

HIGHWAY HOLDINGS LTD
Form 20-F
June 30, 2006

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934

or

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2006.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-28990

HIGHWAY HOLDINGS LIMITED

(Exact name of Registrant as specified in its charter)

British Virgin Islands

(Jurisdiction of incorporation or organization)

Suite 810, Level 8, Landmark North
39 Lung Sum Avenue
Sheung Shui
New Territories, Hong Kong
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act: None

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Title of each class

Common Shares, \$0.01 par value per share

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: NONE

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 3,487,758 Common Shares were outstanding as of March 31, 2006.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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FORWARD - LOOKING STATEMENTS

Except for any historical information contained herein, the matters discussed in this Annual Report on Form 20-F contain certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operation and business. Forward-looking statements relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable, including statements about our future prospects, developments and business strategies. These forward-looking statements are identified by their use of terms and phrases such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” and “predict” and similar terms and phrases, including references to assumptions. The forward-looking statements involve risks and uncertainties that may cause our actual future activities and results of operations to be materially different from those suggested or described in this Annual Report on Form 20-F. These risks include: product demand; customer satisfaction and quality issues; labor disputes; competition; health and economic factors affecting China and Hong Kong; political relations between the United States and China; changes in policies by the Chinese government; currency exchange rate fluctuations; increased price competition; our ability to achieve and execute internal business plans; worldwide political instability and economic growth; and the impact of any economic downturns and inflation.

If one or more of these risks or uncertainties materializes, or if underlying assumptions prove incorrect, our actual results may vary materially from those expected, estimated or projected. Given these uncertainties, users of the information included in this Annual Report on Form 20-F, including investors and prospective investors are cautioned not to place undue reliance on such forward-looking statements. We do not intend to update the forward-looking statements included in this Annual Report.

CONVENTIONS

Highway Holdings Limited operates through various controlled subsidiaries. Unless the context indicates otherwise, all references herein to “the Company” refer collectively to Highway Holdings Limited and its subsidiaries. Unless otherwise stated, all references to “dollars” or \$ are to United States dollars.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable

Item 2. Offer Statistics and Expected Timetable

Not Applicable

Item 3. Key Information

Our historical Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and presented in United States dollars. The following selected statements of operations data for each of the three years in the period ended March 31, 2006 and the balance sheet data as of March 31, 2005 and 2006 are derived from our consolidated financial statements and notes thereto included in this Annual Report. The selected statements of operations data for each of the two year periods ended March 31, 2002 and 2003 and the balance sheet data as of March 31, 2002, 2003 and 2004 were derived from our audited financial statements, which are not included in this Annual Report. The selected information is qualified in its entirety by reference to, and should be read in conjunction with, such consolidated financial statements, related notes and

“Operating and Financial Review and Prospects” included as Item 5 in this report.

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Selected Consolidated Financial Information (In thousands, except per share data):

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|-----------|-----------|-----------|-----------|-----------|
| Statement of Operations | | | | | |
| Net sales | \$ 19,432 | \$ 20,370 | \$ 25,356 | \$ 27,678 | \$ 25,843 |
| Gross profit | 3,384 | 3,882 | 5,094 | 5,130 | 4,243 |
| Operating income (loss) | (241) | 159 | 875 | (269) | 602 |
| Net income (loss) | (231) | 485 | 982 | (152) | 42 |
| Dividend declared and paid ⁽¹⁾ | 0 | 0 | 237 | 323 | 1,389 |
| Per share amounts | | | | | |
| Net income (loss)-basic | \$ (0.08) | \$ 0.17 | \$ 0.32 | \$ (0.05) | \$ 0.01 |
| Net income (loss)-diluted | \$ (0.08) | \$ 0.17 | \$ 0.30 | \$ (0.05) | \$ 0.01 |
| Dividend declared & paid ⁽¹⁾ | 0 | 0 | 0.08 | 0.10 | 0.40 |
| Weighted average shares: | | | | | |
| Basic | 2,904 | 2,902 | 3,030 | 3,260 | 3,465 |
| Diluted | 2,904 | 2,902 | 3,258 | 3,260 | 3,544 |
| Balance Sheet Data | | | | | |
| Property, plant and equipment, net | \$ 4,243 | \$ 3,657 | \$ 3,780 | \$ 3,473 | \$ 2,787 |
| Working capital | 6,716 | 7,753 | 8,774 | 9,850 | 9,960 |
| Total assets | 15,701 | 16,494 | 18,688 | 20,100 | 18,891 |
| Long term debt | 112 | 230 | 385 | 967 | 803 |
| Shareholders' equity | 11,466 | 11,907 | 12,842 | 13,058 | 12,274 |

(1) Dividends declared for all periods were declared as cash dividends.

RISK FACTORS

The Company's business and operations involve numerous risks, some of which are beyond the Company's control, that may affect future results and the market price of the Company's Common Shares. The following discussion highlights some of the risks the Company faces.

Risks Relating to Operating in China

Dependence on Agreements with Chinese State-Owned Enterprises. All of the Company's operations are currently dependent on its manufacturing operations conducted at three facilities in China. The principal facility, at which over 85% of the Company's operations were conducted during the fiscal year ended March 31, 2006, is located in Long Hua, Shenzhen, China. Pursuant to its six leases (the "Premises Leases"), the Company utilizes approximately 450,000 square feet of space for manufacturing operations and dormitory facilities at the site of its principal factory complex in Long Hua, Shenzhen. The Company's operations in Long Hua, Shenzhen, are conducted pursuant to agreements entered into between certain China companies set up by the local government and the Shenzhen City Baoan District Foreign Economic Development Head Company and its designees (collectively, the "BFDC") (the agreements, collectively the "BFDC Agreements"). The Premises Leases currently expire on February 28, 2009. However, the Premises Leases may be terminated at any time prior to 2009 by either the Company or the landlord upon six months notice to the other party. Should the landlord elect to terminate the Premises Leases before 2009, or should the Premises Lease be terminated for any other reason, the entire operations of the Company would have to be relocated to other facilities. Any such relocation would be costly and would disrupt the Company's operations. Any unplanned termination by the landlord would have a severe adverse affect on the Company, its operations, its viability and its financial condition. While the Company believes that it could find suitable alternative facilities, the terms of such alternate facilities could be le