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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 2020

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 2020 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended	
		31st December	
		2020	2019
	Note	HK\$'000	HK\$'000
Revenue from contracts with customers	3	951,987	906,580
Cost of sales		(801,112)	(801,817)
Gross profit		150,875	104,763
Rental income		3,676	3,986
Other (losses)/gains, net	4	(1,249)	568
Distribution costs		(40,272)	(37,864)
Administrative expenses		(57,571)	(54,906)
Operating profit	5	55,459	16,547
Finance income	6	441	469
Finance costs	6	(4,195)	(9,659)
Finance costs, net		(3,754)	(9,190)
Profit before income tax		51,705	7,357
Income tax expense	7	(11,103)	(4,478)
Profit for the period		40,602	2,879

		Unaudited	
		Six months ended	
		31st December	
		2020	2019
	Note	<i>HK\$'000</i>	<i>HK\$'000</i>
Attributable to:			
Equity holders of the Company		37,114	587
Non-controlling interests		3,488	2,292
		<u>40,602</u>	<u>2,879</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>10.05</u>	<u>0.16</u>
– Diluted	9	<u>10.05</u>	<u>0.16</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended	
	31st December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	<u>40,602</u>	<u>2,879</u>
Other comprehensive income/(loss):		
Item that may be reclassified subsequently to income statement:		
Currency translation differences	<u>43,745</u>	<u>(7,873)</u>
Other comprehensive income/(loss) for the period	<u>43,745</u>	<u>(7,873)</u>
Total comprehensive income/(loss) for the period	<u>84,347</u>	<u>(4,994)</u>
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	<u>79,862</u>	<u>(7,174)</u>
Non-controlling interests	<u>4,485</u>	<u>2,180</u>
	<u>84,347</u>	<u>(4,994)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 31st December 2020 <i>HK\$'000</i>	Audited 30th June 2020 <i>HK\$'000</i>
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment		111,079	105,307
Right-of-use assets		24,215	25,167
Investment properties		157,690	155,292
Financial assets at fair value through other comprehensive income		1,863	1,863
Deferred income tax assets		12,905	13,841
Prepayments		7,657	7,951
		315,409	309,421
		315,409	309,421
Current assets			
Inventories		220,223	292,804
Trade and bills receivables	10	276,576	195,245
Other receivables, prepayments and deposits		31,031	36,005
Income tax recoverable		835	372
Restricted bank deposits		38,077	34,898
Cash and bank balances		155,639	126,094
		722,381	685,418
		722,381	685,418
Total assets		1,037,790	994,839

		Unaudited 31st December 2020 <i>HK\$'000</i>	Audited 30th June 2020 <i>HK\$'000</i>
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		62,865	20,117
Retained earnings		382,933	345,819
		<u>545,184</u>	<u>465,322</u>
Non-controlling interests		<u>25,972</u>	<u>25,199</u>
Total equity		<u><u>571,156</u></u>	<u><u>490,521</u></u>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		5,418	6,559
Reinstatement provision		884	884
Lease liabilities		1,523	3,216
		<u>7,825</u>	<u>10,659</u>
Current liabilities			
Trade payables	11	76,118	87,257
Other payables and accruals		45,976	27,656
Lease liabilities		3,944	3,803
Borrowings		321,762	365,377
Derivative financial instruments		386	1,246
Income tax payable		10,623	8,320
		<u>458,809</u>	<u>493,659</u>
Total liabilities		<u><u>466,634</u></u>	<u><u>504,318</u></u>
Total equity and liabilities		<u><u>1,037,790</u></u>	<u><u>994,839</u></u>
Net current assets		<u><u>263,572</u></u>	<u><u>191,759</u></u>
Total assets less current liabilities		<u><u>578,981</u></u>	<u><u>501,180</u></u>

1 Basis of preparation

The condensed consolidated interim financial information for the six months ended 31st December 2020 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 report. Accordingly, the condensed consolidated interim financial information is to be read in conjunction with the annual financial statements for the year ended 30th June 2020, 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 2020, 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:

Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Hedge Accounting (Amendments)
Amendments to HKAS 1 and HKAS 8	Definition of Material (Amendments)
Amendments to HKFRS 3	Definition of a Business (Amendments)
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
Amendments to HKFRS 16	COVID-19 Related Rent Concessions

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

The following new and amended HKFRSs have been issued, but are not effective for the Group's accounting period beginning on 1st July 2020 and have not been early adopted:

Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow-scope amendments ²
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Annual improvements to HKFRSs 2018-2020 cycle	Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41 ²
HKFRS 17	Insurance Contracts ³

(1) Effective for annual periods beginning on or after 1st January 2021

(2) Effective for annual periods beginning on or after 1st January 2022

(3) Effective for annual periods beginning on or after 1st January 2023

(4) To be determined

3 Revenue from contracts with customers and segment information

	Unaudited	
	Six months ended 31st December	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from contracts with customers		
Sales of goods	<u>951,987</u>	<u>906,580</u>

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

The Group derived revenue from the sales of goods at a point in time.

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 including corporate expenses, 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 2020 is as follows:

	Unaudited				Group HK\$'000
	Trading HK\$'000	Colorants HK\$'000	Engineering plastic HK\$'000	Others HK\$'000	
Revenue from contracts with customers					
– Gross revenue	683,880	180,795	122,697	—	987,372
– Inter-segment revenue	(31,494)	(3,834)	(57)	—	(35,385)
Revenue from external customers	<u>652,386</u>	<u>176,961</u>	<u>122,640</u>	<u>—</u>	<u>951,987</u>
Operating profit/(loss)	<u>23,524</u>	<u>15,751</u>	<u>17,156</u>	<u>(972)</u>	<u>55,459</u>
Finance income	77	317	47	—	441
Finance costs	(3,234)	(696)	(265)	—	(4,195)
Profit/(loss) before income tax	<u>20,367</u>	<u>15,372</u>	<u>16,938</u>	<u>(972)</u>	<u>51,705</u>
Other information:					
Additions to non-current assets (other than financial instruments and deferred income tax assets)	47	7,084	1,224	—	8,355
Depreciation of property, plant and equipment	327	4,302	3,836	260	8,725
Depreciation of rights-of-use assets	228	2,083	16	39	2,366
(Reversal of)/provision for impairment of inventories, net	(2,466)	2,847	515	—	896
(Reversal of)/provision for loss allowance on trade receivables	(268)	(47)	203	—	(112)
Fair value gains on derivative financial instruments	<u>(958)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(958)</u>

The segment information provided to the CODM for the reportable segments as at 31st December 2020 is as follows:

	Unaudited				
		Engineering			
	Trading	Colorants	plastic	Others	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	<u>392,720</u>	<u>341,097</u>	<u>163,434</u>	<u>140,539</u>	<u>1,037,790</u>
Segment liabilities	(75,235)	(37,525)	(28,687)	(3,425)	(144,872)
Segment borrowings	<u>(265,128)</u>	<u>(26,234)</u>	<u>(30,400)</u>	—	<u>(321,762)</u>
	<u>(340,363)</u>	<u>(63,759)</u>	<u>(59,087)</u>	<u>(3,425)</u>	<u>(466,634)</u>

The segment information provided to the CODM for the reportable segments for the six months ended 31st December 2019 is as follows:

	Unaudited				Group HK\$'000
	Trading HK\$'000	Colorants HK\$'000	Engineering plastic HK\$'000	Others HK\$'000	
Revenue from contracts with customers					
– Gross revenue	646,971	187,627	101,029	—	935,627
– Inter-segment revenue	(28,326)	(633)	(88)	—	(29,047)
Revenue from external customers	<u>618,645</u>	<u>186,994</u>	<u>100,941</u>	<u>—</u>	<u>906,580</u>
Operating (loss)/profit	<u>(10,539)</u>	<u>16,057</u>	<u>12,241</u>	<u>(1,212)</u>	<u>16,547</u>
Finance income	25	420	24	—	469
Finance costs	(8,363)	(776)	(520)	—	(9,659)
(Loss)/profit before income tax	<u>(18,877)</u>	<u>15,701</u>	<u>11,745</u>	<u>(1,212)</u>	<u>7,357</u>
Other information:					
Additions to non-current assets (other than financial instruments and deferred income tax assets)	195	2,128	964	—	3,287
Depreciation of property, plant and equipment	373	4,032	3,792	260	8,457
Depreciation of rights-of-use assets	225	1,973	105	39	2,342
Provision for impairment of inventories, net	2,784	501	—	—	3,285
Reversal of loss allowance on trade receivables	—	—	(140)	—	(140)
Fair value gains on derivative financial instruments	<u>(330)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(330)</u>

The segment information provided to the CODM for the reportable segments as at 30th June 2020 is as follows:

	Audited				Group <i>HK\$'000</i>
	Trading <i>HK\$'000</i>	Colorants <i>HK\$'000</i>	Engineering plastic <i>HK\$'000</i>	Others <i>HK\$'000</i>	
Segment assets	<u>424,868</u>	<u>296,882</u>	<u>132,536</u>	<u>140,553</u>	<u>994,839</u>
Segment liabilities	(91,706)	(29,958)	(13,530)	(3,747)	(138,941)
Segment borrowings	<u>(327,445)</u>	<u>(22,907)</u>	<u>(15,025)</u>	<u>—</u>	<u>(365,377)</u>
	<u>(419,151)</u>	<u>(52,865)</u>	<u>(28,555)</u>	<u>(3,747)</u>	<u>(504,318)</u>

The entity is domiciled in Hong Kong. The revenue from external customers from Hong Kong for the six months ended 31st December 2020 is approximately HK\$436,544,000 (2019: HK\$383,416,000) and the total of its revenue from external customers from other locations (mainly in Mainland China) is approximately HK\$515,443,000 (2019: HK\$523,164,000).

At 31st December 2020, the total of non-current assets other than financial instruments and deferred income tax assets located in Hong Kong is approximately HK\$171,550,000 (30th June 2020: HK\$175,586,000) and the total of these non-current assets located in other locations (mainly in Mainland China) is approximately HK\$129,091,000 (30th June 2020: HK\$118,131,000).

4 Other (losses)/gains, net

	Unaudited	
	Six months ended 31st December	
	2020	2019
	HK\$'000	HK\$'000
Net exchange loss	(3,286)	(183)
Gain on disposal of property, plant and equipment	—	114
Fair value gains from derivative financial instruments	958	330
Others	1,079	307
	<u>(1,249)</u>	<u>568</u>

5 Operating profit

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

	Unaudited	
	Six months ended 31st December	
	2020	2019
	HK\$'000	HK\$'000
Cost of inventories recognised as expenses included in cost of sales	755,021	754,314
Depreciation of property, plant and equipment	8,725	8,457
Depreciation of rights-of-use assets	2,366	2,342
Operating lease rentals in respect of land and buildings	3,356	3,516
Employee benefit expenses, including Directors' emoluments	67,670	51,726
Reversal of provision for loss allowance on trade receivables, net	(112)	(140)
Provision for impairment of inventories, net	896	3,285
Provision for claim related to a legal case	3,802	—
Gain on disposal of property, plant and equipment	—	(114)
Fair value gains on derivative financial instruments	(958)	(330)

Note: During the period, the Hong Kong Special Administrative Region Government has launched the "Employment Support Scheme" (ESS) providing wage subsidies to eligible subsidiaries of the Group. Government grants amounted to HK\$4,043,000 are deducted in the employee benefit expenses. There are no unfulfilled conditions or other contingencies attached to the grants.

6 Finance income and costs

	Unaudited	
	Six months ended 31st December	
	2020	2019
	HK\$'000	HK\$'000
Finance income:		
– Interest income from bank deposits	441	469
Finance costs:		
– Interests on bank borrowings wholly repayable within five years	(5,290)	(8,764)
– Interests on lease liabilities	(141)	(191)
– Net exchange gains/(losses) on financing activities	1,236	(704)
	(4,195)	(9,659)
Finance costs, net	(3,754)	(9,190)

7 Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2019: 16.5%) on the estimated assessable profit for the period. Income tax on the Group's subsidiaries established and operate in Mainland China 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	
	2020	2019
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	2,097	824
– Mainland China corporate income tax	7,967	3,431
	10,064	4,255
Deferred income tax	1,039	223
	11,103	4,478

8 Dividends

On 27th September 2019, the Directors resolved not to declare any final dividend for the year ended 30th June 2019.

On 27th February 2020, the Directors resolved not to declare any interim dividend for the period ended 31st December 2019.

On 29th September 2020, the Directors resolved not to declare any final dividend for the year ended 30th June 2020.

On 25th February 2021, the Directors declared an interim dividend of HK1.0 cent per share, totaling HK\$3,692,000 for the six months ended 31st December 2020.

On 25th February 2021, the Directors declared a special dividend of HK1.0 cent per share, totaling HK\$3,692,000 for the six months ended 31st December 2020.

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\$37,114,000 (2019: HK\$587,000) and 369,200,000 (2019: 369,200,000) ordinary shares in issue during the period.

Dilutive earnings per share for the period ended 31st December 2020 and 2019 equal basic earnings per share as there was no dilutive potential ordinary share as at the period ended 31st December 2020 and 2019.

10 Trade and bills receivables

	Unaudited 31st December 2020 HK\$'000	Audited 30th June 2020 HK\$'000
Trade receivables	253,001	175,944
Less: loss allowance	<u>(5,088)</u>	<u>(4,797)</u>
	247,913	171,147
Bills receivables	<u>28,663</u>	<u>24,098</u>
	<u>276,576</u>	<u>195,245</u>

At 31st December 2020, the aging analysis of trade receivables, based on invoice date, is as follows:

	Unaudited 31st December 2020 HK\$'000	Audited 30th June 2020 HK\$'000
Below 90 days	242,626	42,546
91-180 days	5,198	109,515
Over 180 days	<u>5,177</u>	<u>23,883</u>
	<u>253,001</u>	<u>175,944</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 2020, there are bills of exchange of HK\$12,845,000 (30th June 2020: HK\$16,584,000) 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 2020, the aging analysis of trade payables, based on invoice date, is as follows:

	Unaudited	Audited
	31st December	30th June
	2020	2020
	HK\$'000	HK\$'000
Below 90 days	75,187	85,622
91-180 days	221	1,279
Over 180 days	710	356
	76,118	87,257

12 Events after reporting period

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 7th May 2019, Wenling City People's Court of Zhejiang Province (the "Court") has made a judgement, ordering the customer to return the unused goods to the Group for a refund of the respective sales.

During the year ended 30th June 2020, the customer further lodged a claim amounted to approximately RMB5,000,000 (equivalent to approximately HK\$5,952,000) in respect of originally closed claim disclosed as above. Following the hearing on 19th January 2021, the court has made its judgement on 29th January 2021, holding the Group liable to pay the customer compensation amounted to RMB3,193,000 (equivalent to approximately HK\$3,802,000). As at 31st December 2020, a full provision against such compensation has been made by the Group.

The Directors intended to lodge an appeal to the Court. As at the date of this report, no further court hearing has been held.

INTERIM AND SPECIAL DIVIDENDS

The Directors are pleased to declare an interim dividend of Hong Kong 1.0 cent per share for the six months ended 31st December 2020 to members whose names appear on the Register of Members on 26th March 2021. As a reward to the shareholders for their continuous support, having considered the business, financial and cash flow position of the Group, the Directors have also declared a special dividend of Hong Kong 1.0 cent per share for the six months ended 31st December 2020 to members whose names appear on the Register of Members on 26th March 2021. The interim dividend and the special dividend will be paid on or before 12th April 2021.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 24th March 2021 to Friday, 26th March 2021 (both dates inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend and the special dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 4:00 p.m. on Tuesday, 23rd March 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the second half of 2020, the COVID-19 pandemic continued spreading across the world and disabled global economies from returning to normal. However, stabilised oil prices and increased demand for raw materials became conducive to rising plastic material prices. Furthermore, with the pandemic brought under control and with the implementation of the inner circulation policy in Mainland China, the release of demand and resumption of production and exports grew faster than expected. As domestic consumption began to heat up, Mainland China's economy posted gradual recovery. International capital inflows to Mainland China led to the Renminbi exchange rate's appreciation. Riding on the boost from related short-term favourable factors, the sales performance of the Group's customers gradually returned to normal and their orders increased. As a result, the Group's business improved steadily. For the six months ended 31st December 2020, the Group's total turnover amounted to HK\$951,987,000 (2019: HK\$906,580,000), 5% higher than the previous year.

In addition to the improved operating environment during the period, the Group effectively implemented the strategy of continuously optimising its product mix, exerting greater efforts in clearing inventory and streamlining costs. Hence, the overall gross profit spiked by 44% to HK\$150,875,000 (2019: HK\$104,763,000) while the gross profit margin rose by 4.3 percentage points to 15.8% compared to the level in the last cooresponding period. Profit attributable to the Company's equity holders increased by 63.2 times to HK\$37,114,000 (2019: HK\$587,000). Basic earnings per share were HK10.05 cents (2019: HK0.16 cents).

To reward shareholders for their unwavering support, the Board of Directors (“the “Board”) recommended the payment of an interim dividend of HK1.0 cent per share (2019: Nil) and a special dividend of HK1.0 cent per share.

Despite challenges during the period, domestic consumption was fully restored, driven by the inner circulation policy. Moreover, increasing public awareness to hygiene due to the pandemic outbreak boosted surging demand for post-pandemic products, such as medical devices and air filter systems, generating more orders for the Group’s plastic material trading business. Consequently, turnover grew by 5.5% to HK\$652,386,000 compared to the same period last year, making it the most improved performer among three major businesses during the interim period. Apart from maintaining close ties with existing customers and continuously producing electrical appliances and traditional automobiles to bring stable orders, the Group also provided materials to the developers of smart products, household goods and high-end kitchenware to open up income sources. Rising oil prices resulted in growing demand for raw materials, thereby leading to increasing plastic material prices. Due to the Group’s effective reduction and control of inventory, inventory level has improved. Gross profit margin climbed by 3.6 percentage points compared to the same period in the previous year.

During the period under review, the work-from-home mode in different countries across the world that encouraged citizens to stay home and to go out less became the new normal, thus reshaping people’s way of living and driving up the continued increase in demand for general home appliances such as kitchenware. Facing changes in consumers’ consumption categories and habits, the Group’s export customers also changed their sales strategy and shifted to the export of high-end kitchenware, such as cooking utensils, coffee machines and ovens for baking cakes and bread, in order to explore new income streams. Meanwhile, the Group also flexibly modified its existing product portfolio to meet the huge order demand from customers. As a result, turnover of the engineering plastic product business jumped by 21.5% to HK\$122,640,000. With the reduction of the Group’s inventory due to rising plastic material prices, as well as the effective cost control measures, gross profit margin grew by 4.3 percentage points and profit before taxation surged by 44.2% to HK\$16,938,000 when compared to the same period in the previous year. Apart from maintaining its orders from internationally-renowned brands, the Group continued to enrich its product portfolio, leverage its business advantages, focus on promoting higher-margin products, and actively approach and engage in discussions with end customers, all in a bid to explore new income streams and expand its customer base. By capitalising on its industry experience of more than 50 years and excellent reputation, the Group is set to secure more orders and broaden its existing customer portfolio.

The pandemic has caused delays in the date of completion of various property projects. These delays, coupled with short-term demand for food packaging and basic necessities gradually returning to normal level, have led to a drop in the turnover of the colorants, pigments and compounded plastic resins segment to HK\$176,961,000 during the period. However, with the rise in plastic material prices, its gross profit margin increased by 4.8 percentage points, while profit before taxation was maintained at a similar level as that during the same period in the previous year. With the market undergoing consolidation in which only competent enterprises are able to survive, small enterprises, engaged in low-end manufacturing businesses with relatively lower cost control ability and lower technical standards, have been acquired and phased out. In this regard, the Group will continue implementing its proven business strategies and centralise resources in the production of high-end sanitary and electronic products. It will also raise the production capacity of its factories to secure high gross profit margin orders and maintain stable business development.

PROSPECTS

The world's economy is expected to recover with the launch of COVID-19 vaccines and the conclusion of the US presidential election. Looking ahead to the first half of 2021, Mainland China will continue focusing on the “domestic circulation” development strategy and rely on strong domestic demand to support economic recovery. Europe and the US will continue to be affected by the pandemic, making global economic growth prospects highly uncertain. If no widespread outbreak recurs going forward, the Group expects to see stable business development in the first half of 2021. The management is also cautiously optimistic in the Group's long term development.

As the post-COVID-19 new normal emerges, the Group believes kitchenware will become its growth driver in the future, particularly those which employ high-production technologies that will grab market attention. In addition to producing traditional products, the Group will draw on its corporate advantage and years of extensive industry experience to invest in resources that will advance high-end production technologies, including electric vehicles and other new energy vehicles-related products so as to further optimise its product mix.

Various real estate market data continued to improve at the end of last year according to the “National Real Estate Development and Sales in January to December 2020” issued by the National Bureau of Statistics. It is expected that the property market to gradually rebound in 2021, with annual growth rate estimated between 5% and 10% that will be favourable to the Group's sales of quality sanitary products.

As for cost control, the Group will continue implementing stringent cost control measures, including improving financing methods to maintain the existing low borrowing level and reducing administrative and distribution fees and production costs. It will also enhance overall administrative efficiency by sharing internal resources to achieve greater synergies and a solid financial position.

The Group was able to alleviate the pandemic's negative impact with the strong support of its management team and customers, as well as the diligence and contribution of all staff. I would like to extend to them my sincerest appreciation. As always, the Group will continue exerting relentless efforts to achieve long-term and stable growth as well as generate long-term returns for 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 2020, the Group has available aggregate bank loan facilities of approximately HK\$646,167,000 of which HK\$324,820,000 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 Mainland China and Hong Kong owned by the Group. The Group's cash and bank balances as at 31st December 2020 amounted to approximately HK\$155,639,000. The Group's gearing ratio as at 31st December 2020 was approximately 59%, based on the total bank borrowings of approximately HK\$321,762,000 and the shareholders' funds of approximately HK\$545,184,000.

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 2020, the Group had outstanding forward foreign exchange contracts mainly to purchase US dollars. The maximum notional principal amounts of these outstanding forward foreign exchange contracts at 31st December 2020 were as follows:

	2020 <i>HK\$'000</i>
Sell HK dollars for US dollars	<u>185,640</u>

EMPLOYEE INFORMATION

As at 31st December 2020, the Group employed a total of approximately 620 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 2020, 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. CHING Yu Lung and Mr. YU Chi Kwong 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. CHING Yu Lung and Mr. YU Chi Kwong.

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 2020 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. CHING Yu Lung and Mr. YU Chi Kwong 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. CHING Yu Lung and Mr. YU Chi Kwong.

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, 25th February 2021

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. CHING Yu Lung and Mr. YU Chi Kwong.