

# 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 2004.

## BUSINESS REVIEW

This year was another challenging year for the Group. As indicated in the Company's interim report for the six months ended 30 September 2003, the lingering effect of the war in Iraq continued to impair the global economy. The outbreak of SARS had further added to the burden on the electronics industry by increased material costs in the first half of the financial year.

The Group's consolidated turnover for the current year recorded an increase of 15.1% from HK\$223,722,000 to HK\$257,599,000. The Group's gross profit margin dropped from 12.7% to 9.5%. The Group reported a net loss from operating activities attributable to shareholders amounted to HK\$15,487,000 (2003: HK\$9,978,000).

### Industrial Laminate Division

The sales of laminates recorded an increase of 24.0% to HK\$184,859,000 compared to HK\$149,115,000 of the corresponding year in 2003. The result was the increase in sales volume after the outbreak of SARS especially the strong demand for electronic consumer products in the second half of the financial year. Selling prices of laminate had been slightly increased during the year, but the surge in costs of raw materials further squeezed on the Group's profit margin.



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



Industrial Laminate Plant in Zhongshan, the PRC

## Chairman's Statement



PCB Plant in Dongguan, the PRC

### PCB Division

The PCB division recorded a slightly drop in turnover of 3.0% to HK\$70,118,000 (2003: HK\$72,261,000). As buyers shied away from Hong Kong during the SARS outbreak, orders taken in that period was reduced. However, this impact had been nearly compensated by the recovery of the electronics industry in the second half of the financial year. The division's investment in drilling machines had reduced the cost of sub-contracting work by 72.1%, but fierce competition in pricing dragged on during the year.



One of the Drilling Machine in Dongguan Plant



Copper Foil Manufacturing Plant in Thailand

### Copper Foil Division

The copper foil plant in Thailand is a long-term strategic investment of the Group and a substantial portion of the products were supplied to the Group's laminate division. This vertical integration can definitely maintain the competitive edge of the Group's industrial laminate and PCB businesses. The copper foil business recorded an increase in sales to external customers of 11.8% to HK\$2,622,000 (2003: HK\$2,346,000). To cope with the increasing demand of copper foil by the Group's laminate division, the production volume had achieved a 17.1% growth as compared to the corresponding year.

### Prospects

Fuelled by low interest rate, higher household dispensable income in the USA, and the strong economic growth in the PRC, the demand of consumer electronics products is picking up steadily.

With the positive signs on the demand side, the management is aware that the costs of materials such as copper, chemicals and fuel are maintaining at a high level. Therefore, besides passing over the increase in cost to end-users by raising selling price, the management keeps on tightening the control over costs, streamlining business structure, strengthening credit risk management, and broadening product range and customers base.

## Chairman's Statement

In the second half of the financial year, the Group was able to increase the selling prices of laminates and PCBs and expand the production capacity of its plants and thus the adverse effect of costs increment was gradually eliminated. The Group's performance had been improved in the second half of the financial year as compared with the interim results reported previously. This is evidenced by reduction in the Group's net loss from ordinary activities attributable to shareholders. The figure for the second half of the financial year is amounted to HK\$6,206,000 whereas that for the first half of the financial year reported was amounted to HK\$9,281,000. An improvement of 33.1% was recorded. Profit margin for the second half of the financial year was improved to 10.5% as compared with that of the interim period of 8.5%. With the recovery of the electronics industry, the Group is definitely benefited from the upward trend of selling prices and higher profit margin. Management is optimistic that the performance of the laminate and PCB divisions will be improved substantially in the coming financial year.



New Industrial  
Laminate Plant in  
Suzhou, the PRC

The Group's second laminate production plant, located in Suzhou, the PRC, is in the final stage of completion. Trial run is expected to start in the second half of the next financial year. Upon completion, the Group's long term strategic plan will be fulfilled because the Group is able to serve potential customers in the eastern part of China where a number of manufacturers of electronic and telecommunication products are situated there. Nevertheless, the Company's directors shall take a conservative approach in implementing any of the business plan in this newly developed geographical market segment. Currently, the Company's directors are developing sales and marketing plans to secure new customers in the region and shall soon commence negotiation with bankers for additional working capital for the operation of this plant. The Company's directors foresee potential for growth of sales in its laminate division and believe the Group will soon be well positioned to capture any sales opportunity that may arise from there.

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

With the Group's strong foundation and the management's expertise in the industry, the management believes that the Group is in a 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 2004, the current ratio of the Group maintained at approximately 1.10 (2003: 1.07). The Group's net current assets were approximately HK\$11.9 million (2003: HK\$7.6 million). The Group's total cash and bank balances and pledged fixed deposits with banks amounted to HK\$12.6 million (2003: HK\$14.8 million).

The Group's total interest-bearing borrowings dropped from HK\$84.2 million as at 31 March 2003 to HK\$74.0 million as at 31 March 2004 which in turn reduced the finance costs to HK\$5.5 million from HK\$6.2 million for the corresponding previous year. In February 2004, the Group received net proceeds of approximately HK\$7.3 million on the placing of the Company's shares to third party investors. Details of the placing of existing shares and subscription of new shares were disclosed in the Company's announcement dated 4 February 2004. The Group's gearing ratio, which was calculated based on the total interest-bearing borrowings and the shareholders' equity, improved to a more comfortable and stable level of 38.8% (2003: 43.8%).

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

	As at 31 March	
	2004	2003
	HK\$'000	HK\$'000
Repayable within one year	58,326	70,268
Repayable in the second year	7,662	7,238
Repayable in the third to fifth years, inclusive	6,137	6,714
Repayable over the fifth year	1,894	–
	<u>74,019</u>	<u>84,220</u>

To minimise exposure on foreign exchange fluctuations, the Group's borrowings and cash and bank balances are primarily denominated in Hong Kong dollars, Thai baht and Renminbi. During the year, the Group borrowed bank loans denominated in Thai baht to match with the currency requirements of operating expenses of the subsidiary in Thailand. Besides, the Group's borrowings have not been hedged by any interest rate financial instruments due to the easing of interest rates.

## Chairman's Statement

### Contingent liabilities

	As at 31 March	
	2004	2003
	HK\$'000	HK\$'000
Debts factored with recourse	<u>38,657</u>	<u>36,177</u>

As at 31 March 2004, the Company had guarantees given to banks in connections with facilities granted to its subsidiaries to the extent of approximately HK\$105.3 million (2003: HK\$113.3 million), of which HK\$68.0 million (2003: HK\$73.4 million) had been utilised.

The Group has 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\$0.6 million as at 31 March 2004 (2003: HK\$0.7 million). The contingent liability has arisen because, at 31 March 2004, 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.

### Pledge of assets

As at 31 March 2004, the Group's assets pledged as security for banking facilities amounted to approximately HK\$51.8 million (2003: HK\$ 63.9 million).

### 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 1,187 employees as at 31 March 2004 (2003: 1,084). Eligible employees are offered with discretionary bonuses and share options on individual and the Group's performance.

## **Chairman's Statement**

---

### **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Thursday, 26 August 2004 to Monday, 30 August 2004 (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 Wednesday, 25 August 2004.

### **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

23 July 2004