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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 2021

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 2021 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Six months ended 31st December	
		2021 HK\$'000	2020 HK\$'000
Revenue from contracts with customers	3	931,125	951,987
Cost of sales		(770,502)	(801,112)
Gross profit		160,623	150,875
Rental income		3,848	3,676
Other losses, net	4	(193)	(1,249)
Distribution costs		(45,872)	(40,272)
Administrative expenses		(65,961)	(57,571)
Operating profit	5	52,445	55,459
Finance income	6	507	441
Finance costs	6	(3,691)	(4,195)
Finance costs, net		(3,184)	(3,754)
Profit before income tax		49,261	51,705
Income tax expense	7	(10,881)	(11,103)
Profit for the period		38,380	40,602

		Unaudited	
		Six months ended	
		31st December	
		2021	2020
Note		<i>HK\$'000</i>	<i>HK\$'000</i>
Attributable to:			
	Equity holders of the Company	33,979	37,114
	Non-controlling interests	4,401	3,488
		<u>38,380</u>	<u>40,602</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>9.20</u>	<u>10.05</u>
	– Diluted	9 <u>9.20</u>	<u>10.05</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended	
	31st December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	38,380	40,602
Other comprehensive income:		
<u>Item that will not be reclassified subsequently to</u>		
<u>income statement:</u>		
Fair value gain of financial asset at fair value through		
other comprehensive income (“FVOCI”)	188	—
<u>Item that may be reclassified subsequently to</u>		
<u>income statement:</u>		
Currency translation differences	14,820	43,745
Other comprehensive income for the period	15,008	43,745
Total comprehensive income for the period	53,388	84,347
Total comprehensive income attributable to:		
Equity holders of the Company	48,558	79,862
Non-controlling interests	4,830	4,485
	53,388	84,347

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 31st December 2021 <i>HK\$'000</i>	Audited 30th June 2021 <i>HK\$'000</i>
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment		115,384	113,126
Right-of-use assets		24,528	27,107
Investment properties		155,644	155,013
Financial assets at fair value through other comprehensive income		2,414	2,226
Deferred income tax assets		11,353	8,132
Prepayments		4,785	3,458
		314,108	309,062
		314,108	309,062
Current assets			
Inventories		271,411	238,324
Trade and bills receivables	10	234,274	276,823
Other receivables, prepayments and deposits		46,631	32,240
Income tax recoverable		560	784
Restricted bank deposits		39,466	38,344
Cash and bank balances		248,014	206,579
		840,356	793,094
		840,356	793,094
Total assets		1,154,464	1,102,156

		Unaudited 31st December 2021 <i>HK\$'000</i>	Audited 30th June 2021 <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		75,310	60,731
Retained earnings		447,511	428,300
		<u>622,207</u>	<u>588,417</u>
Non-controlling interests		<u>28,560</u>	<u>31,727</u>
Total equity		<u><u>650,767</u></u>	<u><u>620,144</u></u>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		4,676	4,496
Lease liabilities		3,125	4,014
Provision for reinstatement costs		23	23
		<u>7,824</u>	<u>8,533</u>
Current liabilities			
Trade payables	11	69,072	78,252
Other payables, deposits received and accruals		61,796	57,655
Lease liabilities		3,021	4,784
Bank borrowings		347,271	319,708
Derivative financial instruments		—	23
Income tax payable		14,713	13,057
		<u>495,873</u>	<u>473,479</u>
Total liabilities		<u><u>503,697</u></u>	<u><u>482,012</u></u>
Total equity and liabilities		<u><u>1,154,464</u></u>	<u><u>1,102,156</u></u>
Net current assets		<u><u>344,483</u></u>	<u><u>319,615</u></u>
Total assets less current liabilities		<u><u>658,591</u></u>	<u><u>628,677</u></u>

1 Basis of preparation

The condensed consolidated interim financial information for the six months ended 31st December 2021 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 2021, 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 2021, 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 HKAS 39, HKFRS 4,
HKFRS 7, HKFRS 9 and HKFRS 16

Interest Rate Benchmark Reform - Phase 2

Amendments to HKFRS 16

COVID-19 Related Rent Concessions beyond 30th June
2021

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 2021 and have not been early adopted:

Amendments to HKFRS 3	Reference to the Conceptual Framework ¹
Annual improvements to HKFRSs 2018-2020 cycle	Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41 ¹
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended Use ¹
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract ¹
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combination ¹
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ²
HKFRS 17 and Amendments to HKFRS 17	Insurance Contracts ²
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ²
Amendments to HKAS 8	Definition of Accounting Estimates ²
Amendments to HKAS 12	Deferred tax related to assets and liabilities arising from a single transaction ²
Amendments to Hong Kong Interpretation 5	Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³

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

⁽²⁾ Effective for annual periods beginning on or after 1st January 2023

⁽³⁾ To be determined

The Group has commenced, but not yet completed, an assessment of the impact of the new standards and amendments to standards on its results of operations and financial position. However, none of the above new standards and amendments to standards is expected to have a significant effect on the Group's financial performance and position.

3 Revenue from contracts with customers and segment information

	Unaudited	
	Six months ended 31st December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from contracts with customers		
Sales of goods	<u>931,125</u>	<u>951,987</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 2021 is as follows:

	Unaudited				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>	
Revenue from contracts with customers					
– Gross revenue	634,696	188,352	142,942	—	965,990
– Inter-segment revenue	(32,428)	(2,231)	(206)	—	(34,865)
Revenue from external customers	<u>602,268</u>	<u>186,121</u>	<u>142,736</u>	<u>—</u>	<u>931,125</u>
Operating profit/(loss)	<u>29,183</u>	<u>1,031</u>	<u>23,650</u>	<u>(1,419)</u>	<u>52,445</u>
Finance income	221	224	62	—	507
Finance costs	(2,918)	(351)	(422)	—	(3,691)
Profit/(loss) before income tax	<u>26,486</u>	<u>904</u>	<u>23,290</u>	<u>(1,419)</u>	<u>49,261</u>
Other information:					
Additions to non-current assets (other than financial instruments and deferred income tax assets)	468	5,619	3,931	145	10,163
Depreciation of property, plant and equipment	318	5,231	3,863	254	9,666
Depreciation of rights-of-use assets	239	2,633	—	39	2,911
(Reversal of)/provision for impairment of inventories, net	(654)	4,306	(369)	—	3,283
(Reversal of)/provision for loss allowance on trade receivables, net	<u>(166)</u>	<u>1,064</u>	<u>(133)</u>	<u>—</u>	<u>765</u>

The segment information provided to the CODM for the reportable segments as at 31st December 2021 is as follows:

	Unaudited				
	Engineering				
	Trading	Colorants	plastic	Others	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets	<u>426,820</u>	<u>389,654</u>	<u>195,532</u>	<u>142,458</u>	<u>1,154,464</u>
Segment liabilities	(78,215)	(41,020)	(33,551)	(3,640)	(156,426)
Segment borrowings	<u>(313,569)</u>	<u>(8,305)</u>	<u>(25,397)</u>	<u>—</u>	<u>(347,271)</u>
	<u>(391,784)</u>	<u>(49,325)</u>	<u>(58,948)</u>	<u>(3,640)</u>	<u>(503,697)</u>

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, net	(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 30th June 2021 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>396,127</u>	<u>367,330</u>	<u>196,950</u>	<u>141,749</u>	<u>1,102,156</u>
Segment liabilities	(88,863)	(37,487)	(32,256)	(3,698)	(162,304)
Segment borrowings	<u>(272,504)</u>	<u>(9,524)</u>	<u>(37,680)</u>	<u>—</u>	<u>(319,708)</u>
	<u>(361,367)</u>	<u>(47,011)</u>	<u>(69,936)</u>	<u>(3,698)</u>	<u>(482,012)</u>

The entity is domiciled in Hong Kong. The revenue from external customers from Hong Kong for the six months ended 31st December 2021 is approximately HK\$411,802,000 (six months ended 31st December 2020: HK\$436,544,000) and the total of its revenue from external customers from other locations (mainly in Mainland China) is approximately HK\$519,323,000 (six months ended 31st December 2020: HK\$515,443,000).

At 31st December 2021, the total of non-current assets other than financial instruments and deferred income tax assets located in Hong Kong is approximately HK\$170,684,000 (as at 30th June 2021: HK\$176,983,000) and the total of these non-current assets located in other locations (mainly in Mainland China) is approximately HK\$129,657,000 (as at 30th June 2021: HK\$121,721,000).

4 Other losses, net

	Unaudited	
	Six months ended	
	31st December	
	2021	2020
	HK\$'000	HK\$'000
Net exchange loss	(1,395)	(3,286)
Fair value gains from derivative financial instruments	—	958
Others	1,202	1,079
	<u>1,202</u>	<u>1,079</u>
	<u>(193)</u>	<u>(1,249)</u>

5 Operating profit

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

	Unaudited	
	Six months ended	
	31st December	
	2021	2020
	HK\$'000	HK\$'000
Cost of inventories recognised as expenses included in cost of sales	723,785	755,021
Depreciation of property, plant and equipment	9,666	8,725
Depreciation of rights-of-use assets	2,911	2,366
Short-term lease rentals in respect of land and buildings	3,030	3,356
Employee benefit expenses, including Directors' emoluments (Note i)	69,081	67,670
Provision for/(reversal of) loss allowance on trade receivables, net	765	(112)
Provision for impairment of inventories, net	3,283	896
Provision for claim related to a legal case (Note ii)	—	3,802
Fair value gains on derivative financial instruments	—	(958)
	<u>723,785</u>	<u>755,021</u>
	<u>9,666</u>	<u>8,725</u>
	<u>2,911</u>	<u>2,366</u>
	<u>3,030</u>	<u>3,356</u>
	<u>69,081</u>	<u>67,670</u>
	<u>765</u>	<u>(112)</u>
	<u>3,283</u>	<u>896</u>
	<u>—</u>	<u>3,802</u>
	<u>—</u>	<u>(958)</u>

Notes:

- (i) During the six months ended 31st December 2020, the Hong Kong Special Administrative Region Government has launched the "Employment Support Scheme" ("ESS") providing wage subsidies to eligible subsidiary 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 contingents attached to the grants.
- (ii) In accordance with a judgement dated 29th January 2021 from Wenling City People's Court of Zhejiang Province, the Group was held liable to pay a customer compensation amounted to RMB3,193,000 (equivalent to approximately HK\$3,802,000). Full provision against such amount has been made.

6 Finance income and costs

	Unaudited	
	Six months ended	
	31st December	
	2021	2020
	HK\$'000	HK\$'000
Finance income:		
– Interest income from bank deposits	507	441
Finance costs:		
– Interests on bank borrowings wholly repayable within five years	(3,514)	(5,290)
– Interests on lease liabilities	(173)	(141)
– Net exchange (losses)/gains on financing activities	(4)	1,236
	<u>(3,691)</u>	<u>(4,195)</u>
Finance costs, net	<u>(3,184)</u>	<u>(3,754)</u>

7 Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (six months ended 31st December 2020: 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	
	2021	2020
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	1,985	2,097
– Mainland China corporate income tax	11,813	7,967
	<u>13,798</u>	<u>10,064</u>
Deferred income tax	<u>(2,917)</u>	<u>1,039</u>
	<u>10,881</u>	<u>11,103</u>

8 Dividends

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

On 28th September 2021, the Directors proposed a final dividend of HK1.0 cent per share, totalling HK\$3,692,000 for the year ended 30th June 2021, which was paid during the period ended 31st December 2021.

On 28th September 2021, the Directors proposed a special dividend of HK3.0 cents per share, totalling HK\$11,076,000 for the year ended 30th June 2021, which was paid during the period ended 31st December 2021.

On 24th February 2022, the Directors declared an interim dividend of HK1.5 cents per share, totalling HK\$5,538,000 for the six months ended 31st December 2021.

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\$33,979,000 (six months ended 31st December 2020: HK\$37,114,000) and 369,200,000 (six months ended 31st December 2020: 369,200,000) ordinary shares in issue during the period.

Dilutive earnings per share for the period ended 31st December 2021 and 2020 equal basic earnings per share as there was no dilutive potential ordinary share as at the period ended 31st December 2021 and 2020.

10 Trade and bills receivables

	Unaudited 31st December 2021 HK\$'000	Audited 30th June 2021 HK\$'000
Trade receivables	220,829	248,141
Less: loss allowance	<u>(5,644)</u>	<u>(4,770)</u>
	215,185	243,371
Bills receivables	<u>19,089</u>	<u>33,452</u>
	<u>234,274</u>	<u>276,823</u>

At 31st December 2021, the aging analysis of trade receivables, based on invoice date, is as follows:

	Unaudited 31st December 2021 HK\$'000	Audited 30th June 2021 HK\$'000
Below 90 days	202,871	242,905
91-180 days	10,927	791
Over 180 days	<u>7,031</u>	<u>4,445</u>
	<u>220,829</u>	<u>248,141</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 2021, there are bills of exchange of HK\$9,627,000 (as at 30th June 2021: HK\$11,031,000) 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 2021, the aging analysis of trade payables, based on invoice date, is as follows:

	Unaudited	Audited
	31st December	30th June
	2021	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Below 90 days	67,561	76,975
91-180 days	59	367
Over 180 days	1,452	910
	<hr/> 69,072 <hr/>	<hr/> 78,252 <hr/>

INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of Hong Kong 1.5 cents per share for the six months ended 31st December 2021 to members whose names appear on the Register of Members on 25th March 2022. The interim dividend will be paid on or before 11th April 2022.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 23rd March 2022 to Friday, 25th March 2022 (both dates inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 4:00 p.m. on Tuesday, 22nd March 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the second half of 2021, the COVID-19 pandemic prevailed worldwide and the Covid variants Delta and Omicron emerged and impeded economic recovery. At the same time, international shipping had yet to return to normal because of the pandemic. That coupled with high international crude oil price caused plastic material prices to also hover high. Given the uncertain economic outlook, overall sales volume of the Group declined year-on-year. For the six months ended 31st December 2021, the Group's total turnover was HK\$931,125,000 (2020: HK\$951,987,000), a slight 2.2% less than that of the same period last year.

During the period, the Group adjusted the prices of certain products and continued to optimise its product mix plus strengthened the cost control. At those efforts, overall gross profit of the Group climbed 6.5% to HK\$160,623,000 (2020: HK\$150,875,000) and gross profit margin rose by 1.4 percentage points year-on-year to 17.3%.

Plastic prices started trending up in the fourth quarter of 2020 till mid-2021 and remained relatively high in the second half of 2021. In 2020, the Chinese Government provided corporate social security expense concessions amid the pandemic, and rental for leased factories was also partially waived. However, as such moves ended in the period under review, costs of the Group mounted. Facing also risen salary costs and some production lines not operating in full due to the pandemic, the Group's operating costs surged notably year-on-year in the second half of 2021. Profit attributable to the Company's equity holders decreased by 8.4% to approximately HK\$33,979,000 (2020: HK\$37,114,000). Basic earnings per share were HK9.20 cents (2020: HK10.05 cents).

To reward shareholders for their unwavering support, the Board of Directors ("the "Board") has recommended payment of an interim dividend of HK1.5 cents per share (2020: an interim dividend of HK1.0 cent per share and a special dividend of HK1.0 cent per share).

During the period under review, there were international shipping delays every now and then, affecting stability of the global supply chain. Sales volume of the Group's plastic material trading business was also affected, with turnover was down by 7.7% to HK\$602,268,000 (2020: HK\$652,386,000) for the period under review. However, prompted by the pandemic outbreak, public health and hygiene awareness has increased and, as such, demand for post-pandemic products such as medical devices and air filter systems remained stable. At the same time, the Group moderately adjusted product prices and managed to transfer part of the costs, and its sales team also succeeded in expanding the Group's clientele. Thus, in the second half of 2021, orders came in for new projects involving such as next generation new energy vehicles and high-end small personal care appliances. With operating costs relatively stable, the gross profit margin of plastic material trading business increased by 2.7 percentage points year-on-year. Profit before taxation of the business also increased, by 30% year-on-year, to HK\$26,486,000 (2020: HK\$20,367,000).

As for engineering plastic product business, driven by orders from new customers, saw turnover increased by 16.4% year-on-year to HK\$142,736,000 (2020: HK\$122,640,000). However, with raw material prices lingering high, gross profit margin of the business dropped by a slight 0.8 percentage point. Nonetheless, at the Group's stringent cost control measures, profit before tax of the business increased by 37.5% year-on-year to HK\$23,290,000 (2020: HK\$16,938,000), which was satisfactory. With various countries implementing different pandemic prevention measures, many companies have adopted flexible work-from-home arrangements, which has greatly increased the time consumers spend at home and that in turn has stimulated demand for general household electrical appliances such as kitchenware. Spotting the trend, the Group started in the previous financial year, to tap the high-end kitchenware market the promises higher gross profit. In the second half of 2021, the Group continued to enrich its product portfolio and increased R&D investment and efforts at the Dongguan base to develop more product formulas for high-end kitchenware, so as to meet the orders of customers with more diverse demands.

On the contrary, the colorant, pigment and compounded plastic resin business was affected by cost hike in the period under review. Although its turnover increased by 5.2% year-on-year to HK\$186,121,000 (2020: HK\$176,961,000), gross profit margin was down by 4.5 percentage points and profit before tax also fell, by 94.1%, to HK\$904,000 (2020: HK\$15,372,000). The notable increase in costs was mainly due to the five factories serving the business needed more human resources, and the absence of the corporate social security expense concession from the Mainland China Government and the rental concession for leased factories during the period. Also, as some factories had to temporarily suspend work due to COVID-19 and employees had to work overtime subsequently to catch up with production schedule, additional expenses were incurred. All of the above led to higher costs. During the period under review, the Group continued to focus on increasing production of high-end sanitary products and electronic products, and expanding the production capacity of various factories so that it might secure high-gross-profit-margin orders and maintain stable business development.

PROSPECTS

International oil prices are still high, and with the pandemic prevailing and uncertain, international shipping schedules have not returned to normal and raw material market supply has remained tense. The Group expects "internal circulation" to continue to be the mainstream tactic in the mainland market and sees the world overall to still be overshadowed by the pandemic with the Delta and Omicron variants spreading. At the same time, as the interest rate hike cycle in Europe and the US is about to begin, the Group expects overseas customers to adopt a more prudent ordering strategy in coping with the current economic environment.

Although high international oil prices have caused prices of plastic raw materials to stay high, the Group is prepared to ward off and manage related risks, including controlling inventory level and maintaining a strong capital position to greet challenges as well as opportunities in 2022. In the past two years, the Group secured more new customers, involving such as higher added-value and high margin products like high-end kitchenware and smart devices. In the future, the Group will explore opportunities of connecting directly with end-customers and actively look for business opportunities in related areas.

Moreover, the Group will step up research and development efforts. On top of enhancing product quality, it will actively match the needs of different customers and develop advanced high-end production technologies, to the ends of optimising its product portfolio and bolstering overall gross profit margin. As for cost control, it will actively improve overall administrative and operational efficiency, continuously implement stringent cost control measures, including reducing administrative and distribution fees and production costs. Furthermore, it is also preparing for the upcoming interest rate hike cycle, with plans to discuss with more banks on options to reduce interest expenses, such as participating in green finance.

The Group was able to mitigate the pandemic's impact on its businesses and deliver stable performance for the period under review, thanks to the strong support of the management team and customers, as well as the diligence and contribution of all staff. As always, it will continue to operate and develop businesses with a prudent and active approach, and do its utmost to achieve the primary goals of assuring long-term business development and maximising returns to shareholders to reward all stakeholders for their trust and 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 2021, the Group has available aggregate bank loan facilities of approximately HK\$556,146,000 of which HK\$375,325,000 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 2021 amounted to approximately HK\$248,014,000. The Group's gearing ratio as at 31st December 2021 was approximately 55.8%, based on the total bank borrowings of approximately HK\$347,271,000 and the shareholders' funds of approximately HK\$622,207,000.

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 2021, the Group did not have any outstanding forward foreign exchange contracts.

EMPLOYEE INFORMATION

As at 31st December 2021, the Group employed a total of approximately 623 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 2021, 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 results announcement, the Board has not appointed any individual to be the chief executive. The roles of the chief executive have been performed collectively by all the executive directors, including the chairman, of the Company. The Board considers that this arrangement allows contributions from all executive directors with different expertise and is beneficial to the continuity of the Company’s policies and strategies. Going forward, the Board will periodically review the effectiveness of this arrangement and considers appointing an individual 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 2021 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, 24th February 2022

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.