



NANYANG HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)



Interim Report 2003

Contents

Page

Management commentary

1 - 3

Condensed consolidated profit and loss account

4

Condensed consolidated balance sheet

5

Condensed consolidated statement of changes in equity

6

Condensed consolidated cash flow statement

7

Notes to the condensed interim accounts

8 - 13

The Board of Directors of Nanyang Holdings Limited is pleased to announce that the unaudited Group results for the six months ended 30th June 2003 showed a profit of HK\$21.4 million (2002 : loss of HK\$12.2 million as restated). The current period's profit was due to contribution from portfolio investments. Earnings per share was HK\$0.46 (2002 : loss per share HK\$0.26 as restated).

Business Review

Textile Operations

Profits at the Company's 64.7% joint venture in Shanghai, Shanghai Sung Nan Textile Company Limited, declined substantially in the first six months of this year due to increase in the price of cotton and the very soft market in the U.S.A.

Southern Textile Company Limited, the Company's 45% joint venture in Shenzhen, performed satisfactorily and should continue to contribute. The occupancy at the company's main asset, a factory building, was affected briefly by SARS and now has recovered.

Real Estate

During the first half of 2003, the outbreak of SARS and the weak local economy affected the office rental market. At the moment, of the 290,000 sq.ft. of industrial/office space the Company holds at Nanyang Plaza, 89.8% is leased. Occupancy and rental rates at the building declined and are expected to continue to be pressured in the second half due to competition from the other prime office buildings in the area.

Trading Investments

World equity markets which were down slightly during the first quarter of this year have since rebounded with impressive gains. We made certain adjustments to our investment strategy by increasing equities, reducing bond holdings and shortening the maturity of the bonds we are holding. For the six months ended June 2003, the Company's investment portfolios increased by 4.8%. In July and August, the performance of the portfolios continued to improve. Presently, we are still maintaining a relatively conservative posture for our investment portfolios. As at the end of August 2003, approximately 39% of the funds were invested in equities of which 59% was in the U.S. market, 17% in alternative strategies, 20% in bonds and the balance of 24% in cash and money market instruments.

Financial Position

As at 30th June 2003, the Company had net current assets of HK\$364 million with no external borrowings (31/12/2002: HK\$353 million).

Chairman and New Director

At the Board meeting held earlier today, it was resolved that Mr. Rudolf Bischof who has been a Director of the Company since 1998, be appointed as the Chairman of the Company. It was also resolved that Ms. Jennie Chen, the Company's Financial Controller, be appointed as a new Director.

Purchase, Sale or Redemption of Shares

During the period, the Company has purchased a total of 141,500 shares of the Company on The Stock Exchange of Hong Kong Limited, all of which have been subsequently cancelled. The Directors consider that the repurchase of shares will benefit the shareholders by enhancing the net assets per share. Such repurchases were as follows:

<i>Month of repurchase</i>	<i>Number of shares purchased</i>	<i>Price paid per share</i>		<i>Amount paid before expenses</i> HK\$
		<i>Highest</i> HK\$	<i>Lowest</i> HK\$	
2003				
January	20,000	4.80	4.65	94,500
February	20,000	4.65	–	93,000
March	10,000	4.65	–	46,500
April	7,000	4.70	4.50	31,900
May	30,500	5.70	5.10	159,950
June	54,000	5.70	5.40	304,500
	<u>141,500</u>			<u>730,350</u>

Saved as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any shares of the Company during the period.

Directors' Interests

As at 30th June 2003, the interests of the Directors and Chief Executive in the share capital of the Company as recorded in the Register of Directors'/Chief Executive's Interests and Short Positions maintained under Section 352 of the Securities and Futures Ordinance were as follows:-

Ordinary shares of HK\$0.10 each of the Company

<i>Name</i>	<i>Personal interests</i>	<i>Family interests</i>	<i>Corporate interests</i>	<i>Other interests</i>	<i>% of the issued share capital</i>	
					<i>Total</i>	<i>capital</i>
Y. C. Wang	3,625,446	–	–	–	3,625,446	7.855
H. C. Yung	10,701,944	30,000	5,500,000 (Note)	–	16,231,944	35.170
Lincoln C. K. Yung	2,240,000	10,000	–	–	2,250,000	4.875
Sir Sidney Gordon <i>(resigned as a Director with effect from 1st August, 2003)</i>	11,000	–	–	–	11,000	0.024
Rudolf Bischof	100,000	–	–	–	100,000	0.217

Note: As stated below, Mr. H. C. Yung is taken to be interested in the same 5,500,000 shares owned by a substantial shareholder, Tankard Shipping Co. Inc. pursuant to the Securities and Futures Ordinance.

During the period, the Company has not granted to any Directors, Chief Executive or their respective spouses and children under 18 years of age any rights to subscribe for shares of the Company.

At no time during the period was the Company or its subsidiaries a party to any arrangement to enable the Directors or Chief Executive or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders

As at 30th June 2003, the Register of Substantial Shareholders' Interests and Short Positions maintained under Section 336 of the Securities and Futures Ordinance shows that the following party, other than those of the Directors as disclosed above, was interested in five per cent. or more of the issued share capital of the Company:-

	<i>Number of shares</i>	<i>% of the issued share capital</i>
Tankard Shipping Co. Inc.	5,500,000 (Note)	11.917

Note: Mr. H. C. Yung is taken to be interested in the same 5,500,000 shares owned by Tankard Shipping Co. Inc. pursuant to the Securities and Futures Ordinance.

Corporate Governance

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"), except that the non-executive directors have not been appointed for a specific term but are subject to retirement by rotation in accordance with the Bye-laws of the Company.

Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited condensed interim accounts for the six months ended 30th June 2003 with the directors.

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30TH JUNE 2003**

		Unaudited	
		Six months ended 30th June	
	Note	2003	As restated
		HK\$'000	2002
			HK\$'000
Turnover	2	42,256	2,995
Direct costs		(6,682)	(5,883)
Gross profit/(loss)		35,574	(2,888)
Administrative expenses		(17,446)	(15,853)
Other operating expenses		(1,663)	(2,400)
Operating profit/(loss)	3	16,465	(21,141)
Finance costs		(162)	(128)
Share of profits of jointly controlled entities		6,262	10,254
Profit/(loss) before taxation		22,565	(11,015)
Taxation	4	(1,206)	(1,193)
Profit/(loss) for the period		21,359	(12,208)
Earnings/(loss) per share	6	HK\$0.46	(HK\$0.26)

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30TH JUNE 2003

	Note	Unaudited 30th June 2003 HK\$'000	As restated Audited 31st December 2002 HK\$'000
Non-current assets			
Fixed assets	7	291,419	291,818
Investments in jointly controlled entities		101,223	95,088
Non-trading investments		36,414	35,174
Deferred tax assets		131	114
		<u>429,187</u>	<u>422,194</u>
Current assets			
Trade and other receivables	8	31,851	6,508
Trading investments		350,578	329,783
Tax recoverable		557	556
Bank balances and cash		32,920	71,802
		<u>415,906</u>	<u>408,649</u>
Current liabilities			
Trade and other payables	9	50,944	34,772
Tax payable		754	642
Short term bank loans, secured		–	20,000
		<u>51,698</u>	<u>55,414</u>
Net current assets		<u>364,208</u>	<u>353,235</u>
		<u>793,395</u>	<u>775,429</u>
Financed by:			
Share capital	10	4,614	4,628
Reserves	11	781,656	759,645
Proposed dividend		–	4,628
Shareholders' funds		<u>786,270</u>	<u>768,901</u>
Non-current liabilities			
Deferred tax liabilities		7,125	6,528
		<u>793,395</u>	<u>775,429</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE 2003**

	Unaudited	
	Six months ended 30th June	
	2003	As restated 2002
	HK\$'000	HK\$'000
Opening balance - Total equity, as previously reported	775,315	856,062
Effect of adopting SSAP 12 (revised) (Note 1)	<u>(6,414)</u>	<u>(5,542)</u>
Opening balance - Total equity, as restated	768,901	850,520
Investments revaluation surplus	1,363	39
Exchange translation differences	<u>—</u>	<u>(54)</u>
Net profit/(loss) not recognised in the consolidated profit and loss account	1,363	(15)
Profit/(loss) for the period	21,359	(12,208)
Dividends	(4,622)	(4,650)
Shares repurchased and cancelled	(731)	(854)
Closing balance - Total equity	<u>786,270</u>	<u>832,793</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE 2003**

	Unaudited	
	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(16,235)	(24,022)
Net cash inflow from investing activities	2,705	3,575
Net cash (outflow)/inflow from financing activities	(25,352)	4,496
Effect of foreign exchange rate changes	—	(24)
Net decrease in cash and cash equivalents	<u>(38,882)</u>	<u>(15,975)</u>
Cash and cash equivalents at 1st January	<u>71,802</u>	<u>95,708</u>
Cash and cash equivalents at 30th June	<u><u>32,920</u></u>	<u><u>79,733</u></u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<u><u>32,920</u></u>	<u><u>79,733</u></u>

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1 Basis of preparation and accounting policies

The unaudited consolidated condensed interim accounts (“interim accounts”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants (“HKSA”).

The condensed interim accounts should be read in conjunction with the 2002 annual financial accounts.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2002 except that the Group has adopted SSAP 12 (revised) “Income taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

The change to the Group’s accounting policy and the effect of adopting the new policy is set out below:

Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior periods, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 11 to the interim accounts, opening retained profits at 1st January 2002 and 2003 have been reduced by HK\$5,542,000 and HK\$6,414,000 respectively, which represent the unprovided net deferred tax liabilities as at such dates. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31st December 2002 by HK\$114,000 and HK\$6,528,000 respectively, and a decrease in profit for the six months ended 30th June 2003 of HK\$580,000 (six months ended 30th June 2002: decrease in loss for the period of HK\$19,000).

2 Turnover and segment information

The Group is principally engaged in property investment, investment holding and trading, and textile trading. Turnover recognised during the period comprises the following:

	Six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
Gross rental income from investment properties	16,437	17,407
Net realised and unrealised profits/(losses) on trading investments	16,101	(24,492)
Dividend income from listed investments	510	932
Dividend income from unlisted investments	580	918
Interest income	2,184	991
Management fee income from investment properties	4,006	4,097
Commission income (Note 13)	2,438	3,142
	<u>42,256</u>	<u>2,995</u>

An analysis of the Group's turnover and contribution to profit/(loss) before taxation by principal activities and markets is as follows:

	Turnover		Profit/(loss) before taxation	
	Six months ended 30th June 2003 HK\$'000	2002 HK\$'000	Six months ended 30th June 2003 HK\$'000	2002 HK\$'000
Principal activities:				
Textile trading				
- Group	2,438	3,142	653	1,130
- jointly controlled entity	-	-	5,472	9,201
Property investment				
- Group	20,443	21,504	(982)	1,842
- jointly controlled entity	-	-	790	1,053
Investment holding and trading				
- Group	19,375	(21,651)	16,632	(24,241)
	<u>42,256</u>	<u>2,995</u>	<u>22,565</u>	<u>(11,015)</u>

	Turnover		Profit/(loss) before taxation	
	Six months ended 30th June 2003 HK\$'000	2002 HK\$'000	Six months ended 30th June 2003 HK\$'000	2002 HK\$'000
Principal markets:				
People's Republic of China (including Hong Kong)				
- Group	23,750	25,443	(460)	2,976
- jointly controlled entities	-	-	6,262	10,254
United States of America - Group	14,461	(25,220)	13,096	(27,066)
Europe - Group	1,935	(847)	1,779	(921)
Australia and New Zealand				
- Group	253	(51)	217	(45)
Others - Group	1,857	3,670	1,671	3,787
	<u>42,256</u>	<u>2,995</u>	<u>22,565</u>	<u>(11,015)</u>

3 Operating profit/loss

Operating profit/loss is stated after charging the following:

	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Depreciation	<u>399</u>	<u>492</u>

4 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Company and subsidiaries:		
Hong Kong profits tax	111	217
Deferred taxation	<u>580</u>	<u>(19)</u>
	691	198
Share of overseas taxation attributable to jointly controlled entities	<u>515</u>	<u>995</u>
	<u>1,206</u>	<u>1,193</u>

5 Dividends

	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
2002 final dividend, paid, of 10 HK cents (2001 final paid of 10 HK cents) per share	<u>4,622</u>	<u>4,650</u>

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2003 (2002: Nil).

6 Earnings/loss per share

The calculation of earnings/loss per share is based on the profit for the six months ended 30th June 2003 of HK\$21,359,000 (2002: loss of HK\$12,208,000 as restated) and the weighted average number of shares in issue during the period of 46,231,117 (2002: 46,447,860).

7 Fixed assets

	Investment properties HK\$'000	Other properties HK\$'000	Others HK\$'000	Total HK\$'000
Six months ended 30th June 2003				
Opening net book amount	287,000	4,464	354	291,818
Depreciation	–	(185)	(214)	(399)
Closing net book amount	<u>287,000</u>	<u>4,279</u>	<u>140</u>	<u>291,419</u>

8 Trade and other receivables

Included in trade and other receivables are trade receivables of HK\$25,239,000 (31.12.2002: HK\$368,000). The Group does not grant any credit to its customers. As at 30th June 2003 and 31st December 2002, all trade receivables are aged within 30 days.

9 Trade and other payables

Included in trade and other payables are trade payables of HK\$19,208,000 (31.12.2002: HK\$3,057,000) and the ageing analysis is as follows:

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Within 30 days	18,175	2,024
31 - 60 days	693	693
61 - 90 days	340	340
	<u>19,208</u>	<u>3,057</u>

10 Share capital

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Authorised:		
60,000,000 shares of HK\$0.10 each	<u>6,000</u>	<u>6,000</u>
Issued and fully paid:		
46,139,299 shares (31.12.2002: 46,280,799 shares) of HK\$0.10 each	<u>4,614</u>	<u>4,628</u>

During the period, the Company repurchased a total number of 141,500 (year ended 31.12.2002: 215,000) of its own shares on The Stock Exchange of Hong Kong Limited, all of which were then cancelled. The aggregate price of HK\$730,350 (year ended 31.12.2002: HK\$1,117,000) paid was charged against retained profits and the nominal value of the shares repurchased of HK\$14,000 (year ended 31.12.2002: HK\$22,000) was transferred to the capital redemption reserve.

11 Reserves

	Contributed surplus HK\$'000	Investment properties revaluation reserve HK\$'000	Investments revaluation reserve HK\$'000	Capital reserve on consolidation HK\$'000	General reserve HK\$'000	Statutory reserves HK\$'000	Exchange fluctuation reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2003, as previously reported	20,000	25,730	7,588	1,000	76,000	8,625	2,895	372	628,477	770,687
Effect of adopting SSAP 12 (revised) (Note 1)	—	—	—	—	—	—	—	—	(6,414)	(6,414)
At 1st January 2003, as restated	20,000	25,730	7,588	1,000	76,000	8,625	2,895	372	622,063	764,273
Profit for the period	—	—	—	—	—	—	—	—	21,359	21,359
Shares repurchased and cancelled	—	—	—	—	—	—	—	14	(731)	(717)
Investments revaluation surplus	—	—	1,363	—	—	—	—	—	—	1,363
Dividend	—	—	—	—	—	—	—	—	(4,622)	(4,622)
At 30th June 2003	<u>20,000</u>	<u>25,730</u>	<u>8,951</u>	<u>1,000</u>	<u>76,000</u>	<u>8,625</u>	<u>2,895</u>	<u>386</u>	<u>638,069</u>	<u>781,656</u>

	Contributed surplus HK\$'000	Investment properties revaluation reserve HK\$'000	Investments revaluation reserve HK\$'000	Capital reserve on consolidation HK\$'000	General reserve HK\$'000	Statutory reserves HK\$'000	Exchange fluctuation reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2002, as previously reported	20,000	82,730	9,011	1,000	76,000	7,387	2,922	350	652,012	851,412
Effect of adopting SSAP 12 (revised) (Note 1)	—	—	—	—	—	—	—	—	(5,542)	(5,542)
At 1st January 2002, as restated	20,000	82,730	9,011	1,000	76,000	7,387	2,922	350	646,470	845,870
Loss for the period, as restated	—	—	—	—	—	—	—	—	(12,208)	(12,208)
Shares repurchased and cancelled	—	—	—	—	—	—	—	16	(854)	(838)
Investments revaluation surplus	—	—	39	—	—	—	—	—	—	39
Exchange translation differences	—	—	—	—	—	—	(54)	—	—	(54)
Dividend	—	—	—	—	—	—	—	—	(4,650)	(4,650)
At 30th June 2002	<u>20,000</u>	<u>82,730</u>	<u>9,050</u>	<u>1,000</u>	<u>76,000</u>	<u>7,387</u>	<u>2,868</u>	<u>366</u>	<u>628,758</u>	<u>828,159</u>

12 Commitment under operating leases

At 30th June 2003, the Group had total future aggregate minimum lease payments under a non-cancellable operating lease for office premises as follows:

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Within one year	1,178	1,884
In the second to fifth year inclusive	–	236
	<u>1,178</u>	<u>2,120</u>

13 Significant related party transactions

During the period, agency commission income of HK\$2,438,000 (2002: HK\$3,142,000) was received by a subsidiary from a jointly controlled entity for handling sales of textile products for the jointly controlled entity. These transactions were entered into in the normal course of business of the Group and the commission income has been calculated at certain fixed percentages of the value of sales handled by the subsidiary.

On behalf of the Board

Rudolf Bischof
Chairman

Hong Kong, 4th September 2003