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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 2015

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 2015 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 31st December	
	Note	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Revenue	3	846,060	851,209
Cost of sales		(747,321)	(754,203)
Gross profit		98,739	97,006
Other income	4	2,752	2,525
Other (losses)/gains, net	5	(17,371)	2,164
Distribution costs		(42,301)	(37,868)
Administrative expenses		(54,882)	(52,881)
Operating (loss)/profit	6	(13,063)	10,946
Finance income	7	118	156
Finance costs	7	(4,573)	(4,070)
Finance costs, net		(4,455)	(3,914)
(Loss)/profit before income tax		(17,518)	7,032
Income tax expense	8	(6,070)	(4,756)
(Loss)/profit for the period		(23,588)	2,276

Unaudited
Six months ended 31st
December

		2015	2014
	Note	<i>HK\$'000</i>	<i>HK\$'000</i>
Attributable to:			
Equity holders of the Company		(24,605)	2,102
Non-controlling interests		1,017	174
		<u>(23,588)</u>	<u>2,276</u>
 (Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the period (expressed in HK cent per share)			
– Basic	10	<u>(6.66)</u>	<u>0.57</u>
– Diluted	10	<u>(6.66)</u>	<u>0.57</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 31st	
	December	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/profit for the period	(23,588)	2,276
Other comprehensive (loss)/income:		
Item that may be reclassified subsequently to income statement:		
Currency translation differences	<u>(14,515)</u>	<u>11</u>
Other comprehensive (loss)/income for the period	<u>(14,515)</u>	<u>11</u>
Total comprehensive (loss)/income for the period	<u>(38,103)</u>	<u>2,287</u>
Total comprehensive (loss)/income attributable to:		
Equity holders of the Company	(38,845)	2,113
Non-controlling interests	<u>742</u>	<u>174</u>
	<u>(38,103)</u>	<u>2,287</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	Unaudited	Audited
	31st December	30th June
	2015	2015
Note	HK\$'000	HK\$'000
ASSETS		
Non-current assets		
Property, plant and equipment	125,937	132,642
Leasehold land and land use rights	23,712	21,510
Investment properties	104,728	105,075
Available-for-sale financial asset	2,000	2,000
Deferred income tax assets	5,736	5,990
Deposit for acquisition of land use right	—	3,273
Prepayment for property, plant and equipment and renovation costs	2,054	2,463
	264,167	272,953
	264,167	272,953
Current assets		
Inventories	259,596	287,785
Trade and bills receivables	285,126	276,511
Other receivables, prepayments and deposits	19,810	33,149
Income tax recoverable	306	846
Derivative financial instruments	—	111
Cash and bank balances	108,712	88,048
	673,550	686,450
	673,550	686,450
Total assets	937,717	959,403

		Unaudited	Audited
		31st December	30th June
		2015	2015
	Note	HK\$'000	HK\$'000
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		67,237	81,477
Retained earnings		287,935	316,232
		454,558	497,095
Non-controlling interests		20,565	21,336
Total equity		475,123	518,431
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		6,554	5,976
Current liabilities			
Trade payables	12	58,607	71,819
Other payables, deposits received and accruals		29,243	26,241
Bank borrowings		340,779	317,469
Derivative financial instruments		20,758	14,554
Income tax payable		6,653	4,913
		456,040	434,996
Total liabilities		462,594	440,972
Total equity and liabilities		937,717	959,403
Net current assets		217,510	251,454
Total assets less current liabilities		481,677	524,407

1 Basis of preparation

The condensed consolidated interim financial information for the six months ended 31st December 2015 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 30th June 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the condensed consolidated interim financial information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 30th June 2015.

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 2015, 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.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1st July 2015 and have not been early adopted by the Group:

HKFRS 14	Regulatory Deferral Accounts ¹
HKFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations ¹
HKAS 16 and HKAS 38	Classification of Acceptable Methods of Depreciation and Amortisation ¹
HKAS 16 and HKAS 41	Agriculture: Bearer Plants ¹
HKFRS 10 and HKAS 28(Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements ¹
HKFRS 10 and HKFRS 12 and HKAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception ¹
HKAS 1 (Amendment)	Disclosure Initiative ¹
Annual Improvements Projects	Annual Improvements 2012-2014 Cycle ¹
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 9	Financial Instruments ²

⁽¹⁾ Effective for annual periods beginning on or after 1st January 2016

⁽²⁾ Effective for annual periods beginning on or after 1st January 2018

The Directors anticipate that the adoption of above new standards and amendments to standards will not result in a significant impact on the results and financial position of the Group.

3 Revenue and segment information

	Unaudited	
	Six months ended	
	31st December	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sales of goods	844,267	849,052
Provision of logistics services	1,793	2,157
	<hr/>	<hr/>
	846,060	851,209
	<hr/> <hr/>	<hr/> <hr/>

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

The chief operating decision-maker (“CODM”) has been identified as the Executive Directors of the Company. Management has determined the operating segments based on the reports reviewed by the CODM that are used to assess performance and allocate resources. The CODM considers the business from the operations nature and the type of products perspective, including the trading of plastic materials (“Trading”), manufacturing and sale of colorants, pigments and compounded plastic resins (“Colorants”), manufacturing and sale of engineering plastic products (“Engineering plastic”) and other corporate and business activities including the provision of logistic services (“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 segment information provided to the CODM for the reportable segments for the six months ended 31st December 2015 is as follows:

	Trading <i>HK\$'000</i>	Colorants <i>HK\$'000</i>	Unaudited Engineering plastic <i>HK\$'000</i>	Others <i>HK\$'000</i>	Group <i>HK\$'000</i>
Turnover					
– Gross revenue	591,665	189,896	101,466	1,832	884,859
– Inter-segment revenue	(36,724)	(1,903)	(133)	(39)	(38,799)
Revenue from external customers	<u>554,941</u>	<u>187,993</u>	<u>101,333</u>	<u>1,793</u>	<u>846,060</u>
Segment results	<u>(37,975)</u>	<u>22,416</u>	<u>6,170</u>	<u>(3,674)</u>	<u>(13,063)</u>
Finance income	43	72	3	—	118
Finance costs	(3,238)	(609)	(558)	(168)	(4,573)
(Loss)/profit before income tax	(41,170)	21,879	5,615	(3,842)	(17,518)
Income tax expense					(6,070)
Loss for the period					(23,588)
Non-controlling interests					(1,017)
Profit attributable to equity holders of the Company					<u>(24,605)</u>
Other information:					
Additions to non-current assets (other than financial instruments and deferred tax assets)	48	2,258	2,525	46	4,877
Depreciation of property, plant and equipment	392	3,029	5,291	412	9,124
Amortisation of leasehold land and land use rights	192	139	16	39	386
Provision for/(reversal of) impairment of inventories	1,882	(675)	460	(11)	1,656
Unrealised fair value loss on derivative financial instruments	6,324	—	—	—	6,324
Realised fair value loss on derivative financial instruments	<u>9,556</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,556</u>

The segment information provided to the CODM for the reportable segments as at 31st December 2015 is as follows:

	Trading	Colorants	Unaudited Engineering 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	395,713	282,029	139,971	120,004	<u>937,717</u>
Total assets					<u><u>937,717</u></u>
Segment liabilities	(73,842)	(31,544)	(11,400)	(5,029)	(121,815)
Borrowings	(276,247)	(24,161)	(33,233)	(7,138)	<u>(340,779)</u>
Total liabilities					<u><u>(462,594)</u></u>

The segment information provided to the CODM for the reportable segments for the six months ended 31st December 2014 is as follows:

	Trading <i>HK\$'000</i>	Colorants <i>HK\$'000</i>	Unaudited Engineering plastic <i>HK\$'000</i>	Others <i>HK\$'000</i>	Group <i>HK\$'000</i>
Turnover					
– Gross revenue	600,706	204,045	94,921	2,192	901,864
– Inter-segment revenue	(49,078)	(1,057)	(520)	—	(50,655)
Revenue from external customers	<u>551,628</u>	<u>202,988</u>	<u>94,401</u>	<u>2,192</u>	<u>851,209</u>
Segment results	<u>(25,281)</u>	<u>35,575</u>	<u>1,982</u>	<u>(1,330)</u>	<u>10,946</u>
Finance income	71	83	2	—	156
Finance costs	(2,467)	(927)	(571)	(105)	(4,070)
(Loss)/profit before income tax	(27,677)	34,731	1,413	(1,435)	7,032
Income tax expense					(4,756)
Profit for the period					2,276
Non-controlling interests					(174)
Profit attributable to equity holders of the Company					<u>2,102</u>
Other information:					
Additions to non-current assets (other than financial instruments and deferred tax assets)	634	2,271	4,564	238	7,707
Depreciation of property, plant and equipment	357	2,865	4,999	411	8,632
Amortisation of leasehold land and land use rights	199	104	16	39	358
Provision for/(reversal of) impairment of inventories	1,840	(5)	103	—	1,938
Unrealised fair value gain on derivative financial instruments	(534)	—	—	—	(534)

The segment information provided to the CODM for the reportable segments as at 30th June 2015 is as follows:

	Trading <i>HK\$'000</i>	Colorants <i>HK\$'000</i>	Audited Engineering plastic <i>HK\$'000</i>	Others <i>HK\$'000</i>	Group <i>HK\$'000</i>
Segment assets	392,363	290,816	156,485	119,739	<u>959,403</u>
Total assets					<u><u>959,403</u></u>
Segment liabilities	(74,217)	(29,510)	(13,351)	(6,425)	(123,503)
Borrowings	(238,011)	(28,550)	(43,960)	(6,948)	<u>(317,469)</u>
Total liabilities					<u><u>(440,972)</u></u>

The entity is domiciled in Hong Kong. The revenue from external customers attributed to Hong Kong for the six months ended 31st December 2015 is approximately HK\$363,030,000 (2014: HK\$397,792,000) and the total of its revenue from external customers from other locations (mainly the People's Republic of China ("PRC")) is approximately HK\$483,030,000 (2014: HK\$453,417,000).

At 31st December 2015, the total of non-current assets other than financial instruments and deferred income tax assets (there are no employment benefit assets and rights arising under insurance contracts) located in Hong Kong is approximately HK\$154,203,000 (30th June 2015: HK\$158,620,000), and the total of these non-current assets located in other locations (mainly the PRC) is approximately HK\$102,228,000 (30th June 2015: HK\$106,343,000).

4 Other income

	Unaudited Six months ended 31st December	
	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Rental income	<u><u>2,752</u></u>	<u><u>2,525</u></u>

5 Other (losses)/gains, net

	Unaudited	
	Six months ended	
	31st December	
	2015	2014
	HK\$'000	HK\$'000
Net exchange losses	(3,075)	(594)
Gain on disposal of property, plant and equipment	133	217
Gain on disposal of a subsidiary	308	—
Derivative financial instruments		
– forward foreign exchange contracts held for trading		
– unrealised	(6,324)	534
– realised	(9,556)	1,481
Others	1,143	526
	<u>(17,371)</u>	<u>2,164</u>

6 Operating (loss)/profit

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

	Unaudited	
	Six months ended	
	31st December	
	2015	2014
	HK\$'000	HK\$'000
Cost of inventories recognised as expenses included in cost of sales	702,901	710,109
Depreciation of property, plant and equipment	9,124	8,632
Amortisation of leasehold land and land use rights	386	358
Operating lease rentals in respect of land and buildings	4,761	4,688
Employee benefit expenses, including Directors' emoluments	61,521	59,474
(Reversal of)/provision for impairment of trade receivables	(345)	368
Provision for impairment of inventories	1,656	1,938
Gain on disposal of property, plant and equipment	(133)	(217)
	<u>778,870</u>	<u>808,790</u>

7 Finance income and costs

	Unaudited	
	Six months ended	
	31st December	
	2015	2014
	HK\$'000	HK\$'000
Finance income:		
– Interest income from bank deposits	118	156
	-----	-----
Finance costs:		
– Interest on bank borrowings wholly repayable within five years	(5,963)	(5,462)
– Net exchange gains on financing activities	1,390	1,392
	-----	-----
	(4,573)	(4,070)
	-----	-----
Finance costs, net	<u>(4,455)</u>	<u>(3,914)</u>

8 Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2014: 16.5%) on the estimated assessable profit for the period. Income tax on the Group's subsidiaries established and operate in the PRC has been calculated on the estimated assessable profit for the period at the rate of taxation as applicable to the relevant subsidiaries, which is 25% (2014: 25%).

The amount of income tax charged to the interim consolidated income statement represents:

	Unaudited	
	Six months ended	
	31st December	
	2015	2014
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	972	408
– PRC corporate income tax	4,296	3,383
Deferred income tax	802	965
	-----	-----
	<u>6,070</u>	<u>4,756</u>

9 Dividends

At a meeting held on 25th February 2016, the Directors resolved not to declare any interim dividend for the six months ended 31st December 2015.

At a meeting held on 19th November 2015, the Directors declared a final dividend of HK\$1.0 cent per share, totaling HK\$3,692,000 for the year ended 30th June 2015, which was paid during the six months ended 31st December 2015.

10 (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity holders of the Company for the period of HK\$24,605,000 (2014: profit of HK\$2,102,000) and 369,200,000 (2014: 369,200,000) ordinary shares in issue during the period.

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential ordinary shares arising from the Company's share options. Dilutive (loss)/earnings per share for the period ended 31st December 2015 and 2014 equal basic (loss)/earnings per share as there was no dilutive potential ordinary share as at the period ended 31st December 2015 and 2014.

11 Trade and bills receivables

	Unaudited 31st December 2015 HK\$'000	Audited 30th June 2015 HK\$'000
Trade receivables	260,222	253,263
Less: provision for impairment of receivables	(4,249)	(4,700)
	<hr/>	<hr/>
	255,973	248,563
Bills receivables	29,153	27,948
	<hr/>	<hr/>
	285,126	276,511
	<hr/> <hr/>	<hr/> <hr/>

At 31st December 2015, the aging analysis of trade receivables, based on invoice date, is as follows:

	Unaudited	Audited
	31st December	30th June
	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Below 90 days	239,060	230,126
91-180 days	14,958	15,544
Over 180 days	6,204	7,593
	<u>260,222</u>	<u>253,263</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 2015, there are bills of exchange HK\$10,895,000 (30th June 2015: HK\$9,583,000) transferred to banks with recourse in exchange for cash. The transactions had been accounted for as collateralised bank advances.

12 Trade payables

At 31st December 2015, the aging analysis of trade payables, based on invoice date, is as follows:

	Unaudited	Audited
	31st December	30th June
	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Below 90 days	57,441	70,798
91-180 days	63	148
Over 180 days	1,103	873
	<u>58,607</u>	<u>71,819</u>

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31st December 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of the financial year, the continued slow growth of China's economy and the high volatility of the Renminbi and oil prices posed major challenges for the Group's business. However, the Group's loyal customer base, timely adjustment of business strategies by increasing allocation of resources to export-related businesses, enabling the Group to mitigate the impact of external factors on its business. For the six months ended 31st December 2015, the Group's total turnover only declined slightly by 1% from HK\$851,209,000 in the same period last year to HK\$846,060,000.

Despite economic uncertainties, the Group capitalised on its superior product quality and focused on the sale of products with higher gross profit margins, leading to a gross profit of HK\$98,739,000 (2014: HK\$97,006,000). Gross profit margin was 11.7%, which is similar to the last corresponding period. However, operating costs increased due to the implementation of the minimum wage policy in China, together with the recently volatile Renminbi exchange rate, the Group had unrealised and realised losses from forward foreign exchange contracts. Loss attributable to equity holders of the Company was HK\$24,605,000 (2014: Profit attributable to equity holders of the Company was HK\$2,102,000). Basic loss per share was HK6.66 cents (2014: Basic earnings per share was HK 0.57 cents).

To ensure that the Group has sufficient financial resources for business development, the Board of Directors does not propose the payment of interim dividend.

Among the three major businesses of the Group, the engineering plastics business delivered satisfactory performance. Benefitting from positive export conditions in the US and Europe, and with most orders within this segment being exports, turnover rose by 7% when compared to the last corresponding period, amounting to HK\$101,333,000. The Group's strategy to expand its product mix and customer base was also effective. Metal substitutes mainly used in kitchenware and automobiles were manufactured and sold to support the business transformation of local customers. Potential export customers were also pursued, of which food-related equipment and tools exported to Europe and US performed exceptionally well and generated substantial profits for the Group. Besides, the Southern China market delivered satisfactory results. Turnover of the Group's Dongguan office grew by 30% from the same period last year. Gross profit margin of this business segment increased by 4% from the corresponding period last year, and profit before tax reached HK\$5,615,000. With top-quality products and an expanding customer base, it is believed that this segment will continue to increase its revenue contribution to the Group.

In respect of the colorants, pigments and compounded plastic resin (collectively known as “colorants”) business segment, demand for high value-added products in the US, Europe, and Japan remained strong. This prompted the Group to allocate more resources to this segment to secure high gross profit margin customers demanding trendy and sophisticated products such as smart electronic healthcare products and sanitary accessories, which boosted the sales volume and gross profit of this segment. As a result, the Dongguan and Xiamen operations in Southern China performed well. However, slow economic growth in China and increasing operating costs such as labour and transportation costs placed pressure on the Group’s operations in Eastern and Northern China which focus on domestic sales. Furthermore, as the Group is still in the preliminary stages of tapping the automobile market – and securing relevant customers – as well as developing related products in these regions, this explains the lack of profit contributed by the segment. Turnover of this segment dropped by around 7% to HK\$187,993,000 from the last corresponding period, while gross profit margin rose slightly by three percentage points.

During the period, falling oil prices, fluctuating prices for plastic materials, and the weak domestic market affected the plastics trading business. Consequently, turnover slightly increased by 1% to HK\$554,941,000, while gross profit margin declined by approximately one percentage point. China’s lackluster economic environment had a particularly strong impact on heavy industries, which in turn affects the operations of Northern China where heavy industry clients make up the majority of the Group’s customers. Moreover, the recently established sales offices in Chongqing and Tianjin still need more time to develop their client base, though they are expected to generate profits for the Group in the near future. Apart from implementing stringent cost control measures, the Group will continue to leverage its competitive advantages and focus on promoting products with higher gross profit margins to maintain its growth momentum.

PROSPECTS

Looking ahead to 2016, the management believes that uncertainties looming over the global and Chinese economies will continue to present challenges to its business. Oil prices and the Renminbi exchange rate are expected to remain relatively volatile in the upcoming year. Consequently, the Group will continue to maintain its overall profitability through cost control measures, gradual reduction in inventory and constant development of products with higher margins.

While the European and US markets have showed signs of recovery, China's economy will continue to face downward pressure. Therefore, the Group has made subtle adjustments to its development strategy in the past few years which focused on addressing China's domestic market. The Group will place emphasis on the development of commodities with higher gross profit margins and strong demand. The Group will continue to develop automobile and trendy electronic products with higher entry barriers, and also study the feasibility of developing products that have pharmaceutical applications in Eastern and Northern China. The management holds the opinion that due to China's ageing population and increasing public demand for better healthcare, the pharmaceutical applications market possesses immense potential. However, the entry barriers of these products are generally higher, and would require greater initial capital and R&D investment. With the strong R&D capabilities of its R&D team in Shanghai, the Group believes that its advanced technologies and competitive advantages will enable it to penetrate new markets and discover new income streams. Driven by the One Belt, One Road initiative, the Group hopes to capture growth opportunities and develop diversified businesses by leveraging its supplier base in Southeast Asia. It also intends to assess the possibility of introducing dye-related production facilities and technologies from India. In addition, the Group has maintained a close relationship with the International Colour Alliance, which has enabled it to expand its customer base through different channels, diversify its product mix and further stimulate business growth.

With regards to controlling costs, the Group will continue to implement cost control measures, adopt robust business strategies and take a prudent financial management approach. At the same time, the Group will maintain a healthy financial position so as to support its long-term development. The Group will also continue to rely on the professional management team and its pragmatic and proactive approach to unleash its potential, overcome the challenging business environment, and reap the greatest rewards for its 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 2015, the Group has available aggregate bank loan facilities of approximately HK\$651,796,000 of which HK\$329,884,000 have been utilised and were secured by corporate guarantee issued by the Group and legal charges on certain leasehold land and buildings, investment properties and machinery and equipment in the PRC and Hong Kong owned by the Group. The Group's cash and bank balances as at 31st December 2015 amounted to approximately HK\$108,712,000. The Group's gearing ratio as at 31st December 2015 was approximately 75%, based on the total bank borrowings of approximately HK\$340,779,000 and the shareholders' funds of approximately HK\$454,558,000.

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 2015, the Group had outstanding forward foreign exchange contracts mainly to purchase US dollars and Renminbi. The maximum notional principal amounts of these outstanding forward foreign exchange contracts at 31st December 2015 were as follows:

	2015 <i>HK\$'000</i>
Sell HK dollars for US dollars	1,692,600
Sell US dollars for Renminbi	<u>230,568</u>

EMPLOYEE INFORMATION

As at 31st December 2015, the Group employed a total of approximately 724 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.

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 2015, 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 further enhancing the risk management and internal control systems, the Company has engaged an external consultant to carry out an on-going project to conform the compliance with the revised CG Code. The Board of Directors has reviewed the effectiveness of the system of internal control of the Company and its subsidiaries with no material issues noted.

NOMINATION COMMITTEE

The Company has formulated written terms of reference for the nomination committee of the Company (the “Nomination Committee”) in accordance with the requirements of the Stock Exchange. The Nomination Committee consists of all independent non-executive Directors, namely Mr HO Wai Chi, Paul, Mr CHAN Dit Lung and Mr CHING Yu Lung and an executive Director, Mr HUI Sai Chung.

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board (including the skills, knowledge and experience) on a regular basis and make recommendations to the Board regarding any proposed changes; identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships; assessing the independence of independent non-executive Directors; and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors. The Nomination Committee would review the Board’s composition from time to time where Board diversity would be considered from a number of aspects, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of services. The Nomination Committee meets at least once a year to assess the structure, size and composition of the Board.

AUDIT COMMITTEE

The Company has formulated written terms of reference for the audit committee of the Company (the “Audit Committee”) in accordance with the requirements of the Stock Exchange. The Audit Committee consists of all independent non-executive Directors, namely Mr HO Wai Chi, Paul, Mr CHAN Dit Lung and Mr CHING Yu Lung.

The principal duties of the Audit Committee are to ensure the objectivity and credibility of financial reporting and internal control procedures as well as to maintain an appropriate relationship with the external auditor of the Company. The terms of reference of the Audit Committee are aligned with the recommendations set out in “A Guide for Effective Audit Committees” issued by the Hong Kong Institute of Certified Public Accountants and Listing Rules.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed consolidated interim financial information for the six months ended 31st December 2015 with the Directors.

REMUNERATION COMMITTEE

The Company has formulated written terms of reference for the remuneration committee of the Company (the “Remuneration Committee”) in accordance with the requirements of the Stock Exchange. The Remuneration Committee consists of three independent non-executive Directors, namely Mr HO Wai Chi, Paul, Mr CHAN Dit Lung and Mr CHING Yu Lung and an executive Director, Mr HUI Sai Chung.

The Remuneration Committee is responsible for ensuring formal and transparent procedures for developing remuneration policies and making recommendations to the Board on the remuneration packages of the individual executive Director and senior management. This includes benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. It takes into consideration on factors such as salaries paid by comparable companies, time commitment and responsibilities of Directors and senior management. The Remuneration Committee meets at least once a year to assess the performance and review the annual salaries and bonus of the senior executives.

CORPORATE GOVERNANCE COMMITTEE

The Company has formulated written terms of reference for the corporate governance committee of the Company (the “Corporate Governance Committee”) in accordance with the CG Code. The Corporate Governance Committee consists of all independent non-executive Directors, namely Mr HO Wai Chi, Paul, Mr CHAN Dit Lung and Mr CHING Yu Lung.

The Corporate Governance Committee is responsible for developing and reviewing the policies and practices on corporate governance of the Group and making recommendations to the Board; reviewing and monitoring the training and continuous professional development of Directors and senior management; reviewing and monitoring the Group’s policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and reviewing the Group’s compliance with the CG Code and disclosure in the Corporate Governance Report of the Company. The Corporate Governance Committee meets at least once a year to review the corporate governance functions.

On behalf of the Board

HUI Sai Chung

Chairman

Hong Kong, 25th February 2016

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, Dr WONG Chi Ying, Anthony, Mr LAI Kam Wah, Madam LIU Sau Lai and Mr NG Chi Ming and three Independent Non-executive Directors, namely Mr HO Wai Chi, Paul, Mr CHAN Dit Lung and Mr CHING Yu Lung.