

# Report of the Directors

The directors present their report and the audited financial statements of Nam Hing Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2006.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Company’s and the Group’s principal activities during the year.

## RESULTS AND DIVIDENDS

The Group’s loss for the year ended 31 March 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 36 to 104.

The directors did not recommend the payment of any dividends by the Company in respect of the year.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	Year ended 31 March				
	2006	2005	2004	2003	2002
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
		(Restated)	(Restated)	(Restated)	(Restated)
Revenue	<b>281,128</b>	277,082	257,599	223,722	218,046
Profit/(loss) before tax	<b>(6,988)</b>	6,004	(15,622)	(9,864)	(19,534)
Tax	<b>(159)</b>	(1,105)	38	(178)	(544)
Profit/(loss) for the year	<b>(7,147)</b>	4,899	(15,584)	(10,042)	(20,078)

**SUMMARY OF FINANCIAL INFORMATION** (continued)

	2006 HK\$'000	2005 HK\$'000 (Restated)	At 31 March		
			2004 HK\$'000 (Restated)	2003 HK\$'000 (Restated)	2002 HK\$'000 (Restated)
Property, plant and equipment	<b>172,968</b>	170,923	174,174	178,209	181,077
Investment properties	<b>20,980</b>	4,520	4,480	4,330	–
Prepaid land lease payments	<b>14,080</b>	14,097	13,525	13,876	14,257
Trademark	<b>2,226</b>	2,172	2,170	2,171	2,177
Current assets	<b>169,457</b>	117,316	131,487	122,117	122,307
Current liabilities	<b>(175,934)</b>	(104,721)	(119,280)	(114,221)	(99,302)
Net current assets/(liabilities)	<b>(6,477)</b>	12,595	12,207	7,896	23,005
Total assets less current liabilities	<b>203,777</b>	204,307	206,556	206,482	220,516
Long term portion of bank and other borrowings	<b>(8,245)</b>	(6,314)	(13,944)	(10,025)	(7,552)
Long term portion of finance lease payables	<b>(608)</b>	(1,248)	(1,749)	(3,927)	(7,414)
	<b>194,924</b>	196,745	190,863	192,530	205,550

**PROPERTY, PLANT AND EQUIPMENT**

Details of movements in the Group's property, plant and equipment are set out in note 13 to the financial statements.

**INVESTMENT PROPERTIES**

Details of movements in the Group's investment properties are set out in note 14 to the financial statements.

**SHARE CAPITAL AND SHARE OPTIONS**

Details of the Company's share capital and movements in the Company's share options during the year, together with the reasons therefor, are set out in note 25 to the financial statements.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year under review.

## **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 26 to the financial statements and in the consolidated statement of changes in equity, respectively.

## **DISTRIBUTABLE RESERVES**

At 31 March 2006, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$74,667,000. In addition, the Company's share premium account in the amount of HK\$124,711,000 may be distributed in the form of fully paid bonus shares.

## **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, the sales attributable to the Group's five largest customers accounted for less than 30% of the total sales for the year.

In the year under review, the purchases attributable to the Group's five largest suppliers accounted for approximately 41% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 14%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and five largest suppliers.

## **DIRECTORS**

The directors of the Company during the year and up to the date of this report were:

*Executive directors:*

Mr. Lau Kwai  
Mr. Lau Chung Yim  
Mr. Lau Chung Hung  
Mr. Lau Hing Hai  
Ms. Lau May Wah

*Independent non-executive directors:*

Mr. Chang Tso Tung Stephen  
Mr. Kwok Kwan Hung  
Mr. Leung Hon Ming

In accordance with clause 87 of the Company's Bye-laws, Mr. Lau Kwai, Mr. Lau Chung Yim, Mr. Lau Hing Hai and Mr. Leung Hon Ming will retire as directors of the Company by rotation at the Company's forthcoming annual general meeting. All of the above four retiring directors, being eligible, will offer themselves for re-election at the meeting.

The Company has received confirmation of independence from each of Mr. Chang Tso Tung Stephen, Mr. Kwok Kwan Hung and Mr. Leung Hon Ming and considers they meet the requirements of the independence guidelines as set out in Rule 3.13 of The Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

## **BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF**

*Executive directors:*

Mr. Lau Kwai, aged 86, is the chairman of the Group. He is responsible for overseeing the strategic direction of the Group. He founded the Group in 1977 and has over 40 years' experience in the laminate and printed circuit board ("PCB") industries. He is a member of Hong Kong Chiu Kiu Fraternity Ltd.

## BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF (continued)

### *Executive directors: (continued)*

Mr. Lau Chung Yim, aged 56, is the managing director of the Group and a son of Mr. Lau Kwai. He is responsible for corporate planning and overall operation of the Group. He holds a bachelor's degree in mechanical engineering from the University Mass at Lowell, United States of America (the "USA") and is a registered professional engineer in the province of Ontario, Canada. He joined the Group in 1977 and has over 30 years' experience in the production of laminates and PCBs.

Mr. Lau Chung Hung, aged 53, is a son of Mr. Lau Kwai and is responsible for business development of the Group. He holds a master's degree in business administration from the University of East Asia, Macau, a post-graduate diploma in corporate administration from City University of Hong Kong, Hong Kong and a diploma in business administration from Shue Yan College, Hong Kong. Mr. Lau is an associate member of The Hong Kong Institute of Company Secretaries (the "HKICS") and The Institute of Chartered Secretaries and Administrators. He joined the Group in 1977 and has over 32 years' experience in the trading of laminates and PCBs.

Mr. Lau Hing Hai, aged 51, is a son of Mr. Lau Kwai and is in charge of the corporate policies and corporate development of the Group. He holds a bachelor's degree in business administration from the University of Southwestern Louisiana, the USA. He joined the Group in 1978 after his graduation and has 28 years' experience in the corporate product lines and market development.

Ms. Lau May Wah, aged 59, is a daughter of Mr. Lau Kwai and is the general manager of Nam Hing Circuit Board (Dongguan) Co., Ltd and responsible for the PCB operation of the Group. She joined the Group in 1977 and has over 32 years' experience in the PCB industry.

### *Independent non-executive directors:*

Mr. Chang Tso Tung Stephen, aged 57, is the Chairman of the audit committee and a remuneration committee member of the Company. Mr. Chang graduated from London University with a bachelor's degree in science in 1973. He is a fellow member of both of The Hong Kong Institute of Certified Public Accountants (the "HKICPA") and The Institute of Chartered Accountants in England and Wales. He had worked in Messrs Ernst & Young, Hong Kong ("E&Y"), a certified public accounting firm, for around 30 years and retired in December 2003. His last position held in E&Y was Deputy Chairman. He has extensive experience in accounting, auditing and financial management. He was appointed as an independent non-executive director of the Company on 1 April 2005.

**BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF** (continued)

*Independent non-executive directors: (continued)*

Mr. Kwok Kwan Hung, aged 40, is an audit committee member of the Company and the Chairman of the remuneration committee of the Company. He is a fellow member of both the HKICPA and The Association of Chartered Certified Accountants (the "ACCA"). He is a qualified accountant with a bachelor degree from the University of London. He is presently an executive director and a responsible officer of Henco Capital Limited, a licensed corporation registered under the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, and provides corporate finance advisory services. Moreover, he also served for two investment banking groups and one of the "big four" international accounting firms in Hong Kong. He was appointed as an independent non-executive director of the Company in 2004.

Mr. Leung Hon Ming, aged 53, is an audit committee member of the Company. He is a director of Seniorman Design Limited. He holds a bachelor's degree in architecture from the University of Southwestern Louisiana, the USA. He is a member of the Hong Kong Institute of Architects and the Royal Institute of British Architects, and has been registered as an Authorised Person (List 1) since 1981. Mr. Leung has over 25 years of professional experience in architectural, interiors and urban planning in Hong Kong and the Mainland China. He was appointed as a non-executive director in 1994.

*Senior management staff:*

Mr. Lau Chung Pun Daniel, aged 39, is a son of Mr. Lau Kwai and is the Assistant General Manager of Zhongshan Nam Hing Insulating Material Limited. He holds a bachelor's degree and a master's degree in electrical engineering from the University of Southern California, the USA. He had extensive experience in computer software simulations before joining the Group in 1995.

Mr. Fong Hoi Shing, aged 42, joined the Group as a financial controller, qualified accountant and company secretary in June 2006. He holds a postgraduate diploma in corporate administration and a higher diploma in accountancy from The Hong Kong Polytechnic University. He is an associate member of the HKICPA and the HKICS. He is also an independent non-executive director of a listed company in Hong Kong. He has extensive experience in accounting, finance and management.

Ms. Ip Sau Wah Katherine, aged 46, is the administrative manager of the Group. She joined the Group in 1997 and has extensive experience in office administration and human resources field.

Mr. Lau Yuen Cheong, aged 46, is the Assistant General Manager of Suzhou Nam Hing Industrial Laminate Limited. He holds a Bachelor degree in Chemistry from the National Taiwan University. Mr. Lau joined the Group in October 2004 and has more than 21 years working experience in manufacturing industries gained in multinational environment.

## BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF (continued)

*Senior management staff: (continued)*

Mr. Meemarayart Thitipun, aged 44, is the Assistant General Manager of Bangkok Industrial Laminate Company Limited. He holds a Bachelor degree in Engineering from the Khon Khaen University in Thailand. Mr. Meemarayart joined the Group in August 2005 and has more than 18 years' working experience in electronics industries mostly gained in multinational environment.

Mr. Vittaya Rugbumrung, aged 47, is the Maintenance and Project Manager and the Deputy to the Assistant General Manager of Bangkok Industrial Laminate Company Limited. He holds a Diploma in Electrical Power Technology from South-East Asia College. Mr. Vittaya joined the Group in March 1994 and has 23 years in manufacturing industries.

## SHARE OPTION SCHEME

Concerning the share options granted to the directors and employees, as detailed in note 25 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because the option pricing models are subject to certain fundamental limitations, and were developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions, including expected share price volatility. Accordingly, the directors believe that any calculation of the value of options may not be meaningful and may be misleading to shareholders.

## DIRECTORS' SERVICE CONTRACTS

On 1 January 2006, the Company entered into service contracts with each of the executive directors for the provision of management services by these directors to the Group for a term of three years.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

During the year, one of the directors has received interest amounting to HK\$151,000 for the advance to the Company. The Company also had service contracts with certain directors, as disclosed in the section headed "Directors' service contracts" above.

Apart from the above, no director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2006, the interests of the directors of the Company in the shares of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO") (including interests which he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

Interests in the Company:

Name of director	Long/ short position	Capacity	Notes	Number of ordinary shares of the Company interested	Percentage of the Company's issued share capital
Mr. Lau Kwai	Long	Beneficial owner		1,500,000	0.37
	Long	Founder of a discretionary trust	(a)	87,696,000	21.82
	Long	Founder of a discretionary trust	(b)	42,078,400	10.47
	Long	Founder of a discretionary trust	(c)	15,851,200	3.94
Mr. Lau Chung Yim	Long	Beneficial owner		32,690,000	8.14
	Long	Beneficiary of a discretionary trust	(a)	87,696,000	21.82
	Long	Beneficiary of a discretionary trust	(b)	42,078,400	10.47
Mr. Lau Chung Hung	Long	Beneficial owner		16,000,000	3.98
	Long	Beneficiary of a discretionary trust	(a)	87,696,000	21.82
Mr. Lau Hing Hai	Long	Beneficiary of a discretionary trust	(a)	87,696,000	21.82
	Long	Beneficiary of a discretionary trust	(c)	15,851,200	3.94
Ms. Lau May Wah	Long	Beneficial owner		19,039,200	4.74
	Long	Beneficiary of a discretionary trust	(a)	87,696,000	21.82
Mr. Leung Hon Ming	Long	Beneficial owner		150,000	0.04

Notes:

- (a) The shares were held by Woohei Inc. as trustee of The Woohei Unit Trust, all the units (other than one unit which was beneficially owned by Mr. Lau Kwai's spouse, Ms. Fong Shun Yum) of which were beneficially owned by The Lau Kwai Trust, a discretionary trust the beneficiaries of which included the family members of Mr. Lau Kwai.
- (b) The shares were held by Dragon Power Inc. as trustee of The Dragon Power Unit Trust, all the units (other than one unit which was beneficially owned by Mr. Lau Chung Yim's spouse, Ms. Tam Wai Ling Josephine) of which were beneficially owned by The Jopat Trust, a discretionary trust, the beneficiaries of which included Mr. Lau Chung Yim, his spouse and issue.



## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Notes: (continued)

- (c) The shares were held by Inland Inc. as trustee of The Inland Unit Trust, all the units (other than one unit which was beneficially owned by Mr. Lau Hing Hai's spouse, Ms. Chan Ka Lam) of which were beneficially owned by The Hingka Trust, a discretionary trust the beneficiaries of which included Mr. Lau Hing Hai, his spouse and issue.

In addition to the above, as at 31 March 2006, certain directors of the Company held shares in certain subsidiaries of the Company in a non-beneficial capacity, solely for the purpose of complying with the previous requirement of a minimum number of two shareholders.

Save as disclosed herein, as at 31 March 2006, none of the directors or chief executive of the Company had any interest/short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the share option scheme disclosures in note 25 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, or their associates, to acquire such benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the directors who are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the directors have been appointed or were appointed as directors to represent the interests of the Company and/or the Group, pursuant to the Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 March 2006, the following persons, not being a director or chief executive of the Company, had an interest in the shares of the Company, as recorded in the register required to be kept under Section 336 of the SFO or as the directors are aware:

Name of substantial shareholder	Long/ short position	Capacity	Notes	Number of ordinary shares of the Company interested	Percentage of the Company's issued share capital
Ms. Chan Ka Lam	Long	Interest of spouse	(a)	103,547,200	25.77
Ms. Fong Shun Yum	Long	Interest of spouse	(b)	147,125,600	36.61
Mr. Lo Tin Yuen	Long	Interest of spouse	(c)	106,735,200	26.56
Ms. Tam Wai Ling Josephine	Long	Interest of spouse	(d)	162,464,400	40.43
Ms. Wong Yuk Ching	Long	Interest of spouse	(e)	103,696,000	25.81
Woohei Inc.	Long	Trustee	(f)	87,696,000	21.82
Dragon Power Inc.	Long	Trustee	(f)	42,078,400	10.47
MeesPierson Trust (Asia) Limited	Long	Trustee	(f) & (g)	145,625,600	36.24

Notes:

- (a) Ms. Chan Ka Lam was deemed to be interested in 103,547,200 shares of the Company through interest of her spouse, Mr. Lau Hing Hai.
- (b) Ms. Fong Shun Yum was deemed to be interested in 147,125,600 shares of the Company through interest of her spouse, Mr. Lau Kwai.
- (c) Mr. Lo Tin Yuen was deemed to be interested in 106,735,200 shares of the Company through interest of his spouse, Ms. Lau May Wah.
- (d) Ms. Tam Wai Ling Josephine was deemed to be interested in 162,464,400 shares of the Company through interest of her spouse, Mr. Lau Chung Yim.
- (e) Ms. Wong Yuk Ching was deemed to be interested in 103,696,000 shares of the Company through interest of her spouse, Mr. Lau Chung Hung.
- (f) These interests have also been disclosed as the interests of Mr. Lau Kwai/Mr. Lau Chung Yim/Mr. Lau Chung Hung/Mr. Lau Hing Hai/Ms. Lau May Wah in the section headed "Directors' interests and short positions in shares and underlying shares" above.
- (g) MeesPierson Trust (Asia) Limited was the Trustee of The Lau Kwai Trust, The Jopat Trust and The Hingka Trust and was therefore deemed to be interested in the 87,696,000 shares indirectly owned by The Lau Kwai Trust, 42,078,400 shares indirectly owned by The Jopat Trust and 15,851,200 shares indirectly owned by The Hingka Trust.

## **SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES**

(continued)

Save as disclosed herein, as at 31 March 2006, no person, other than the directors of the Company whose interests are set out in the section headed "Directors' interests and short positions in shares and underlying shares" above, had an interest or a short position in shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## **CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY**

The Company had adopted its code of conduct regarding directors' dealings in the securities of the Company (the "Own Code") on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all directors of the Company, the directors of the Company have complied with the required standard set out in the Model Code and the Own Code throughout the accounting period covered by the annual report.

## **PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

## **AUDITORS**

Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

**Lau Kwai**

*Chairman*

Hong Kong

26 July 2006