762
Minority interests				<u>(346)</u>
Profit attributable to shareholders				<u>10,416</u>

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

3 Operating profit

Operating profit is stated after charging:

	Unaudited	
	Six months ended 31st December	
	2001	2000
	HK\$'000	HK\$'000
Depreciation:		
Owned fixed assets	5,099	5,373
Leased fixed assets	46	1,686
	<u>5,145</u>	<u>7,059</u>

4 Finance costs

	Unaudited	
	Six months ended 31st December	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings	760	2,029
Interest element of finance leases	45	214
	<u>805</u>	<u>2,243</u>

5 Taxation

- (a) Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the period. The Group's subsidiaries operating in the PRC have no assessable income and accordingly no provision for PRC taxation has been made in the accounts.
- (b) Deferred taxation is provided for in respect of the accelerated depreciation allowances. There is no material potential deferred taxation not provided for in the accounts.

6 Dividends

The directors declare an interim dividend of HK 2 cents per share for the period (2000: Nil).

7 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$12,214,000 (2000: HK\$10,416,000) and 300,000,000 (2000: 300,000,000) ordinary shares in issue during the period. Diluted earnings per share for the periods is not disclosed as there were no dilutive potential ordinary shares.

8 Capital expenditure

	Fixed assets
	<i>HK\$'000</i>
Six months ended 31st December 2001	
Opening net book amount	84,237
Additions	5,933
Disposals	(141)
Depreciation	(5,145)
	<u>84,884</u>
Closing net book amount	<u>84,884</u>

9 Trade receivables

The aging analysis of trade receivables is as follows:

	Unaudited 31st December 2001 <i>HK\$'000</i>	Audited 30th June 2001 <i>HK\$'000</i>
Below 90 days	114,291	141,047
91-180 days	14,337	13,016
Over 180 days	3,542	10,700
Provision for bad debts	(5,134)	(12,088)
	<u>127,036</u>	<u>152,675</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.

10 Trade payables

The aging analysis of trade payables is as follows:

	Unaudited 31st December 2001 <i>HK\$'000</i>	Audited 30th June 2001 <i>HK\$'000</i>
Below 90 days	21,997	33,216
91-180 days	119	4,691
Over 180 days	445	476
	<u>22,561</u>	<u>38,383</u>

11 Long-term liabilities

	Unaudited 31st December 2001 HK\$'000	Audited 30th June 2001 HK\$'000
Obligations under finance leases (note 11(a))	13	87
Deferred taxation (note 5(b))	508	508
	<u>521</u>	<u>595</u>

(a) Obligations under finance leases - minimum lease payments:

	Unaudited 31st December 2001 HK\$'000	Audited 30th June 2001 HK\$'000
Within one year	179	2,193
In the second year	15	104
	<u>194</u>	<u>2,297</u>
Future finance charges on finance leases	(31)	(79)
	<u>163</u>	<u>2,218</u>
Present value of obligations under finance leases	<u>163</u>	<u>2,218</u>
The present value of obligations under finance leases is as follows:		
Within one year	150	2,131
In the second year	13	87
	<u>163</u>	<u>2,218</u>
Less: Amount repayable within one year shown under current liabilities	<u>(150)</u>	<u>(2,131)</u>
	<u>13</u>	<u>87</u>

12 Share capital

	Unaudited 31st December 2001 HK\$'000	Audited 30th June 2001 HK\$'000
Authorised:		
800,000,000 (30th June 2001: 800,000,000) ordinary share of HK\$0.10 each	80,000	80,000
Issued and fully paid:		
300,000,000 (30th June 2001: 300,000,000) ordinary share of HK\$0.10 each	30,000	30,000

13 Retained earnings

	<i>HK\$'000</i>
At 1st July 2000 as previously reported	163,830
Effect of adopting SSAP 9 (revised)	9,000
At 1st July 2000 as restated	172,830
2000 final dividend paid	(9,000)
Profit for the year	15,798
Retained earnings	175,128
2001 final dividend proposed	4,500
	179,628
At 1st July 2001 as previously reported	175,128
Effect of adopting SSAP 9 (revised)	4,500
At 1st July 2001 as restated	179,628
2001 final dividend paid	(4,500)
Profit for the period	12,214
Retained earnings	181,342
Proposed interim dividend	6,000
	187,342

14 Contingent liabilities

As at 31st December 2001, the Company had the following contingent liabilities:

	Unaudited 31st December 2001 HK\$'000	Audited 30th June 2001 HK\$'000
Guarantee in respect of the due performance of a subsidiary under a contract manufacturing agreement	20,000	20,000
Guarantees given to banks for banking facilities granted to its subsidiaries	174,915	175,000
	194,915	195,000

15 Commitments

(a) Capital commitments for property, plant and equipment

	Unaudited 31st December 2001 HK\$'000	Audited 30th June 2001 HK\$'000
Contracted but not provided for	867	5,704
Authorised but not contracted for	13,889	74
	14,756	5,778

15 Commitments (Cont'd)

(b) Commitments under operating leases

As at 31st December 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Unaudited 31st December 2001 HK\$'000	Audited 30th June 2001 HK\$'000
Within one year	1,332	1,646
In the second to fifth year inclusive	5,636	5,548
After the fifth year	3,693	4,431
	<u>10,661</u>	<u>11,625</u>

INTERIM DIVIDEND

The directors are pleased to declare an interim dividend of Hong Kong 2 cents per share for the six months ended 31st December 2001 to members whose names appear on the Register of Members on 19th April 2002. The dividend will be paid on or before 30th April 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 17th April 2002 to Friday, 19th April 2002 (both dates inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Registrars in Hong Kong, Abacus Share Registrars Limited, 5th floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on Tuesday, 16th April 2002.

BUSINESS REVIEW AND PROSPECTS

For the six months ended 31st December 2001, the Group recorded a turnover of HK\$368,734,000 (2000: HK\$433,929,000) and profit attributable to shareholders of HK\$12,214,000 (2000: HK\$10,416,000). Earnings per share for the period amounted to HK 4.07 cents (2000: HK 3.47 cents). The Board has recommended an interim dividend of HK 2 cents per share.

During the period under review, the stagnant global economic conditions persisted. The U.S. economy has deteriorated by the 911 terrorist attacks. Despite this unfavourable business environment and the fall in the aggregate turnover of the Group as compared with the figure recorded in the corresponding period of the preceding year, the Group yet managed to report an increase in profit, due to the contribution of the colourant manufacturing business and the implementation of effective cost controls.

Through the Group's continuing commitment in research and development, the Group managed to produce cost-effective and customized products, including tailor-made engineering plastics. The responses have been overwhelming. Gross profit margin of the colourant manufacturing business has grown as compared with that of the corresponding period of the preceding year. This was mainly due to the committed efforts of the procurement team in searching for lower priced raw materials and the fall in the price of crude oil.

During the period the Group has continued its pursuit of prudent credit control measures, its commitment to reduce its bad debts and accelerate the recovery of its account receivables. Hence, not only its liquidity position had improved but its finance expenses also had substantially reduced.

With China's entry to the WTO, it is confident that China's regulatory systems will further approaching global standard in the foreseeable future and taxes, duties and other levies will also be reduced. The immense market potential will certainly create numerous business opportunities for plastics trading and colourant manufacturing. The Group therefore plans to set up a new establishment in China to further enhance its business status in this respect. It will also continue to search for high value-added products to generate better return.

BUSINESS REVIEW AND PROSPECTS (Cont'd)

Tsing Tao Ngai Hing Plastic Materials Co., Ltd., the joint venture formed by the Group and the Haier Group, commenced its colourant manufacturing immediately upon the completion of the plant in June 2001, creating a new source of income for the Group. For the purposes of future expanding into the northern part of China and increasing the Group's production capacity, the Group has commenced the construction of a new plant in Shanghai on the land which the Group has acquired to replace its existing rented plant. The new plant is expected to be ready for production by the end of 2002.

Finally, the Board would like to take this opportunity to thank the Group's loyal shareholders, valued customers, unfailing suppliers, committed management and dedicated staff for their continuing contribution and untiring support.

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 2001, the Group has available aggregate bank loan facilities of approximately HK\$89,800,000, of which HK\$17,442,000 have been utilized and were secured by corporate guarantee issued by the Company and legal charges on certain leasehold land and buildings in the PRC and Hong Kong owned by the Group. The Group's cash and bank balances and short term bank deposits as at 31st December 2001 amounted to approximately HK\$38,915,000. The Group's gearing ratio as at 31st December 2001 was approximately 6.9%, based on the total bank borrowings of approximately HK\$17,442,000 and the shareholders' funds of approximately HK\$253,042,000. As the Group's borrowings and cash balances are primarily denominated in Hong Kong dollars, the Group has no significant exposure to foreign currency fluctuations.

Details of the Company's contingent liabilities and the Group's capital commitments are disclosed in notes 14 and 15 to the condensed interim accounts respectively.

EMPLOYEE INFORMATION

As at 31st December 2001, the Group employed a total of 700 full-time employees. The Group's emolument policies are formulated on the performance of individual employees and are reviewed annually. The Group has introduced an incentive scheme which is geared to the profit of the Group and the performance of its employees, as an incentive to motivate its employees to increase their contribution to the Group. The Group also provides social and medical insurance coverage, and provident fund scheme (as the case may be) to its employees depending on the location of such employees.

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

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

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st December 2001, the Directors, chief executives and their associates had the following interests in the share capital of the Company or any its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company to were as follows:

Name of Directors	Number of shares of the Company beneficially held			
	Personal interests	Corporate interests	Family interests	Other interests
Mr HUI Sai Chung	11,008,000	158,000,000(a)	—	—
Mr HUI Kwok Kwong	11,716,000	154,735,000(b)	—	—
Mr NG Siu Kuen, Nelson	1,230,000	1,230,000(c)	—	(d)
Madam LIU Sau Lai	1,102,500	—	—	(d)

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

Notes:

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

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

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

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

- (c) These shares are held by Gain Time Investments Limited, the entire issued share capital of which is beneficially owned by Mr NG Siu Kuen, Nelson.
- (d) The beneficial interests of the Directors in the share capital of Good Benefit, which held 153,000,000 shares of the Company as at 31st December 2001, are as follows:

Name of Directors	Number of shares	Percentage of holding
Mr HUI Sai Chung	4,510	45.1%
Mr HUI Kwok Kwong	4,510	45.1%
Mr NG Siu Kuen, Nelson	900	9.0%
Madam LIU Sau Lai	80	0.8%
	<hr style="width: 100%; border: none; border-top: 1px solid black; margin-bottom: 5px;"/> 10,000	<hr style="width: 100%; border: none; border-top: 1px solid black; margin-bottom: 5px;"/> 100%

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

At 31st December 2001, the following Directors owned interests in non-voting deferred shares in Ngai Hing Hong Plastic Materials Limited, which are subject to an option granted to Ngai Hing (International) Company Limited to acquire the said non-voting deferred shares.

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

Notes:

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

Save as disclosed above and other than certain nominee shares in the subsidiaries of the Company held by certain Directors of the Company in trust for the Group as at 31st December 2001, none of the Directors, chief executives and their associates have any beneficial or non-beneficial interests in the share capital of the Company and associated corporations required to be disclosed pursuant to the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the Company's share option scheme which became effective on 29th March 1994, the Board of Directors of the Company may at their discretion grant options to directors and employees of the Company or any of its subsidiaries to subscribe for shares in the Company subject to the terms and conditions stipulated therein. No share options were granted during the period or outstanding as at 31st December 2001.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Cont'd)

Apart from the above,

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

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2001, other than the interests disclosed above in respect of the Directors, no other person is recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance as having 10% or more of the issued share capital of the Company.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months period ended 31st December 2001 except that the term of office for the Independent Non-executive Directors of the Company are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Company's Bye-laws. This does not comply with Paragraph 7 of the Code of Best Practice which suggests that Independent Non-executive Directors should be appointed for a specific term.

AUDIT COMMITTEE

The Company has established an Audit Committee since January 1999 with guidelines recommended by The Hong Kong Society of Accountants. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedure of the Group. The Audit Committee comprises the two Independent Non-executive Directors, namely, Mr Lai Kam Wah and Dr Wong Chi Ying, Anthony. The condensed interim accounts have been reviewed by the Company's audit committee and, in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by The Hong Kong Society of Accountants, by the Company's auditors.

On behalf of the Board

Hui Sai Chung

Chairman

Hong Kong,
19th March 2002