

Chairman's Statement

I am pleased to report to shareholders the annual report of Nam Hing Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2003.

BUSINESS REVIEW

The year under review was another challenging year for the Group. The lingering effect of terrible events of 11 September 2001 continues to negatively impact on the global economy. The war in Iraq had further added to the burden on the worldwide market.

The Group's consolidated turnover for the current year was HK\$223,722,000 (2002: HK\$218,046,000), represented an increase of 2.6% from that of last year. The gross profit margin had been improved from 11.0% to 12.7% during the year. The Group recorded a net loss attributable to shareholders amounting to HK\$9,978,000 (2002: HK\$20,083,000), representing an improvement of 50.3% as compared with that of previous year. The overall improvements in the performance of the Group were the result of management's proactive and conservative measures taken in previous year. These measures included increasing production volume, strengthening cost control and credit risk management. As a result, the Group was benefited from the write back of provisions against inventories amounting to HK\$2,823,000. In addition, the provisions for bad and doubtful debts for the year were significantly reduced by more than 50% to HK\$1,008,000.

Industrial Laminate Division

The sales of laminates recorded an increase of 9.2% to HK\$149,115,000 (2002: HK\$136,514,000) for the year. Selling prices of laminates had been stabilised by the end of the year 2002 but on average were below those of the corresponding year. This adverse impact was completely offset by our increase in sales volume achieved during the year.



Front View of the Industrial Laminate Plant in Zhongshan, the PRC



Industrial Laminate Plant in Zhongshan, the PRC

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To cope with the increase in demand, the assembly of the paper laminate production line at our production plant in Zhongshan, the PRC was completed in August 2002. The laminate division recorded a promising increase of 36.6% in quantity sold, of which representing an increase of 185.0% and 24.0% for paper based and glass laminates respectively.

Though the sales was benefited by the increase in production volume in the second half of the financial year, the war in Iraq had pushed the prices of crude oil and other related chemicals upward by more than 20.0% during the period. These affected adversely towards the production costs. The gross profit margin, therefore, could only be improved to 6.6% from 4.6% in previous year.

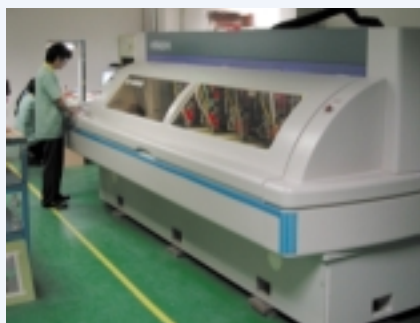


PCB Plant in Dongguan, the PRC

Printed Circuit Board ("PCB") Division

The PCB division recorded a slight decrease of 1.2% in turnover to HK\$72,261,000 from HK\$73,157,000 in previous year. The selling prices of PCB were affected adversely by keen competition but they had already been stabilised by the end of year 2002. Though the market of PCB demand for computer and electronic telecommunication related products had dropped, there was increasing demand for household products.

The gross profit margin improved from 19.9% in previous year to 24.0% in the current year. The improvement in performance is the result of management's effort over cost controls and our strategy in putting emphasis on higher margin products. With the aim to cope with the keen market competition of the business, certain new machineries were acquired during the year to enhance the production capacity and efficiency.



One of the Newly-acquired Drilling Machine in Dongguan Plant

Copper Foil Division

The copper foil plant is a long-term strategic investment of the Group and a substantial portion of the outputs was supplied to the laminate division for internal consumption. This vertical integration can definitely maintain the competitive edge of our industrial laminate and PCB businesses. The copper foil sales to third parties recorded a drop of 72.0% from HK\$8,375,000 in previous year to HK\$2,346,000 in the current year. The decline in external sales was the result of the increase in internal consumption of the laminate division especially the new paper laminate production line.



Copper Foil Manufacturing Plant in Thailand

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Prospects

Embanked on a gradual recovery after the war in Iraq and the outbreak of SARS, the Group is well equipped to take up challenge in the coming year. Owing to the uncertainties of the global economy, the pricing and demand of electronic products will inevitably be affected. In order to maintain competitiveness within the industry, the Group would continuously adopt a conservative operating strategy, including streamlining the business structure, tightening the control over operating and administrative costs, and strengthening its credit risk management.

Despite the unstable economic situation, management considered there are enormous business opportunities for laminate in the PRC. The Group's second laminate production plant, located in Suzhou, the PRC, is in its final stage of machinery installation. Upon completion, the Group is able to serve the customers in the North-eastern part of China and be definitely benefited especially after its entry into the World Trade Organisation. With the full-year production of the paper laminate production line at Zhongshan and the recent decline of the fuel and raw materials prices, management is optimistic that the performance of the laminate division would be further improved and the Group would maintain a steady growth in market share and turnover.



New Industrial
Laminate Plant in
Suzhou, the PRC

In order to cope with the keen market competition of the PCB business, the Group is exploring the opportunity in setting up another PCB plant in Zhuhai, the PRC, which is in line with the Group's strategic move to increase economies scale of production.

Management decides to place continuous emphasis on the research and development activities of the copper foil plant and explore new markets for this product. These actions can further enhance the quality and increase the turnover of such high technological product.

With the Group's strong foundation and the long established expertise in the industry, management believes that the Group is in a good position to surmount all challenges and turn around into sound operation in the near future.

LIQUIDITY AND FINANCIAL RESOURCES

The Group mainly relies upon internally generated funds as well as bank borrowings to finance its operations and expansion projects. As at 31 March 2003, the current ratio of the Group maintained stable at approximately 1.07 (2002: 1.23) and the net current assets were approximately HK\$7.6 million (2002: HK\$22.7 million), which represented a decrease of 66.5% when compared with that of the corresponding year. The Group's total cash and bank balances and pledged fixed deposits with banks amounted to HK\$14.8 million (2002: HK\$8.7 million).

Owing to the low market interest rates, management considered that it is advantageous for the Group to obtain additional, but not excessive, banking facilities for expanding its production capacity and improving efficiency. The total interest-bearing borrowings increased from HK\$77.1 million as at 31 March 2002 to HK\$84.2 million as at 31 March 2003, the Group's gearing ratio, which was calculated based on the total interest-bearing borrowings and the shareholders' equity, could still maintain at a comfortable and stable level of 43.8% (2002: 37.5%) in view of its current operating capability. Finance costs had been further reduced to HK\$6.2 million from HK\$6.9 million for the corresponding previous year.

The debt maturity profile of the Group is analysed as follows:

	At 31 March	
	2003	2002
	HK\$'000	HK\$'000
Repayable within one year	70,268	62,144
Repayable in the second year	7,238	8,586
Repayable in the third to fifth years, inclusive	6,714	6,380
	84,220	77,110

To minimise exposure on foreign exchange fluctuations, the Group's borrowings and cash and bank balances are primarily denominated in Hong Kong dollars, United States dollars and Renminbi. The Group has no significant exposure to foreign exchange rate fluctuation. Besides, the Group's medium-term borrowings have not been hedged by any interest rate financial instruments due to the easing of interest rates.

Contingent liabilities

	At 31 March	
	2003	2002
	HK\$'000	HK\$'000
Debts factored with recourse	36,177	28,585

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Contingent liabilities (continued)

As at 31 March 2003, the Company had guarantees given to banks in connections with facilities granted to its subsidiaries to the extent of approximately HK\$113.3 million (2002: HK\$99.5 million), of which HK\$73.4 million (2002: HK\$61.7 million) had been utilised.

The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$0.7 million as at 31 March 2003. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Capital commitments

The Group had the following commitments in respect of capital expenditure, which was authorised, but not provided for in the financial statements:

	At 31 March	
	2003	2002
	HK\$'000	HK\$'000
Contracted for in respect of:		
Capital contribution to subsidiaries	37,000	–
Purchases of fixed assets	5,234	5,396
Not contracted for	116	1,737
	<u>42,350</u>	<u>7,133</u>

Pledge of assets

As at 31 March 2003, the amount of the Group's assets pledged as security for banking facilities was approximately HK\$63.9 million (2002: HK\$48.2 million).

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Employment, Training and Remuneration Policy

During the year, the Group continued to adopt a series of measures towards the size of workforce and commit to staff development and training programs. The Group has approximately 1,084 employees as at 31 March 2003. Eligible employees are offered with discretionary bonuses and share options on individual and the Group's performance.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 27 August 2003 to Friday, 29 August 2003 (both days inclusive), during which period no transfer of shares of the Company will be registered and no shares will be allotted and issued on the exercise of the subscription rights attaching to the outstanding share options granted by the Company. In order to qualify for attending the forthcoming Annual General Meeting of the Company all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 26 August 2003.

APPRECIATION

On behalf of the Board of Directors, I would like to express my sincere appreciation to all management and staff for their diligence and continuing support.

ON BEHALF OF THE BOARD

Lau Kwai

Chairman

Hong Kong

25 July 2003