



NGAI HING HONG COMPANY LIMITED

(Incorporated in Bermuda with Limited Liability)

(Stock Code: 1047)

Website: <http://www.nhh.com.hk>

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30TH JUNE 2004

The Board of Directors of Ngai Hing Hong Company Limited (the "Company") would like to announce the audited results of the Company and its subsidiaries (the "Group") for the year ended 30th June 2004 as follows:

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	1	1,017,775	874,976
Cost of sales		<u>(907,534)</u>	<u>(749,513)</u>
Gross profit		110,241	125,463
Other revenues		818	611
Distribution costs		(28,204)	(27,010)
Administrative expenses		<u>(60,529)</u>	<u>(52,337)</u>
Operating profit	2	22,326	46,727
Finance costs	3	<u>(2,815)</u>	<u>(1,450)</u>
Profit before taxation		19,511	45,277
Taxation	4	<u>(4,762)</u>	<u>(2,450)</u>
Profit after taxation		14,749	42,827
Minority interests		<u>(1,470)</u>	<u>(2,365)</u>
Profit attributable to shareholders		<u>13,279</u>	<u>40,462</u>
Dividends			
Interim dividend paid at HK\$0.01 (2003: HK\$0.03) per share		3,000	9,000
Final dividend proposed at HK\$0.02 (2003: HK\$0.05) per share		6,000	15,000
		<u>9,000</u>	<u>24,000</u>
Earnings per share	6	HK cents 4.43	HK cents 13.49

Notes:

1. Turnover

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

	Turnover		Segment results	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	920,744	825,981	7,776	18,310
The People's Republic of China excluding Hong Kong (the "PRC")	224,576	233,977	13,540	28,501
Less: elimination	<u>(127,545)</u>	<u>(184,982)</u>	<u>-</u>	<u>-</u>
	<u>1,017,775</u>	<u>874,976</u>	<u>21,316</u>	<u>46,811</u>

Turnover and segment results are presented based on the operating locations of group companies.

Over 90% of the Group's turnover and operating profit are attributable to the manufacturing and trading of plastic materials and accordingly no analysis of the Group's turnover and contribution to operating profit by business segment is provided.

2. Operating profit

Operating profit is stated after charging:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation:		
Owned fixed assets	10,604	7,705
Leased fixed assets	<u>2,380</u>	<u>692</u>

3. Finance costs

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	2,294	1,783
Interest element of finance leases	<u>521</u>	<u>167</u>
	2,815	1,950
Less: borrowing costs capitalised in properties under development	<u>-</u>	<u>(500)</u>
	<u>2,815</u>	<u>1,450</u>

4. Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation:		
Hong Kong profits tax	2,260	1,672
PRC income tax	2,500	-
Under/(over) provision in previous years	<u>71</u>	<u>(20)</u>
	4,831	1,652
Deferred taxation	<u>(69)</u>	<u>798</u>
	<u>4,762</u>	<u>2,450</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates. The Group's subsidiaries operating in the PRC are fully exempted from PRC income tax for two years starting from their first profit-making years and are entitled to a 50% income tax reduction for a further three years.

5. Movements in investment properties revaluation reserve

During the year, the surplus arising on revaluation of the investment properties as at 30th June 2004 amounted to HK\$1,431,000 (2003: HK\$1,300,000) was taken to the investment properties revaluation reserve.

6. Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to the shareholders of HK\$13,279,000 (2003: HK\$40,462,000) and 300,000,000 (2003: 300,000,000) ordinary shares in issue during the year. No diluted earnings per share is presented as there is no dilutive potential ordinary share during the year.

DIVIDEND

The directors have resolved to recommend the payment of a final dividend of HK2.0 cents per share for the year ended 30th June 2004 (2003: HK5.0 cents). The proposed final dividend, together with the interim dividend of HK1.0 cent (2003: HK3.0 cents) paid on 16th April 2004, will make a total distribution of HK3.0 cents per share for the year. The proposed final dividend, if approved at the forthcoming Annual General Meeting, will be payable in cash on or about 10th December 2004 to members whose names appear on the Register of Members of the Company on 1st December 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 29th November 2004 to Wednesday, 1st December 2004 (both dates inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Registrars in Hong Kong, Abacus Share Registrars Limited, G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Friday, 26th November 2004.

BUSINESS REVIEW

2004 marks the 10th anniversary of the Group's listing in Hong Kong. Over the past decade, Ngai Hing Hong has managed to seize the many sprouting business opportunities in the market and achieve quick and robust growth. Its consolidated turnover for the year shot through the HK\$1 billion threshold.

The past year was challenging for the Group. The outbreak of the bird flu, the introduction of economic austerity measures in China and the increase in costs of raw materials triggered by the persistently high crude oil price had adversely affected the business environment in Asia. However, with a rock solid foundation and focused business strategies, the Group not only was able to rise above the different challenges, but also turned them into opportunities. During the year, the Group kicked off one important investment, paving the way for the Group's future growth.

During the year, the Group succeeded in expanding into a new business - the manufacture and sale of PVC compounds. In May 2004, our new plant in Dongguan

commenced operation to provide to both the overseas and domestic markets PVC compounds for use in the production of electrical wires and cables, sockets and toys. The Group expects this new business segment to emerge as a strong growth driver and start contributing profit in the coming financial year. Through implementing aggressive sales and marketing strategies, the Group successfully broadened its customer base and achieved significant growth in both orders and sales price, increasing the Group's consolidated turnover by 16.3% over that of last year.

Having to weather the substantial increase in the costs of raw materials brought on by the surge in crude oil price, plus the deployment of extra resources into the new plant and in developing the new PVC business, the Group's production and operating costs increased and its overall profit margin narrowed during the year. However, the Group has full confidence that the returns from the new business and new customers will be fully reflected in its results in the coming financial year. In addition, the Group made strategic efforts during the year to expand its production capacity and sales network. These efforts, which included the establishment of new plants in Shanghai and Hong Kong and a new office in Xiamen, are expected to bear fruit in the coming year.

During the period under review, the Group's high margin engineering plastics manufacturing segment reported outstanding performance. Rising market demand for engineering plastics plus the Group's stringent product quality control underscored the persistently strong customer demand for the Group's products, and the strong demand translated into continuous turnover growth. As for the colourants business, riding on the keen market demand for film grade masterbatches, the Group secured many new customers and recorded steady growth in turnover from the business segment.

During the year, the Group's plastics trading business recorded significant growth in turnover, with Ngai Hing (GZFTZ) Trading Co., Ltd. ("NHGZ") in Guangzhou reporting satisfactory performance. Besides actual financial returns, NHGZ also embodies the Group's determination to expand its business in the PRC market, helping the Group to broaden its customer networks in Southern China and cementing the Group's foundation for long-term development in the market.

PROSPECTS

Although the global economy has yet to fully rebound, it has been recovering at a pace quicker than expected. In the light of continuous improvement in the global economy and consumption sentiment, the Group is optimistic about its prospects in the coming year. Looking forward, the Group will focus on expanding its customer base and trimming production costs so as to achieve maximum production efficiency and economies of scale while at the same time meeting immense market demand for plastics products.

The Group sees vast growth potential in the PRC market and economy. It will actively seek to capture this important market in the coming years leveraging the Closer Economic Partnership Arrangement (CEPA) signed recently between Mainland China and Hong Kong. To ensure continuing optimum returns from the PRC market, the Group will strive to fully exploit its resources in Guangzhou and Shanghai. The move will allow it to further expand its business in the burgeoning China market, in particular eastern China, and to boost its existing competitive advantages.

Meanwhile, to ensure steady business growth, the Group is committed to stepping up its R&D efforts and has scheduled to set up a new R&D center in Shanghai by 2005. It will also continue to recruit professionals with extensive industrial and technical knowledge to assist the development of more innovative products. The Group is dedicated to providing customers with the highest quality products and premium value-added services, which it believes will help to strengthen its competitiveness in the market and expand its income sources.

With the Group's new plant progressing into full operation during the year, both the Group's overall production capacity and potential for growth were significantly enhanced. Looking ahead, the Group will continue to use its best endeavour to exercise stringent costs control to increase cost efficiencies in production. The Group will also forge ahead with its promising new PVC compounds business, which is expected to broaden the Group's income base and bump up its overall results in the next financial year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cashflow and banking facilities provided by its principal bankers. As at 30th June 2004, the Group has available aggregate bank loan facilities of approximately HK\$173,370,000, of which HK\$123,431,000 have been utilised and were secured by corporate guarantee issued by the Company and legal charges on certain leasehold land and buildings in the PRC and Hong Kong owned by the Group. The Group's cash and bank balances and short term bank deposits as at 30th June 2004 amounted to approximately HK\$51,303,000. The Group's gearing ratio as at 30th June 2004 was approximately 49.7 per cent., based on the total bank borrowings of approximately HK\$123,431,000, together with obligations under finance leases of HK\$18,663,000 and the shareholders' funds of approximately HK\$286,184,000.

FOREIGN EXCHANGE RISK

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

At 30th June 2004, the Group had maximum outstanding commitments in respect of forward contracts in order to hedge the Group's exposure in foreign currencies from its operations as follows:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sell HK dollars for US dollars	<u>436,660</u>	<u>-</u>

PLEDGE OF ASSETS

As at 30th June 2004, certain investment and other properties of the Group with an aggregate net book value of approximately HK\$18,875,000 (2003: HK\$47,894,000) have been pledged to banks to secure for banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 30th June 2004, the Company had contingent liabilities in relation to corporate guarantee for the due performance of a subsidiary under a contract manufacturing agreement to the extent of HK\$20,000,000 (2003: HK\$20,000,000) and corporate guarantees given to banks for banking facilities granted to its subsidiaries to the extent of approximately HK\$255,569,000 (2003: HK\$205,360,000).

In April 2003, a customer (the "Customer") issued a Writ of Summons in the High Court of the Hong Kong Special Administrative Region against a subsidiary of the Company (the "Subsidiary") and filed a Statement of Claim in June 2003 claiming against the Subsidiary of US\$589,590.53 (the "Claim") for losses and damages alleged to have been suffered by the Customer as a result of alleged breach of contract entered into between the Customer and the Subsidiary for goods sold by the Subsidiary to the Customer (the "Goods"). On basis of Independent legal advice, the Subsidiary has (i) filed a defence and counterclaim to the Claim and (ii) taken out Third Party Proceedings against the company, which supplied Goods to the Subsidiary for resale to the Customer (the "Third Party"). The Third Party has also taken out the Fourth Party Proceedings against the company, which supplied the Goods to the Third Party for resale to the Subsidiary. In opinion of the Directors, the Subsidiary is unlikely to suffer any loss for the Claim, therefore, no provision is considered necessary.

EMPLOYEE INFORMATION

As at 30th June 2004, the Group had approximately 800 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 year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed

securities during the year.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee provides an important link between the Board of Directors and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Audit Committee comprises three independent non-executive Directors, namely, Mr HO Wai Chi, Paul, Mr FONG Pong Hing and Mr CHAN Dit Lung. Dr LAM Kwok Kin, Joseph, previously Independent Non-executive Director and a member of the Audit Committee, resigned on 13th October 2003 and was replaced by Mr FONG Pong Hing on the same date. Mr CHAN Dit Lung was appointed on 28th September 2004. Meetings of the Audit Committee will be held not less than twice a year and the Audit Committee met the Company's auditors in September 2004 to review the Group's results for the year before it was tabled for the approval of the Board of Directors.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 30th June 2004 except that the term of office for the Independent Non-executive Directors of the Company are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Company's Bye-laws. This does not comply with Paragraph 7 of the Code of Best Practice which suggests that Independent Non-executive Directors should be appointed for a specific term.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

A detailed announcement of final results of the Group for the year ended 30th June 2004 containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

On behalf of the
Board
HUI Sai Chung
Chairman

Hong Kong, 13th October 2004

As at the date of this announcement, the Board of Directors comprises six Executive Directors, namely Mr HUI Sai Chung, Mr HUI Kwok Kwong, Dr WONG Chi Ying, Anthony, Mr LAI Kam Wah, Mr CHING Yu Lung and Madam LIU Sau Lai and three Independent Non-executive Directors, namely Mr HO Wai Chi, Paul, Mr FONG Pong Hing and Mr CHAN Dit Lung.