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 2006.

REVIEW OF BUSINESS ACTIVITIES

The consolidated turnover of the Group for the year ended 31 March 2006 was HK$281,128,000, representing a slight increment of 1.5% as compared to HK$277,082,000 of the previous year. However, the gross profit margin declined from 16.25% in the previous year to 10.47% in the current year, with the Group suffering a net loss of HK$7,147,000 in the year under review as compared to a net profit of HK$4,899,000 in the previous year. The basic loss per share for the year under review was HK1.7786 cents, which was mainly due to the upsurge in costs of raw materials for the Group's products.

Industrial Laminate Division

New Industrial Laminate Plant in Suzhou, the PRC

The industrial laminate business, the core business of the Group, achieved a turnover of HK$193 million for the year under review (2005: HK$176 million), an increase of 9.7% compared to that of the previous year.

During the year under review, the market demand for the industrial laminate business showed an improvement when compared with that of last year. Though the market demand for telecommunication products slightly slowed down during the year, the demand for consumer electronics products such as audio and visual products, as well as artificial intelligence toys showed an increase that drove the total sales volume of the division up by around 13% from last year.

The construction of the Group's second laminate plant in Suzhou, Jiangsu Province, Mainland China, was completed and trial production started in July 2006. The Group expects the plant to achieve smooth commercial production in the second half of the financial year of 2007. This newly designed laminate plant is part of the Group's long term strategic plan to provide services to potential customers in the eastern part of Mainland China where large numbers of major electronics producers are situated. The management considers that the market for the laminate industry will be strong and foresees increased market share and benefits from this market.

Printed Circuit Board Division (PCB)

For the year ended 31 March 2006, the turnover of PCB business recorded a drop of 12.5%, from HK$99.0 million in the previous year to HK$86.6 million. This reduction was mainly due to the keen competition in the industry following the temporary slow down of demand for telecommunication products. For this reason, the Group adopted a more conservative approach in sales and marketing during the year in order to maintain its profitability and to minimize its operation risk.

One of the Drilling Machine in Dongguan Plant

Although the gross profit margin of the division declined, it could still be maintained at a relatively satisfactory level of 18.5% in respect of the year ended 31 March 2006 (2005: 24.6%). Following the recovery of the audio, visual and artificial intelligence toys products sectors, the management is optimistic that the profit margin will increase gradually in the next financial year.

Moreover, to enhance the competitiveness of the PCB division, the Group also planned to set up a new production facility in Zhuhai, Guangdong Province, Mainland China in the coming future. A project team has been set up in early 2006 to evaluate and plan the details of this project. Meanwhile, more marketing campaigns and exhibitions will be launched by the Group to increase sales in the coming year.

Copper Foil Division

Copper Foil Manufacturing Plant in Thailand

The copper foil plant in Thailand serves the role of an internal supplier of copper foil, a major raw material, to the two abovementioned business segments. Such vertical integration ensures the adequate supply and constant quality of copper foil and thus maintains the competitive edge of the Group's industrial laminate and PCB businesses.

For the year ended 31 March 2006, the copper foil plant was able to maintain its operating efficiency and fulfilled more than 90% of the demand of the industrial laminate division. This plant is a long term capital investment of the Group and still has the capacity to produce more copper foil to fulfil additional demand of the product to the two laminate plants in Zhongshan and Suzhou.

Continuous emphasis will be placed on research and development to further enhance the efficiency and yield of this high-end product, and additional effort will also be made in exploring new markets in the Asia Pacific Region.

Conclusion

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

The upsurge in the costs of raw materials (copper and chemicals) in the second half of the year under review has caused the squeezing of the Group's gross profit margin. However, the rising trend has eased since March 2006 following the stabilization of the commodity and raw material markets, as well as the successful transfer of such costs to our customers.

With a view to maintaining the Group's competitiveness in the industry, the management will continue to tighten control over costs, streamline business structure, strengthen credit and foreign currency risk management, monitor the raw material market and broaden product range and customer base.

Moreover, the Group will endeavour to sustain good management in the production plants to ensure competitiveness. The Group's three plants in Zhongshan, Dongguan and Thailand have implemented quality assurance systems and have been awarded ISO9001:2000 quality certificates.

With the Group's strong foundations, management expertise and the management's commitment to quality assurance and continuous research and development, the management is optimistic about future growth and performance of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

It is the Group's policy to rely on internally generated funds and bank borrowings to finance its operations and expansion projects. As at 31 March 2006, the Group's total cash and bank balances and pledged fixed deposits amounted to HK$14.8 million (2005: HK$9.5 million).

Adoption of the latest HKFRSs has unfavourably affected the calculation of the current ratio, the gearing ratio as well as the net current liabilities for the current financial statements. Such reporting has led to the lowering of the current ratio and the raising of the gearing ratio and the net current liabilities in the year under review, however, it did not affect the overall operation of the Group. Details are explained below.

For the financial year ended 31 March 2006, the property held for resale amounting to HK$16,460,000 was reclassified from current assets to non-current assets under investment property in accordance with the HKFRS 5. No such adjustments were made in the financial statements for the year ended 31 March 2005; thus lowering the current ratio and turning the net current assets to net current liabilities as at 31 March 2006 by comparison.

Likewise, in accordance with the HKAS 39, advances from banks as consideration for the Factored Receivables amounting to HK$47,157,000 was included in the bank and other borrowings in respect of the year under review. The corresponding amount of HK$28,125,000 in respect of the year ended 31 March 2005 was set-off with accounts receivable; thus increasing the gearing ratio as well as the net current liabilities as at 31 March 2006 by comparison.

As at 31 March 2006, the current ratio of the Group was maintained at 0.96 (2005: 1.12); and the net current liabilities amounted to HK$6.5 million (2005: net current assets of HK$12.6 million). The adoption of the latest HKFRSs has led to the lowering of the current ratio of the Group as at 31 March 2006 from 1.08 (as calculated without the reclassification of property held for resale and derecognition of accounts receivables factored with recourse) to 0.96.

The Group's gearing ratio as at 31 March 2006, calculated on the basis of total bank and other borrowings over shareholders' equity, was maintained at the level of 0.64 (2005: 0.29). The adoption of the latest HKFRSs has led to the raising of the gearing ratio of the Group as at 31 March 2006 from 0.40 (as calculated without the derecognition of accounts receivables factored with recourse) to 0.64.

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

	As at 31 March	
	2006	2005
	HK$'000	HK$'000
Repayable within one year	**114,867**	47,669
Repayable in the second year	**1,985**	2,906
Repayable in the third to fifth years, inclusive	**6,868**	4,116
Repayable over the fifth year	**–**	540
	123,720	55,231

To minimize exposure to foreign exchange fluctuations, the Group's borrowings and cash and bank balances are primarily denominated in Hong Kong dollars, Thai Baht and Renminbi. The Group's borrowings have not been hedged by any interest rate financial instruments, as the exposure to such risk is considered to be minimal.

Contingent Liabilities

For the financial year ended 31 March 2005, the accounts receivables factored with recourse of HK$28.1 million was recorded as a contingent liability to the Group. Owing to the adoption of the HKAS 39, the advances from banks as consideration for the Factored Receivables of HK$47.2 million for the year under review has been reclassified and included as the current liabilities. As such, this amount was no longer a contingent liability to the Group in respect of the financial year ended 31 March 2006.

As at 31 March 2006, the Company had guarantees given to banks in connection with facilities granted to its subsidiaries to the extent of approximately HK$84.1 million (2005: HK$70.0 million), of which HK$64.1 million (2005: HK$52.4 million) had been utilised at the balance sheet date.

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$0.2 million (2005: HK$0.5 million).

Pledge of Assets

As at 31 March 2006, the Group's assets pledged as security for banking facilities amounted to approximately HK$50.7 million (2005: HK$47.5 million).

Employment, Training and Remuneration Policy

During the year under review, the Group continued to reduce the size of its workforce and strengthen staff quality through staff development and training programmes. The Group had approximately 1,109 employees as at 31 March 2006 (2005: 1,121). Remunerations are commensurate with the nature of jobs, experience and market conditions. Eligible employees are offered discretionary bonuses and share options depending on the Group's performance and individual effort. The principle is reward for performance.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 12 September 2006 to Friday, 15 September 2006 (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 to be held on Friday, 15 September 2006, 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 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 11 September 2006.

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
26 July 2006