

# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors, I present the annual results of New Spring Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31st March 2003.

## Results summary

During the year under review, the Group's business was adversely affected by the slowdown in global economy and weak consumer spending. The Group's turnover for the year ended 31st March 2003 was HK\$156,042,000, decreased by 4.21% over prior year of HK\$162,904,000. Loss attributable to shareholders was HK\$5,384,000 (2002: profit of HK\$29,342,000). Basic loss per share was approximately 3.0 HK cents (2002: Basic earnings per share of 18.9 HK cents).

## Final dividend

The Directors did not recommend a final dividend for the year ended 31st March 2003.

## Business highlights

After our successful listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in November 2001, the Group's development and performance achieved promising results. However, under the influence brought by the persistent dwindling global economic conditions, all walks of life are confronted with dire challenges. The Group managed to sustain growth in our business performance in the year under review until the outbreak of the US-Iraq War in early 2003 resulting in gloomy global economic conditions. Along with the outbreak of the SARS epidemic in the People's Republic of China (the "PRC"), Hong Kong and other Southeast Asia regions in February and March 2003, a dramatic fall in the purchasing power of the consumers was resulted, which led to a considerable drop in the turnover of the Group's customers. As a result, the number of orders received by the Group was indirectly affected. In addition, there were increase in depreciation charges resulting from addition in fixed assets and increase in paper price, which were not decreased in line with turnover, therefore, the cost of sales remain stable although turnover dropped dramatically. Combining the above factors, the Group's overall performance was hampered when compared to last year's performance.

## BUSINESS REVIEW

### Packaging printing division

During the year under review, the packaging division's turnover amounted to approximately HK\$94,339,000, accounted for approximately 60.46% of the total turnover, representing an increase of approximately 5.54% over prior year. The brewers' demand for wine boxes in the PRC increased continuously and the Group successfully solicited additional number of end users. Besides, the Group was appointed as the main printing company by a listed company in Hong Kong.

The Group also invested in the trademark labels and lenticular printing industry by setting up several subsidiaries during the year under review with an aim to diversify the business. These subsidiaries generated turnover totaling HK\$11,000,000 in the year under review.

The Group installed a new full sized printing press in June 2002 and purchased additional equipment for processing in later production phases. The installation of advanced production facilities by the Group is served to provide the customers with top quality products and comprehensive value-added services, for consolidating its printing and packaging business and capturing greater market share.

### Paper gifts division

The paper gifts division's turnover amounted to approximately HK\$30,745,000, accounted for approximately 19.70% of the total turnover, and decreased approximately 3.19% over prior year. The Group successfully expanded the business in paper gifts division and developed new products including lenticular plastic products and other paper bags and gift boxes manufactured in use of new design and innovative techniques, aiming at exploring the paper gifts market in a holistic approach.

In addition, in view of the enormous development opportunities in the paper bags and lenticular plastic products business, the Group's management has set up a separate engineering division to design new products and innovate new techniques to create top quality products to satisfy our clients.

### Promotional items division

The turnover of promotional items division amounted to approximately HK\$30,958,000, accounted for approximately 19.84% of the total turnover, representing a decrease of approximately 2.35% over prior year. During the year under review, the Group participated in exhibitions in the PRC, Hong Kong and abroad such as the 糖酒交易會 in the PRC and the 2003 Asian Expo in the United Kingdom. Many staff from the market development division represented the Group in the exhibitions to deliver thorough descriptions about the products and for marketing purpose. Positive feedbacks were received, while the Group successfully attained promotional purpose and gained new business.

## FINANCIAL HIGHLIGHTS

### Liquidity, financial resources and capital structure

The Group generally finances its operations with internally generated cash flow, finance leases and loan facilities from banks.

As at 31st March 2003, the Group had assets of approximately HK\$211,963,000. Current assets of the Group on that date amounted to approximately HK\$95,995,000 while current liabilities were HK\$93,212,000.

As at 31st March 2003, the Group's bank balances and cash amounted to HK\$5,572,000 and bank and other borrowings amounted to HK\$80,373,000.

The increase in borrowings of HK\$50,528,000 is mainly for financing the purchase of fixed assets of HK\$38,398,000 during the year. Moreover, in view of the outbreak of the US-Iraq War and the SARS, some of the customers were unable to settle their receivables as scheduled, which resulted for the increase of trade receivables of the Group, and also the Group's bank borrowings. The management has confidence that the trade receivables are recoverable because the Group has maintained close and good relationship with these customers, and they have excellent credit records, in addition, majority of the trade receivables are received subsequent to the year end date. The finance position is enhanced after receiving the settlements.

As at 31st March 2003, the Group's borrowings, excluding bank overdrafts, of approximately HK\$64,376,000, of which HK\$45,862,000 were payable within one year. The amounts of approximately HK\$10,862,000 and HK\$7,652,000 were repayable in the second year and the third to fifth years inclusive, respectively. The Group's borrowings were on floating interest rates basis.

As at 31st March 2003, the Group had aggregate composite banking facilities of approximately HK\$134,895,000, out of which approximately HK\$63,689,000 had been utilized.

As at 31st March 2003, the Group's cash holding was approximately HK\$5,572,000. The Directors are confident that with its cash holdings and banking facilities of approximately HK\$134,895,000, the Group is able to meet current and future operational and capital expenditure requirements.

The Group's gearing ratio, total debts divided by total assets, was approximately 52.71%.

## **FINANCIAL HIGHLIGHTS** *(Continued)*

### **Exposure to foreign exchange fluctuation**

The Group's assets and borrowings were mainly denominated in HK dollars, whilst purchases and sales of the Group were mainly denominated in HK dollars, Renminbi or US dollars. In view of the stability of the exchange rate of HK dollars, Renminbi and US dollars, the directors consider that the Group has no significant exposure to foreign exchange fluctuation.

### **Details of the charge on Group's assets**

One of the properties in Hong Kong with an aggregate carrying value of HK\$1,946,000 and bank deposits of HK\$3,500,000 have been pledged to secure the bank loans and overdrafts of the Group by way of a fixed charge.

### **Contingent liabilities**

As at 31st March 2003, the Company has provided guarantees to banks in respect of banking facilities granted to its subsidiaries amounting to approximately HK\$56,614,000.

### **Details of material acquisition**

During the year, the Group acquired two subsidiaries, New Pearl Hot Stamping & Packaging Limited and Pronto Print Limited, at a total consideration of HK\$14,800,000 and goodwill arising from the acquisitions amounted to HK\$13,077,000.

## FINANCIAL HIGHLIGHTS *(Continued)*

### Use of proceeds

The Company raised approximately HK\$30.4 million from the new issue and placing share in November 2001. During the years ended 31st March 2002 and 2003, the Company has fully applied the net proceeds for those intended purposes as specified in the prospectus of the Company dated 30th October 2001 and as follows:

- as to approximately HK\$12 million for the addition and upgrading of printing machinery in the PRC;
- as to approximately HK\$10 million for diversification into new product types and development of overseas markets;
- as to approximately HK\$5 million for repayment of the Group's bank loans; and
- as to the balance of approximately HK\$3.4 million as general working capital of the Group.

### Employment and remuneration policy

As at 31st March 2003, the Group employed a total of approximately 320 staff for its operations in Hong Kong and the PRC. An additional work force of approximately 1,410 were provided by Sha Jing factory in the production facilities in Sha Jing under the Processing Agreement. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. Share options may also be granted to staff with reference to the individual's performance.

## OPERATION REVIEW AND STRATEGIES

### Upgrading the operating efficiency

Achieving operating efficiency is an enterprise's key to success, stringent quality control is also a means to improve operating efficiency. Quality control checks are conducted in the factory in Sha Jing Zhen throughout different stages of the production process. Incoming raw materials are periodically tested against the relevant customer's technical specifications. The Group employed independent quality control staff responsible for ensuring that the final products are up to the exact design and specifications of the customers and the stipulated standards of the Group.

## OPERATION REVIEW AND STRATEGIES *(Continued)*

### Catering for the market needs

During the year under review, prior to developing new products, the Group would first comprehend customers' needs in order to strengthen the market consciousness. The Group covered not only the local and the PRC markets but also the international market, and take the market-oriented approach to plan production according to the market needs and demand for perfect timeliness.

As such, the Group would keep abreast of market intelligence and adjust the product structure flexibly. Currently, the issue of environmental protection is a worldwide common topic, packaging industry therefore must be able to be directed by the market and strengthen the consciousness of environmental issues.

### Enhancement of the product development

During the year, through dedicated efforts in the adjustment of the research and development system, strategic adjustment of product structure and the development of products suiting the market, the Group gained a new source of profit increment. As the printing and packaging industry is undergoing fast development, the Group is importing many advanced equipment and presses to enhance the printing and packaging capabilities.

## PROSPECTS

In spite of the discouraging business environment, arising from the outbreak of the US-Iraq War and the SARS, and the fierce competition in the market, through its efficient management strategies and prudent cost control policies, the Group is dedicated to striving for its long-term development with an aim to sustain stable growth. The Group believes that the future prospect of the printing industry is prosperous and with rapid growth.

The comprehensive quality packaging and printing products provided by the Group increase the demand by the PRC and overseas markets, which brings about enormous business opportunities. The Group is dedicated to maintaining close relationship and cooperation with the customers for assuring the quality of all the products to match against the customers' specifications and to provide them with value-added services such as aiding the clients carrying out product development and providing packaging design matched against the customers' specifications. Besides, the Group will keep developing its businesses in the production of lenticular plastic products, paper bags and trademarks so as to broaden the product mix for meeting the ever-changing market needs.

To open up Hong Kong, the PRC and overseas markets and to consolidate the customer base, the Group will strengthen its promotion activities through establishing representative offices and participating in exhibitions in Hong Kong, the PRC and abroad. For instance, the Group has confirmed to participate in the 12th Hong Kong International Toys & Gifts Show and the 11th Asian Gifts Premium & Household Products Show to be held between 21st and 24th October 2003 at Hong Kong Convention & Exhibition Centre. The Group will proactively launch promotion activities for boosting its publicity and enlarging its market share.

## **PROSPECTS** *(Continued)*

Leveraging on its continual enhancement of product quality and operation strategies, as well as the upgrade of machineries and facilities, the Group is well poised to attain economies of scale through expanding the production facilities and will be in full strength to foster market development and have fruitful achievements.

## **ACKNOWLEDGEMENT**

I would like to take this opportunity to extend my heartfelt appreciation to our management team and staff for their dedicated efforts and significant contributions to the Group. I would also like to express our gratitude to our business partners and shareholders for their continued support.

**NG Man Chan**

*Chairman*

Hong Kong, 28th July 2003