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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 2018

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 2018 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended	
		31st December	
		2018	2017
	Note	HK\$'000	HK\$'000
Revenue from contracts with customers	3	1,024,235	985,116
Cost of sales		(916,476)	(851,508)
Gross profit		107,759	133,608
Rental income		3,701	3,294
Other gains, net	4	3,185	1,845
Distribution costs		(39,859)	(39,544)
Administrative expenses		(56,707)	(57,535)
Operating profit	5	18,079	41,668
Finance income	6	111	203
Finance costs	6	(10,762)	(6,349)
Finance costs, net		(10,651)	(6,146)
Profit before income tax		7,428	35,522
Income tax expense	7	(4,088)	(10,673)
Profit for the period		3,340	24,849

		Unaudited	
		Six months ended	
		31st December	
		2018	2017
Note		<i>HK\$'000</i>	<i>HK\$'000</i>
Attributable to:			
	Equity holders of the Company	1,878	22,569
	Non-controlling interests	1,462	2,280
		<u>3,340</u>	<u>24,849</u>
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK cent per share)			
	– Basic	9 <u>0.51</u>	<u>6.11</u>
	– Diluted	9 <u>0.51</u>	<u>6.11</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended	
	31st December	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	3,340	24,849
Other comprehensive (loss)/income:		
Item that may be reclassified subsequently to income statement:		
Currency translation differences	(21,403)	14,683
Other comprehensive (loss)/income for the period	(21,403)	14,683
Total comprehensive (loss)/income for the period	(18,063)	39,532
Total comprehensive (loss)/income attributable to:		
Equity holders of the Company	(19,218)	37,054
Non-controlling interests	1,155	2,478
	(18,063)	39,532

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 31st December 2018 <i>HK\$'000</i>	Audited 30th June 2018 <i>HK\$'000</i>
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment		123,319	129,143
Leasehold land and land use rights		17,378	18,399
Investment properties		140,214	141,380
Financial assets at fair value through other comprehensive income		2,000	—
Available-for-sale financial asset		—	2,000
Deferred income tax assets		6,734	7,497
Prepayment for property, plant and equipment and renovation costs, and deposits		3,575	3,635
		<u>293,220</u>	<u>302,054</u>
Current assets			
Inventories		351,868	290,158
Trade and bills receivables	10	245,876	284,292
Other receivables, prepayments and deposits		24,353	19,466
Income tax recoverable		535	110
Restricted bank deposits		34,323	35,799
Cash and bank balances		116,022	117,716
		<u>772,977</u>	<u>747,541</u>
Total assets		<u><u>1,066,197</u></u>	<u><u>1,049,595</u></u>

		Unaudited 31st December 2018 HK\$'000	Audited 30th June 2018 HK\$'000
	Note		
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		36,852	57,948
Retained earnings		346,103	351,881
		482,341	509,215
Non-controlling interests		20,883	24,826
Total equity		503,224	534,041
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		6,485	6,917
Provision for reinstatement costs		884	884
		7,369	7,801
Current liabilities			
Trade payables	11	109,563	86,059
Other payables and accruals		35,279	38,213
Borrowings		401,803	375,529
Derivative financial instruments		132	—
Income tax payable		8,827	7,952
		555,604	507,753
Total liabilities		562,973	515,554
Total equity and liabilities		1,066,197	1,049,595
Net current assets		217,373	239,788
Total assets less current liabilities		510,593	541,842

1 Basis of preparation

The condensed consolidated interim financial information for the six months ended 31st December 2018 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The condensed consolidated interim financial information does not include all the notes of the type normally included in an annual financial statements. Accordingly, the condensed consolidated interim financial information is to be read in conjunction with the annual financial statements for the year ended 30th June 2018, 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 2018, 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.

2.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers

The impact of the adoption of these standards and the new accounting policies are disclosed in Notes 3.3 and 3.4 below. The other standards did not have significant impact on the Group’s accounting policies and did not require retrospective adjustments.

2.2 Impact of standards issued but not yet applied by the Group:

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated statement of financial position, 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 the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK\$11,540,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for first interim period within annual reporting periods beginning on or after 1st January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

2.3 Impact of adoption on financial statements - HKFRS 9 "Financial Instruments" ("HKFRS 9") and HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15") (collectively, the "New HKFRSs")

(i) Adoption of HKFRS 9

HKFRS 9 replaces the provisions of HKAS 39 "Financial Instruments: Recognition and Measurement" that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets, and hedge accounting.

The adoption of HKFRS 9 from 1st July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 3.4 below. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated as the Group does not have any hedge accounting.

The total impact on the Group's retained earnings as at 1st July 2018 is as follow:

	As at 1st July 2018 HK\$'000
Closing balance 30th June 2018 – HKAS 39	351,881
Increase in provision for trade receivables	(367)
Increase in deferred income tax assets relating to impairment provisions	90
Loss attributable to non-controlling interest	5
Opening balance 1st July 2018 - HKFRS 9	351,609

(a) Classification and measurement

On 1st July 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate categories in accordance with HKFRS 9. The main effects resulting from this reclassification are as follows:

Balance sheet (extract)	30th June 2018		1st July
	as originally presented HK\$'000 (unaudited)	HKFRS 9 HK\$'000 (unaudited)	2018 Restated HK\$'000 (unaudited)
Non-current assets			
Financial assets at fair value through other comprehensive income ("FVOCI")	—	2,000	2,000
Available-for-sale financial assets ("AFS")	2,000	(2,000)	—
Equity			
AFS reserve	1,310	(1,310)	—
FVOCI reserve	—	1,310	1,310

— Reclassification of equity instruments from AFS to FVOCI

The Group elected to present in other comprehensive income ("OCI") changes in the fair value of its equity investments previously classified as AFS, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of HK\$2,000,000 were reclassified from AFS to FVOCI and fair value gains of HK\$1,310,000 were reclassified from the AFS reserve to the FVOCI reserve on 1st July 2018.

There is no impact on the Group's accounting for financial liabilities.

(b) Impairment of financial assets

The Group has two types of financial assets that are subject to the new expected credit loss model of the HKFRS 9:

- Trade receivables; and
- Other financial assets at amortised cost

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail below.

Balance sheet (extract)	30th June 2018		1st July
	as originally presented HK\$'000 (unaudited)	HKFRS 9 HK\$'000 (unaudited)	2018 Restated HK\$'000 (unaudited)
Non-current assets			
Deferred income tax assets	<u>7,497</u>	<u>84</u>	<u>7,581</u>
Current assets			
Trade and bills receivables	<u>284,292</u>	<u>(367)</u>	<u>283,925</u>
Non-current liabilities			
Deferred income tax liabilities	<u>6,917</u>	<u>(6)</u>	<u>6,911</u>
Equity			
Retained earnings	<u>351,881</u>	<u>(272)</u>	<u>351,609</u>
Non-controlling interest	<u>24,826</u>	<u>(5)</u>	<u>24,821</u>

While short-term deposits, and cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected provision for impairment for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. On that basis, the provision for impairment as at 1st July 2018 was determined for trade receivables.

The provision for impairment for trade receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past histories, existing market conditions as well as forward looking estimates at the end of each reporting period.

The provision for impairment for trade receivables as at 30th June 2018 reconcile to the opening provision for impairment on 1st July 2018 as follows:

	Provision for impairment - trade receivables HK\$'000
At 30th June 2018 calculated under HKAS 39	(4,389)
Amount restated through opening retained earnings	(367)
Opening provision for impairment as at 1st July 2018 calculated under HKFRS 9	(4,756)

Other financial assets at amortised cost

Other financial assets at amortised cost include bills and other receivables. The Group has assessed the expected credit loss model apply to the bills and other receivables as at 1st July 2018 and the change in impairment methodologies has no impact on the Group's consolidated financial statements and the opening loss allowance is not restated in this respect.

(ii) Adoption of HKFRS 15

HKFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 "Revenue" and HKAS 11 "Construction contracts" and related interpretations.

The Group has adopted HFKRS 15 from 1st July 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the condensed consolidated interim financial information. In accordance with the transitional provisions in HKFRS 15, the Group has adopted the modified retrospective approach and comparative figures have not been restated.

The impact on the Group's financial position by the application of HKFRS 15 as compared to HKAS 18 that was previously in effect before the adoption of HKFRS 15 is as follows:

Balance sheet (extract)	30th June 2018		1st July 2018
	as originally presented HK\$'000 (unaudited)	HKFRS 15 HK\$'000 (unaudited)	Restated HK\$'000 (unaudited)
Other payables, deposit received and accruals - Deposit received	6,613	(6,613)	—
Other payables and accruals - Contract liabilities	—	6,613	6,613

The adoption of HKFRS 15 has no material impact to the Group's net assets as at 30th June 2018 and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, earnings per share (basic and diluted) and the condensed consolidated statement of cash flows for the period ended 31st December 2018.

2.4 Changes in accounting policies upon adopting of the New HKFRSs

(i) HKFRS 9 – Financial instruments

(a) Classification

From 1st July 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (through OCI); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

(b) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVPL”), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. The Group classifies all its debt instruments as amortised cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other losses, net, together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the condensed consolidated statement of comprehensive income.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group’s management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group’s right to receive payments is established.

(c) Impairment

From 1st July 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(ii) *HKFRS 15*

The Group recognises revenue when it satisfies a performance obligation by transferring a promised good to a customer, which is when the customer obtains control of a good, has the ability to direct the use of, and obtain substantially all of the remaining benefits from that good. If the control of the goods and services is transferred over a period of time, the Group recognises revenue by reference to the extent of progress toward completion in fulfilling its performance obligations during the entire contract period.

For the amounts of revenue recognised for goods transferred and services provided, the Group recognises any unconditional rights to consideration separately as a receivable and the rest as a contract asset, and recognises provision for impairment of the receivable and the contract asset based on ECL; if the consideration received or receivable exceeds the obligation performed by the Group, a contract liability is recognised. The Group presents a net contract asset or a net contract liability under each contract.

Contract costs include costs to fulfill a contract and of obtaining a contract. The cost incurred for providing services by the Group is recognised as the costs to fulfill a contract, and is amortised based on the progress towards completion of the service provided when recognising revenue. The incremental cost incurred by the Group of obtaining a contract is recognised as the costs of obtaining a contract. For costs of obtaining a contract that will be amortised within one year, the Group recognises it in profit and loss. For the costs of obtaining a contract that will be amortised for more than one year period, it is amortised in profit and loss based on same progress towards completion as recognising revenue. The Group recognises the excess of the carrying amounts of contract costs over the expected remaining consideration less any costs not yet recognised as an impairment loss. As at the balance sheet date, the Group presents the costs to fulfill and of obtaining a contract, in the net amount after deducting relevant asset impairment provisions, as other assets.

The Group recognises revenue for each of its activities in the income statement in accordance with below policies:

(a) Sales of goods

Sales of goods are recognised when a group entity has transferred control over products to the customer, the customer has accepted the products, there is no unfulfilled obligation that could affect the customer's acceptance of the products, the amount of sales can be reliably measured and it is probable that future economic benefits will flow to the entity. Revenue from sales is based on the price specified in the sales contracts. Accumulated experience is used to estimate the likelihood and provide for sales return for the goods sold at the time of sale. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) Rental income

Rental income is recognised in the consolidated income statement on a straight-line basis over the term of the lease.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

3 Revenue from contracts with customers and segment information

	Unaudited	
	Six months ended	
	31st December	
	2018	2017
	HK\$'000	HK\$'000
Revenue from contracts with customers		
Sales of goods	1,024,235	984,675
Provision of logistics services	—	441
	<u>1,024,235</u>	<u>985,116</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 (“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 from contracts with customers and operating profit, which is in a manner consistent with that of the condensed consolidated interim financial information.

The segment information provided to the CODM for the reportable segments for the six months ended 31st December 2018 is as follows:

	Unaudited				
	Trading	Colorants	Engineering	Others	Group
	HK\$'000	HK\$'000	plastic HK\$'000	HK\$'000	HK\$'000
Revenue from contracts with customers					
– Gross revenue	778,222	157,983	121,345	—	1,057,550
– Inter-segment revenue	(31,924)	(1,310)	(81)	—	(33,315)
Revenue from external customers	<u>746,298</u>	<u>156,673</u>	<u>121,264</u>	<u>—</u>	<u>1,024,235</u>
Operating (loss)/profit	<u>(2,309)</u>	<u>11,209</u>	<u>10,879</u>	<u>(1,700)</u>	<u>18,079</u>
Finance income	62	47	2	—	111
Finance costs	(9,158)	(625)	(790)	(189)	(10,762)
(Loss)/profit before income tax	<u>(11,405)</u>	<u>10,631</u>	<u>10,091</u>	<u>(1,889)</u>	<u>(7,428)</u>
Other information:					
Additions to non-current assets (other than financial instruments and deferred income tax assets)	470	3,140	3,422	73	7,105
Depreciation of property, plant and equipment	448	3,883	4,526	258	9,115
Amortisation of leasehold land and land use rights	179	93	16	39	327
Provision for/(reversal of) impairment of inventories, net	1,115	(68)	547	—	1,594
Provision for impairment of trade and other receivables	—	—	—	31	31
Fair value gains on derivative financial instruments	<u>(1,785)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,785)</u>

The segment information provided to the CODM for the reportable segments as at 31st December 2018 is as follows:

	Unaudited				
	Trading	Colorants	Engineering plastic	Others	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	483,107	296,125	157,208	129,757	1,066,197
Total assets					1,066,197
Segment liabilities	(113,452)	(26,738)	(17,045)	(3,935)	(161,170)
Borrowings	(333,523)	(23,047)	(45,233)	—	(401,803)
Total liabilities	(446,975)	(49,785)	(62,278)	(3,935)	(562,973)

The segment information provided to the CODM for the reportable segments for the six months ended 31st December 2017 is as follows:

	Unaudited				
	Trading HK\$'000	Colorants HK\$'000	Engineering plastic HK\$'000	Others HK\$'000	Group HK\$'000
Revenue from contracts with customers					
– Gross revenue	727,608	174,604	117,611	441	1,020,264
– Inter-segment revenue	(32,672)	(1,470)	(998)	(8)	(35,148)
Revenue from external customers	<u>694,936</u>	<u>173,134</u>	<u>116,613</u>	<u>433</u>	<u>985,116</u>
Operating profit/(loss)	<u>22,011</u>	<u>10,896</u>	<u>12,921</u>	<u>(4,160)</u>	<u>41,668</u>
Finance income	85	107	11	—	203
Finance costs	(4,861)	(619)	(699)	(170)	(6,349)
Profit/(loss) before income tax	<u>17,235</u>	<u>10,384</u>	<u>12,233</u>	<u>(4,330)</u>	<u>35,522</u>
Other information:					
Additions to non-current assets (other than financial instruments and deferred income tax assets)	650	8,073	8,703	64	17,490
Depreciation of property, plant and equipment	423	3,211	4,187	258	8,079
Amortisation of leasehold land and land use rights	187	97	16	39	339
(Reversal of)/provision for impairment of inventories, net	(570)	1,560	771	—	1,761
Provision for impairment of trade and other receivables, net	—	58	—	2,446	2,504
Gain on disposal of a subsidiary	—	—	—	(398)	(398)
Fair value gains on derivative financial instruments	<u>(960)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(960)</u>

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

	Audited			
	Trading <i>HK\$'000</i>	Colorants <i>HK\$'000</i>	Engineering plastic <i>HK\$'000</i>	Others <i>HK\$'000</i>
Segment assets	450,909	307,647	161,283	129,756
Total assets				1,049,595
Segment liabilities	(89,916)	(26,946)	(19,257)	(3,906)
Borrowings	(315,947)	(23,810)	(27,896)	(7,876)
Total liabilities	(405,863)	(50,756)	(47,153)	(11,782)

The entity is domiciled in Hong Kong. The revenue from external customers from Hong Kong for the six months ended 31st December 2018 is approximately HK\$541,769,000 (2017: HK\$460,569,000) and the total of its revenue from external customers from other locations (mainly The People's Republic of China (the "PRC")) is approximately HK\$482,466,000 (2017: HK\$524,547,000).

At 31st December 2018, the total of non-current assets other than financial instruments and deferred income tax assets located in Hong Kong is approximately HK\$167,030,000 (30th June 2018: HK\$169,796,000) and the total of these non-current assets located in other locations (mainly the PRC) is approximately HK\$117,456,000 (30th June 2018: HK\$122,761,000).

4 Other gains, net

	Unaudited	
	Six months ended 31st December 2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Net exchange gain/(loss)	639	(512)
Gain on disposal of property, plant and equipment	36	51
Gain on disposal of a subsidiary	—	398
Fair value gains on derivative financial instruments	1,785	960
Others	725	948
	3,185	1,845

5 Operating profit

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

	Unaudited	
	Six months ended	
	31st December	
	2018	2017
	HK\$'000	HK\$'000
Cost of inventories recognised as expenses included in cost of sales	863,479	810,493
Depreciation of property, plant and equipment	9,115	8,079
Amortisation of leasehold land and land use rights	327	339
Operating lease rentals in respect of land and buildings	4,986	4,293
Employee benefit expenses, including Directors' emoluments	64,455	61,899
Provision for impairment of trade and other receivables, net	31	2,504
Provision for impairment of inventories, net	1,594	1,761
Gain on disposal of property, plant and equipment	(36)	(51)
Fair value gains on derivative financial instruments	(1,785)	(960)

6 Finance income and costs

	Unaudited	
	Six months ended	
	31st December	
	2018	2017
	HK\$'000	HK\$'000
Finance income:		
– Interest income from bank deposits	111	203
Finance costs:		
– Interests on bank borrowings wholly repayable within five years	(8,169)	(6,105)
– Net exchange losses on financing activities	(2,593)	(244)
	(10,762)	(6,349)
Finance costs, net	(10,651)	(6,146)

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 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	
	2018	2017
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	1,321	724
– PRC corporate income tax	2,420	9,922
	3,741	10,646
Deferred income tax	347	27
	4,088	10,673

8 Dividends

On 28th September 2017, the Director declared a final dividend of HK2.0 cents per share, totaling HK\$7,384,000 for the year ended 30th June 2017, which was paid during the year ended 30th June 2018.

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

On 27th September 2018, the Directors proposed a final dividend of HK2.0 cents per share, totaling HK\$7,384,000 for the year ended 30th June 2018, which was paid during the period ended 31st December 2018.

On 27th February 2019, the Directors resolved not to declare any interim dividend for the period ended 31st December 2018.

9 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the period of HK\$1,878,000 (2017: HK\$22,569,000) and 369,200,000 (2017: 369,200,000) ordinary shares in issue during the period.

Dilutive earnings per share for the period ended 31st December 2018 and 2017 equal basic earnings per share as there was no dilutive potential ordinary share as at the period ended 31st December 2018 and 2017.

10 Trade and bills receivables

	Unaudited 31st December 2018 <i>HK\$'000</i>	Audited 30th June 2018 <i>HK\$'000</i>
Trade receivables	228,157	266,367
Less: provision for impairment of receivables	(4,665)	(4,389)
	<u>223,492</u>	<u>261,978</u>
Bills receivables	22,384	22,314
	<u><u>245,876</u></u>	<u><u>284,292</u></u>

At 31st December 2018, the aging analysis of trade receivables, based on invoice date, is as follows:

	Unaudited 31st December 2018 <i>HK\$'000</i>	Audited 30th June 2018 <i>HK\$'000</i>
Below 90 days	216,747	252,698
91-180 days	5,853	7,701
Over 180 days	5,557	5,968
	<u><u>228,157</u></u>	<u><u>266,367</u></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 2018, there are bills of exchange of HK\$9,701,000 (30th June 2018: HK\$2,997,000) 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 2018, the aging analysis of trade payables, based on invoice date, is as follows:

	Unaudited	Audited
	31st December	30th June
	2018	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Below 90 days	108,102	84,434
91-180 days	87	111
Over 180 days	1,374	1,514
	109,563	86,059

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31st December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Looking back at the second half of 2018, plummeting oil prices have drastically dragged down the prices of plastic materials. As for macroeconomic conditions, the US Federal Reserve has raised interest rates, and international trade has also been adversely affected by intensifying Sino-US trade conflict. These factors have clouded the economic outlook for many companies. However, the Group has managed to maintain positive growth of revenue through improving product quality, expanding its customer base and reducing costs, but the drastic change in the operating environment has caused customers to adopt a low inventory policy and become more prudent when placing orders. Other factors such as higher borrowing costs and lower oil prices have also brought negative influence on the Group's business. For the six months ended 31st December 2018, the Group's total turnover was HK\$1,024,235,000 (2017: HK\$985,116,000), 4% slightly higher than the same period last year.

During the period under review, facing such a severe environment, despite the moderate growth of total turnover, overall gross profit and gross profit margin declined by 19.3% to HK\$107,759,000 (2017: HK\$ 133,608,000) and 3 percentage points to 10.5% respectively. Profit attributable to equity holders of the Company amounted to HK\$1,878,000 (2017: profit attributable to equity holders of the Company HK\$22,569,000). Basic earnings per share were HK0.51 cents (2017: profit per share HK6.11 cents). To reserve sufficient capital for business development, the Board did not recommend the payment of an interim dividend.

Among the Group's three major business segments, the share of the plastics trading business expanded to 72.9% of the Group's total revenue, its largest business segment. The segmental gross profit margin was affected by factors including the deteriorating operating environment and volatile oil prices during the period. However, the operational model of negotiating with world-renowned fast food restaurant chains has become mature, thus more bulk orders were secured, so revenue of this segment grew by 7.4% to HK\$746,298,000 from the corresponding period last year, notwithstanding the gross profit margin decreased by 2.6 percentage points. Besides, the Group has strived to enrich its product mix and has expanded into other technological applications for new energy. As the cooperation model of liaising directly with end-customers matures, the Group will persist with this strategy, and explore opportunities to work more closely with end-customers in order to realise new income sources.

During the period, lower prices of oil and plastic materials, as well as weak demand in the China market, have affected the engineering plastic business segment, so revenue only increased by 4% to HK\$121,264,000, while gross profit margin decreased by approximately 2 percentage points. As customers were more prudent in placing orders due to the Sino-US trade war, and the interest rate hikes by the Federal Reserve also boosted the operating costs, so profit before taxation was down 17.5% to HK\$10,091,000 from last year. However, the Hong Kong branch, which focuses on local sales and export markets, was less adversely affected by the trade war, as benefit from the status of Hong Kong as an independent tariff region, its performance was relatively satisfactory compared with branches located elsewhere. In addition to continuous implementation of strict cost control measures, the Group will persistently leverage its competitive edge and focus on promoting higher margin products to maintain growth momentum and advance its business development.

The trade war between China and US has hit the export-oriented customers in the Southern China region hard and thus adversely affected the Group's business segment which includes colorants, pigments and compounded plastic resins. To mitigate the effects arising from the external economic environment, the Group has actively enhanced the operating efficiency of all of its factories. The Group has strengthened its strategic cooperation with renowned automobile brands in China in order to enlarge its market share there. Consequently, the operational performance of its Shanghai factory was also enhanced. In addition to continuously manufacture high quality sanitary products and increase its market share in automobile application-related product and food packaging markets, the Group has expanded into the new energy vehicle market. Hence, it has developed electric vehicle-related products in collaboration with an internationally renowned automobile brand. It has also focused on value-added product services with the aim of exploring new income streams and expanding its customer base. However, the slower economic growth in China, plus rising operating costs such as labour and transportation costs, have exerted pressure on the Group's profit. Revenue of the business segment decreased by 9.5% to HK\$156,673,000. Gross profit margin dropped by 2.2 percentage points against the same period of last year, however, profit before taxation recorded a slight growth.

PROSPECTS

Looking ahead to 2019, the Group's businesses still face challenges caused by the uncertainties of global and Chinese economies. Nevertheless, with the price of oil stabilising, the potential resolution of the trade war between China and US and the Federal Reserve's cycle of interest rate rises possibly ending, the management is prudently optimistic about the prospects for future development. The Group will continue to focus on implementing its strategy of developing high value-added products with high margins, selecting reputable customers and prudently managing inventories, so as to overcome the effects from external uncertainties and enhance its overall profitability.

The management believes that, as the superior quality of the Group's products has gained the recognition of international brands, the volume of orders for the high quality and high value-added products is expected to return to normal as customers will need to replenish inventory when the business environment improves. The Group intends to continue to execute its set development direction, broadening its customer base, creating new income sources and exploring more potential markets and regions. Meanwhile, the China market seems to still have huge potential in the long term and the environmentally-friendly green market is rapidly emerging. To explore new income streams, the Group plans to cooperate with new technical partners to invest in research and development resources to facilitate the development of high value-added products with higher margins. Furthermore, while seeking opportunities to negotiate and cooperate with international brands, it is actively preparing to develop the market in the Greater Bay Area and set up a new company in 2019 to capture the development opportunities there.

The Group will continue to adopt a sound business strategy and adhere to prudent financial principles and effectively control production costs and enhance overall administrative efficiency through allocation of internal resources in order to generate greater synergies, with the aim to drive future long-term development.

Leveraging many years of extensive industry experience, the professional management team believes it will be able to lead the Group to overcome future challenges, seize the market opportunities in order to strive for long-term and steady growth and, ultimately, bring satisfactory returns 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 2018, the Group has available aggregate bank loan facilities of approximately HK\$564,459,000 of which HK\$401,803,000 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 2018 amounted to approximately HK\$116,022,000. The Group's gearing ratio as at 31st December 2018 was approximately 83.3%, based on the total bank borrowings of approximately HK\$401,803,000 and the shareholders' funds of approximately HK\$482,341,000.

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 2018, the Group had outstanding forward foreign exchange contracts mainly to sell/purchase US dollars. The maximum notional principal amounts of these outstanding forward foreign exchange contracts at 31st December 2018 were as follows:

	2018 HK\$' 000
Sell HK dollars for US dollars	<u>101,400</u>

EMPLOYEE INFORMATION

As at 31st December 2018, the Group employed a total of approximately 696 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 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 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 enhancing the risk management and internal control systems, the Company has engaged an external consultant to assist the Board and the audit committee of the Company (the “Audit Committee”) in ongoing monitoring and in performing the internal audit functions for the Group. Deficiencies in the design and implementation of internal controls are identified and recommendations are proposed for improvement. Significant internal control deficiencies are reported to the Audit Committee and the Board on a timely basis to ensure prompt remediation actions are taken.

The Board has reviewed and considered the Group’s risk management and internal control systems were effective and adequate during the period. The risk management and internal control systems of the Group are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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 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 2018 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 2019

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, Mr. NG Chi Ming, Mr. HUI Yan Kuen, Mr. HUI Man Wai and Mr. HUI Yan Lung, Geoffrey and three Independent Non-executive Directors, namely Mr. HO Wai Chi, Paul, Mr. CHAN Dit Lung and Mr. CHING Yu Lung.