



# NAM FONG INTERNATIONAL HOLDINGS LIMITED

## 南方國際控股有限公司

(Incorporated in Bermuda with limited liability)

### INTERIM REPORT 2002

The Directors of Nam Fong International Holdings Limited (the "Company") announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2002 as follows:

#### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2002 – unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2002 \$'000	2001 \$'000
Turnover			
Cost of properties sold and rental outgoings	2, 3	16,840 (14,819)	36,959 (34,772)
Gross profit		2,021	2,187
Other revenue	3	968	345
Selling expenses		(150)	(2,700)
Administrative expenses		(8,873)	(27,661)
Other net operating income/(expenses)	4	2,698	(13,162)
Deficit on revaluation of investment properties		–	(120,000)
Provision for impairment of property held for/under development		–	(658,904)
Loss from operations		(3,336)	(819,895)
Finance costs		(5,740)	(8,425)
Loss before taxation	5	(9,076)	(828,320)
Taxation	6	–	–
Net loss attributable to shareholders		(9,076)	(828,320)
Basic loss per share	7	(0.67) cents	(60.9) cents

#### CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2002 – unaudited

(Expressed in Hong Kong dollars)

		30 June 2002 \$'000	31 December 2001 \$'000
<b>Non-current assets</b>			
Fixed assets		762	1,017
Investment properties		960,527	962,319
Properties held for/under development	8	583,089	587,557
<b>Total non-current assets</b>		<u>1,544,378</u>	<u>1,550,893</u>
<b>Current assets</b>			
Inventory of completed properties	9	15,581	16,562
Accounts receivable	10	6,277	11,519
Other receivables, prepayments and deposits		14,196	13,068
Pledged bank deposit		450	455
Bank and cash balances		1,168	1,384
<b>Total current assets</b>		<u>37,672</u>	<u>42,988</u>
<b>Current liabilities</b>			
Accounts payable	11	474,598	480,643
Other payables and accruals		194,357	182,377
Bank and other borrowings	12	42,300	48,830
Taxation	6	447,302	450,321
Unclaimed dividends		25,024	25,024
<b>Total current liabilities</b>		<u>1,183,581</u>	<u>1,187,195</u>
<b>Net current liabilities</b>		(1,145,909)	(1,144,207)
<b>Total assets less current liabilities</b>		398,469	406,686
<b>Non-current liabilities</b>			
Minority interests		(35,000)	(35,000)
<b>Net assets</b>		<u>363,469</u>	<u>371,686</u>
<b>Shareholders' equity</b>			
Share capital		136,000	136,000
Share premium		906,000	906,000
Other reserves		142,994	142,135
Accumulated losses		(821,525)	(812,449)
<b>Total shareholders' equity</b>	13	<u>363,469</u>	<u>371,686</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****For the six months ended 30 June 2002 – unaudited***(Expressed in Hong Kong dollars)*

	<b>Six months ended 30 June</b>	
	<b>2002</b>	<b>2001</b>
	<b>\$'000</b>	<b>\$'000</b>
Total shareholders' equity at 1 January	----- <b>371,686</b>	-----1,301,680
Transfer to profit and loss account on disposal	<b>2,304</b>	(21,537)
Deficit on revaluation of investment properties	-	(665,722)
Exchange differences arising on translation of financial statements of PRC subsidiaries	<b>(1,445)</b>	150
Net gain/(loss) not recognized in the profit and loss account	<b>859</b>	(687,109)
Net loss for the period	<b>(9,076)</b>	(828,320)
Total shareholders' equity at 30 June	<b><u>363,469</u></b>	<b><u>(213,749)</u></b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT****For the six months ended 30 June 2002 – unaudited***(Expressed in Hong Kong dollars)*

	<b>Six months ended 30 June</b>	
	<b>2002</b>	<b>2001</b>
	<b>\$'000</b>	<b>\$'000</b>
Net cash outflow from operating activities	<b>(435)</b>	(7,323)
Net cash inflow from investing activities	<b>488</b>	6,308
Net cash outflow from financing	<b>(6,500)</b>	(1,783)
Decrease in cash and cash equivalents	<b>(6,447)</b>	(2,798)
Effect of foreign exchange rates	<b>6,225</b>	68
Cash and cash equivalents at 1 January	<b>1,839</b>	4,058
Cash and cash equivalents at 30 June	<b><u>1,617</u></b>	<b><u>1,328</u></b>
<b>Analysis of the balances of cash and cash equivalents</b>		
Pledged bank deposit	<b>450</b>	447
Cash at bank and in hand	<b>1,168</b>	881
Bank overdraft	<b>(1)</b>	-
	<b><u>1,617</u></b>	<b><u>1,328</u></b>

**NOTES TO THE ACCOUNTS****1. Basis of preparation***(a) Going concern*

The Group recorded a net loss attributable to shareholders amounting to approximately HK\$9,076,000 for the six months ended 30 June 2002. As at 30 th June 2002, the Group had overdue bank and other borrowings together with relevant interest of approximately HK\$83,300,000.

The directors have considered the liquidity of the Group in light of the above and the funding requirements of the Group for the foreseeable future. The directors believe that the Group will be able to raise sufficient funds from rental income and disposal of properties to meet its financial obligations and liabilities. On this basis, the directors consider that it is appropriate to prepare the financial statements on a going concern basis.

*(b) Others*

This interim financial report is unaudited, but has been reviewed by the audit committee. The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

**NOTES TO THE ACCOUNTS** (Cont'd)

**1. Basis of preparation** (Cont'd)

(b) *Others* (Cont'd)

The accounting policies used in the preparation of the interim financial report are consistent with those used in the annual financial statements for the year ended 31 December 2001 except that disclosed below.

The following recently issued and revised SSAPs are effective for the first time in the preparation of the current period's interim financial report:

SSAP 1 (revised)	Presentation of financial statements
SSAP 11 (revised)	Foreign currency translation
SSAP 15 (revised)	Cash flow statements
SSAP 25 (revised)	Interim financial reporting
SSAP 34	Employee benefits

The effect of adopting these new or revised standards on the loss for the period is insignificant.

**2. Turnover**

Turnover comprises gross proceeds from sales of properties and rental income less sales tax.

**3. Turnover, revenues and segment information**

(a) *Turnover and revenues*

	<b>Six months ended 30 June</b>	
	<b>2002</b>	<b>2001</b>
	<b>\$'000</b>	<b>\$'000</b>
Turnover		
Proceeds from sales of properties		
– completed properties	351	2,284
– investment properties	3,517	21,917
	<u>3,868</u>	<u>24,201</u>
Rental income	12,972	12,758
	<u>16,840</u>	<u>36,959</u>
Other revenue		
Bad debts recovered	702	–
Interest income	45	99
Others	221	246
	<u>968</u>	<u>345</u>

(b) *Segment information*

A segmental analysis of the Group's principal activities is as follows:

	<b>Property sales</b>		<b>Property rental</b>		<b>Total</b>	
	<b>Six months ended</b>		<b>Six months ended</b>		<b>Six months ended</b>	
	<b>30 June</b>		<b>30 June</b>		<b>30 June</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
By principal activity						
TURNOVER						
External revenue	<u>3,868</u>	<u>24,201</u>	<u>12,972</u>	<u>12,758</u>	<u>16,840</u>	<u>36,959</u>
RESULTS						
Segment result	<u>(2,057)</u>	<u>(7,915)</u>	<u>3,928</u>	<u>(131,736)</u>	<u>1,871</u>	<u>(139,651)</u>
Other revenue					968	345
Unallocated corporate expenses					(6,175)	(680,589)
Finance costs					(5,740)	(8,425)
Loss before tax					(9,076)	(828,320)
Taxation					–	–
Net loss attributable to shareholders					<u>(9,076)</u>	<u>(828,320)</u>

NOTES TO THE ACCOUNTS (Cont'd)

3. Turnover, revenues and segment information (Cont'd)

(b) Segment information (Cont'd)

	30 June 2002 \$'000	31 December 2001 \$'000	30 June 2002 \$'000	31 December 2001 \$'000	30 June 2002 \$'000	31 December 2001 \$'000
<b>ASSETS</b>						
Segment assets	<u>21,331</u>	<u>27,256</u>	<u>961,054</u>	<u>963,144</u>	<u>982,385</u>	990,400
Unallocated corporate assets					<u>599,665</u>	<u>603,481</u>
Consolidated total assets					<u>1,582,050</u>	<u>1,593,881</u>
<b>LIABILITIES</b>						
Segment liabilities	<u>83,181</u>	<u>83,887</u>	<u>40,575</u>	<u>37,943</u>	<u>123,756</u>	121,830
Unallocated corporate liabilities					<u>1,059,825</u>	<u>1,065,365</u>
Consolidated total liabilities					<u>1,183,581</u>	<u>1,187,195</u>
<b>OTHER INFORMATION</b>						
Capital expenditure					5,476	112,660
Depreciation					292	1,082

No geographical analysis is shown as all the Group's turnover and loss from operations are derived from activities in the People's Republic of China (the "PRC").

4. Other net operating income/(expenses)

	Six months ended 30 June	
	2002 \$'000	2001 \$'000
Provision for doubtful debts for receivables and prepayments	-	(23,407)
Written back of provision for doubtful debts	-	7,207
Written back of provision for amounts due from related companies (note (a))	<u>2,698</u>	<u>3,038</u>
	<u>2,698</u>	<u>(13,162)</u>

(a) Provision is written back upon receipt of the amount previously provided for.

5. Loss before taxation

Loss before taxation is arrived at after charging:

	Six months ended 30 June	
	2002 \$'000	2001 \$'000
Cost of properties sold	5,925	27,105
Interest on borrowings	5,740	8,425
Depreciation charges	292	657
Provision for litigation claims	<u>-</u>	<u>14,149</u>

6. Taxation

Taxation in the unaudited balance sheet is the directors' best estimate on the basis of information available at 30 June 2002 of the probable amount payable by the Group in respect of the PRC tax as at 30 June 2002.

No provision for Hong Kong profits tax has been made in the interim financial report as there was no assessable profit for the period. No provision for overseas tax including the PRC has been made as the Group had no overseas assessable profit for the period.

**NOTES TO THE ACCOUNTS (Cont'd)**

**7. Loss per share**

(a) *Basic loss per share*

The calculation of the basic loss per share is based on the net loss for the period of approximately HK\$9,076,000 (30/6/2001: approximately HK\$828,320,000) and on 1,360,000,000 (30/6/2001: 1,360,000,000) ordinary shares in issue during the period.

(b) *Diluted loss per share*

Diluted loss per share is not presented because there were no dilutive potential ordinary shares in existence during the current period and the share options outstanding during period had no dilution effect on loss per share.

**8. Property held for/under development**

Properties held for/under development relate to the acquisition of the land use rights for a number of land sites within Guangdong Province, the PRC. At 30 June 2002, the total carrying value of these projects was approximately HK\$583,089,000 including the accruals of approximately HK\$238,360,000 on the cost of land and other development.

Pursuant to the terms of the purchase agreements regarding the aforesaid property development projects, unless the costs of which are settled and the projects completed within a scheduled period, the land sites will be treated as idle sites which could result in forfeiture of payments made to the vendors, termination of the purchase agreements and late payment penalties. In addition, the vendors could take legal action against the Group for compensation. As at the date of this report, the vendors have not instituted any legal action against the Group in relation to the aforesaid events. The directors believe that, given the Group's good relationship with the vendors, the vendors will be willing to negotiate with the Group for new terms and conditions regarding the purchase agreements and therefore no material adverse financial impact to the Group will be resulted.

**9. Inventory of completed properties**

The carrying amount of inventory of completed properties held for sales carried at net realizable value was approximately HK\$15,581,000 (31/12/2001: approximately HK\$16,562,000).

**10. Accounts receivable**

The ageing analysis of accounts receivable as at 30 June 2002 is as follows:–

	<b>At 30 June 2002 \$'000</b>	At 31 December 2001 \$'000
Within 3 months	714	3,137
4 – 6 months	3,823	27,735
7 – 12 months	–	2,059
Over 1 year	<u>121,193</u>	<u>99,033</u>
Total	<u>125,730</u>	131,964
Less: Provision for doubtful debts	<u>(119,453)</u>	<u>(120,445)</u>
	<u><u>6,277</u></u>	<u><u>11,519</u></u>

**11. Accounts payable**

The ageing analysis of accounts payable as at 30 June 2002 is as follows:–

	<b>At 30 June 2002 \$'000</b>	At 31 December 2001 \$'000
Within 3 months	2,407	3,447
4 – 6 months	–	–
7 – 12 months	–	63,294
Over 1 year	<u>472,191</u>	<u>413,902</u>
Total	<u><u>474,598</u></u>	<u><u>480,643</u></u>

NOTES TO THE ACCOUNTS (Cont'd)

12. Bank and other borrowings

Bank and other borrowings comprise:

	At 30 June 2002 \$'000	At 31 December 2001 \$'000
Bank loans	35,459	35,490
Bank overdraft	1	-
Other loans	6,840	13,340
Total	<u>42,300</u>	<u>48,830</u>
Analysed as:		
Secured	39,624	46,124
Unsecured	2,676	2,706
	<u>42,300</u>	<u>48,830</u>

13. Shareholders' equity

There was no movement in the share capital of the Company during the period under review.

	Share capital \$'000	Share premium \$'000	Other reserves \$'000	Accumulated losses \$'000	Total shareholders' equity \$'000
Balance at 1 January 2002	136,000	906,000	142,135	(812,449)	371,686
Transfer to profit and loss account on disposal	-	-	2,304	-	2,304
Translation of financial statements of PRC subsidiaries	-	-	(1,445)	-	(1,445)
Loss for the period	-	-	-	(9,076)	(9,076)
Balance at 30 June 2002	<u>136,000</u>	<u>906,000</u>	<u>142,994</u>	<u>(821,525)</u>	<u>363,469</u>

14. Pledge of assets

- (a) The Group pledged investment properties with valuation of approximately HK\$56,092,000 as at 31 December 2001 and bank deposit of approximately HK\$450,000 (31/12/2001: approximately HK\$455,000) as security for a bank loan of approximately HK\$32,784,000 (31/12/2001: approximately HK\$32,784,000) granted to a subsidiary (note 17(a)).
- (b) Investment properties of the Group with valuation of approximately HK\$26,880,000 as at 31 December 2001 were pledged to secure other loans of approximately HK\$6,540,000 (31/12/2001: approximately HK\$13,040,000) (note 17(b)).

15. Capital commitments

As at 30 June 2002, the Group had capital commitments not provided for in these financial statements as follows:

	At 30 June 2002 \$'000	At 31 December 2001 \$'000
Capital commitments in respect of construction in progress – contracted but not provided for	<u>374,318</u>	<u>383,598</u>

16. Material contingent liabilities

- (a) The Group has executed guarantees to banks for mortgage facilities granted to first buyers of certain properties of the Group in the PRC. The utilized amounts of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group at the balance sheet date amounted to approximately HK\$84,123,000 (31/12/2001: approximately HK\$84,277,000).
- (b) Guarantee given by the Company for a bank loan granted to subsidiary amounted to approximately HK\$32,784,000 (31/12/2001: approximately HK\$32,784,000) (note 14(a)).
- (c) In this connection with the contingent liabilities disclosed in 16(a), a total of 58 writs and claims had been served against a subsidiary in the PRC by a bank claiming for repayment of mortgage loans granted to certain buyers of the properties of the Group and interests totaling approximately HK\$139,080,000 (31/12/2001: approximately HK\$118,439,000) which were covered by the guarantees of the Group as set out above.
- (d) Contingent liabilities in connection with the Group's properties held for/under development are disclosed in note 8.
- (e) Contingent liabilities as disclosed in note 17 as post balance sheet events.

Save as disclosed above, neither the Company nor any members of the Group are engaged in any litigation or arbitration of material importance and, so far as the directors are aware, no litigation or arbitration of material importance is pending or threatened against any members of the Group.

## NOTES TO THE ACCOUNTS (Cont'd)

### 17. Post balance sheet events

- (a) The auction of certain investment properties pursuant to a judgement made against a subsidiary in October 2001 is still in process. The valuation of such investment properties as at 31 December 2001 was approximately HK\$56,092,000 (note 14(a)).
- (b) Announcements were made by the Company on 17 June, 12 September and 16 September 2002 regarding a litigation against the Company by a creditor. Two parties reached a settlement on 16 September 2002, on which the Company repaid HK\$1 million and the creditor was authorized to dispose mortgaged property premises of 2,326 square meters of the Group to settle the total outstanding balance, interest and relevant expenses. A dismissal order was issued by the court on that date. The valuation of the mortgaged property as at 31 December 2001 was approximately HK\$26,880,000 (note 14 (b)).

### INTERIM DIVIDEND

The directors have resolved not to declare the payment of an interim dividend for the six months ended 30 June 2002 (2001: Nil).

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Operations Review

During the period under review, the principal activities of the Group were the investment in properties held under development. As at 30 June 2002, the construction works of Yue Xiu Plaza project in Guangzhou have been progressed to the third floor of the commercial arcade and a construction area of 28,160 square meters has been completed. The construction progress is expedited.

The major source of income of the Group during the period under review was rental income from investment properties and sales proceeds of properties in the PRC. The rental income was approximately HK\$13.0 million (30/6/2001: approximately HK\$12.8 million), which is in line with the corresponding period of last year. The sales proceeds of properties were approximately HK\$3.9 million (30/6/2001: approximately HK\$24.2 million) and the decrease was mainly due to there was no property completed during the period.

#### Financial Review

As at 30 June 2002, the total borrowings of the Group amounted to approximately HK\$42.3 million and the gearing ratio (calculated as the ratio of net borrowings to shareholders' funds) was 11.6%, as compared to the respective total borrowings and gearing ratio of approximately HK\$48.8 million and 13.1% as at 31 December 2001. These borrowings were financed by bank loans and secured by the investment properties of the Group.

Since the cash or cash equivalents held, borrowings, revenue and expenses of the Group are denominated in either Hong Kong dollars or Chinese Renminbi or United States dollars, the Group does not anticipate any material foreign exchange exposure. There was neither foreign currency hedging activity nor financial instrument for hedging purposes during the period.

#### Prospects

Rental income from investment properties will continue to be the main source of recurring income of the Group. Under the steady economic growth in the PRC and its property market has been picking up, the Group will put considerable effort speeding up the construction progress of the properties held under development, in order that the project will make an early return. Meanwhile, the Group will evaluate the projects of properties for development and, based on the evaluation, dispose property assets in non-core areas so as to reduce borrowings of the Group; and start construction works of properties for development to keep the Group growing.

### EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2002, the Group had approximately 50 (31/12/2001: approximately 80) employees in Hong Kong and the PRC. They are remunerated according to the job nature, market conditions, individual performance and qualifications. Other staff benefits include share option scheme and year end bonus.

### DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

#### (1) Shares in the Company

As at 30 June 2002, the interests of directors or their associates in the share capital of the Company as recorded in the register kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of ordinary shares
Mr. Lai Tat Tung	400,000

*Note:* Mr. Lai Tat Tung had resigned as director of the Company with effect from 18 July 2002.

#### (2) Share options granted by the Company

The following share options were granted under the share option scheme approved by the shareholders of the Company on 4 November 1996 and outstanding as at 1 January 2002 and 30 June 2002:

Name of director	Date of grant	Exercise price/share	Expiry date	No. of share options	
				Balance as at 1/1/2002	Balance as at 30/6/2002
Mr. Tsang Hin Cho	25/7/1997	HK\$3.20	24/7/2003	4,000,000	4,000,000

#### **DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES (Cont'd)**

Save as disclosed above, none of the directors of the Company or their associates have any interest in the equity or debt securities of the Company or any of its associated corporations required to be recorded under section 29 of the SDI Ordinance as at 30 June 2002.

#### **ARRANGEMENT TO PURCHASE SHARES**

Under the share option scheme, the directors may, at their discretion, offer an option to any director or employee of the Company or any subsidiary to subscribe for shares of the Company, subject to the terms and conditions of the scheme.

During the period under review, no option was granted to or exercised under the share option scheme.

Save as disclosed above, at no time during the period was the Company or its subsidiaries a party to any arrangements to enable the directors or the chief executives of the Company, or their spouses or children under the age of 18, 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 30 June 2002, the register of substantial shareholders kept under Section 16(1) of the SDI Ordinance showed that the Company has been notified of the following substantial shareholders' interest, being 10% or more of the issued share capital of the Company:

<b>Name of shareholders</b>	<b>Number of ordinary shares</b>
Great Capital Holdings Limited ("GCH")	456,436,000 <i>Note (1)</i>
Sinowin Enterprises Limited	405,280,000 <i>Note (2)</i>

*Note:*

- (1) GCH had pledged a total of 291,436,000 shares of the Company to secure banking facilities for the group companies of GCH as at 30 June 2002.
- (2) A total of 405,280,000 shares of the Company had been charged to Guangdong Assets Management Limited and Guangdong Investment Limited, pending to release upon the settlement in full of a sale and purchase agreement.

Save as disclosed above, the Company has not been notified of any interest in the issued share capital of the Company required to be recorded under section 16(1) of the SDI Ordinance as at 30 June 2002.

#### **PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the period under review.

#### **AUDIT COMMITTEE**

The Company formed an audit committee in 1999 in accordance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The committee comprises two independent non-executive directors of the Company. The audit committee has reviewed with management the interim financial statements of the Group for the six months ended 30 June 2002.

#### **CODE OF BEST PRACTICE**

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not, in compliance with Appendix 14 of the Listing Rules throughout the period under review except that the independent non-executive directors are not appointed for a specific term as recommended.

By Order of the Board  
**Tong Shi Jun**  
Chairman

Hong Kong, 24 September 2002