



NAM FONG INTERNATIONAL HOLDINGS LIMITED

南方國際控股有限公司

(Incorporated in Bermuda with limited liability)

INTERIM REPORT 2003

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 2003 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2003 – unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2003 \$'000	2002 \$'000
Turnover	2, 3	9,406	16,840
Cost of properties sold and rental outgoings		(7,296)	(14,819)
Gross profit		2,110	2,021
Other revenue	3	585	968
Selling expenses		(53)	(150)
Administrative expenses		(10,645)	(8,873)
Other net operating income/(expenses)	4	(1,497)	2,698
Provision for claims		(6,896)	–
Loss from operations		(16,396)	(3,336)
Finance costs		(1,387)	(5,740)
Loss before taxation	5	(17,783)	(9,076)
Taxation	6	–	–
Net loss attributable to shareholders		(17,783)	(9,076)
Basic loss per share	7	(1.31) cents	(0.67) cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2003 – unaudited

(Expressed in Hong Kong dollars)

	Note	30 June	31 December
		2003 \$'000	2002 \$'000
Non-current assets			
Fixed assets		674	773
Investment properties		868,135	873,000
Properties held for/under development	8	489,324	487,354
Total non-current assets		1,358,133	1,361,127
Current assets			
Inventory of completed properties	9	9,895	9,899
Accounts receivable	10	1,550	2,233
Other receivables, prepayments and deposits		13,036	9,336
Pledged bank deposit		451	451
Bank and cash balances		972	970
Total current assets		25,904	22,889
Current liabilities			
Accounts payable	11	466,104	463,411
Other payables and accruals		278,167	263,902
Bank and other borrowings	12	44,563	46,422
Taxation	6	447,717	448,180
Unclaimed dividends		25,024	25,024
Total current liabilities		1,261,575	1,246,939
Net current liabilities		(1,235,671)	(1,224,050)
Total assets less current liabilities		122,462	137,077
Non-current liabilities			
Minority interests		(35,000)	(35,000)
Net assets		87,462	102,077
Shareholders' equity			
Share capital		136,000	136,000
Share premium		906,000	906,000
Other reserves		63,777	60,609
Accumulated losses		(1,018,315)	(1,000,532)
Total shareholders' equity	13	87,462	102,077

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2003 – unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
Total shareholders' equity at 1 January	102,077	371,686
Transfer to profit and loss account on disposal	1,731	2,304
Deficit on revaluation of investment properties	–	–
Exchange differences arising on translation of financial statements of PRC subsidiaries	1,437	(1,445)
Net gain/(loss) not recognized in the profit and loss account	3,168	859
Net loss for the period	(17,783)	(9,076)
Total shareholders' equity at 30 June	<u>87,462</u>	<u>363,469</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2003 – unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
Net cash outflow from operating activities	(7,654)	(435)
Net cash inflow from investing activities	706	488
Net cash outflow from financing	(500)	(6,500)
Decrease in cash and cash equivalents	(7,448)	(6,447)
Effect of foreign exchange rates	7,901	6,225
Cash and cash equivalents at 1 January	970	1,839
Cash and cash equivalents at 30 June	<u>1,423</u>	<u>1,617</u>
Analysis of the balances of cash and cash equivalents		
Pledged bank deposit	451	450
Cash at bank and in hand	972	1,168
Bank overdraft	–	(1)
	<u>1,423</u>	<u>1,617</u>

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

The Group recorded a net loss attributable to shareholders amounting to approximately HK\$17,783,000 for the six months ended 30 June 2003. As at 30 June 2003, the Group had overdue bank and other borrowings together with relevant interest of approximately HK\$79,742,000.

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 the disposal of properties to meet its financial obligations and liabilities and funding requirements for the development of the Yue Xiu Plaza project. The directors expect that the Group will be able to generate moderate profit and sufficient cash flow from the aforesaid project to support the Group's financial requirement. 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.

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 2002 except that the Group has adopted SSAP 12 (Revised) "Income Taxes", issued by the HKSA, which is effective for accounting period commencing on or after 1 January 2003. The effect of adopting that revised standard on the loss for the period is insignificant.

NOTES TO THE ACCOUNTS (Cont'd)

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

	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
Turnover		
Proceeds from sales of properties		
– completed properties	1,413	351
– investment properties	<u>114</u>	<u>3,517</u>
	1,527	3,868
Rental income	<u>7,879</u>	<u>12,972</u>
	<u>9,406</u>	<u>16,840</u>
Other revenue		
Bad debts recovered	570	702
Interest income	–	45
Others	<u>15</u>	<u>221</u>
	<u>585</u>	<u>968</u>

(b) Segment information

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

	Property sales		Property rental		Total	
	Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June	
	2003	2002	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
By principal activity						
TURNOVER						
External revenue	<u>1,527</u>	<u>3,868</u>	<u>7,879</u>	<u>12,972</u>	<u>9,406</u>	<u>16,840</u>
RESULTS						
Segment result	<u>(471)</u>	<u>(2,057)</u>	<u>2,581</u>	<u>3,928</u>	2,110	1,871
Other revenue					585	968
Unallocated corporate expenses					(19,091)	(6,175)
Finance costs					<u>(1,387)</u>	<u>(5,740)</u>
Loss before tax					(17,783)	(9,076)
Taxation					<u>–</u>	<u>–</u>
Net loss attributable to shareholders					<u>(17,783)</u>	<u>(9,076)</u>

NOTES TO THE ACCOUNTS (Cont'd)

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

(b) Segment information (Cont'd)

	30 June 2003 \$'000	31 December 2002 \$'000	30 June 2003 \$'000	31 December 2002 \$'000	30 June 2003 \$'000	31 December 2002 \$'000
ASSETS						
Segment assets	<u>11,465</u>	<u>11,629</u>	<u>873,912</u>	<u>873,503</u>	<u>885,377</u>	885,132
Unallocated corporate assets					<u>498,660</u>	<u>498,884</u>
Consolidated total assets					<u>1,384,037</u>	<u>1,384,016</u>
LIABILITIES						
Segment liabilities	<u>157,316</u>	<u>158,056</u>	<u>52,630</u>	<u>51,112</u>	<u>209,946</u>	209,168
Unallocated corporate liabilities					<u>1,051,629</u>	<u>1,037,771</u>
Consolidated total liabilities					<u>1,261,575</u>	<u>1,246,939</u>
OTHER INFORMATION						
Capital expenditure					2,898	11,488
Depreciation					143	339

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	
	2003	2002
	\$'000	\$'000
Provision for doubtful debts for receivables and prepayments	(2,067)	-
Written back of provision for doubtful debts	570	-
Written back of provision for amounts due from related companies (note (a))	-	2,698
	<u>(1,497)</u>	<u>2,698</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	
	2003	2002
	\$'000	\$'000
Cost of properties sold	1,998	5,925
Interest on borrowings	1,387	5,740
Depreciation charges	143	292
Provision of claims	<u>6,896</u>	<u>-</u>

6. Taxation

- (a) No provision for Hong Kong profits tax is required since there is no assessable profit for the period and the Group's income is derived from sources outside Hong Kong, which is not liable to Hong Kong profits tax.
- (b) No provision for PRC tax is required since there is no assessable profit generated by the PRC subsidiaries for the period.
- (c) Based on the information available, the directors considered that the taxation of the Group at 30 June 2003 was adequately provided for in the financial statements.

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\$17,783,000 (30/6/2002: approximately HK\$9,076,000) and on 1,360,000,000 (30/6/2002: 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

(a) All the properties held for/under development are located in the PRC.

(b) Properties held for/under development relate to the acquisition of the land use rights for a number of land sites within the Guangdong Province with total carrying value of HK\$487,354,000.

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 payments penalties. In addition, the vendors could take legal action against the Group for compensation. As at 30 June 2003, the total carrying value of these projects was HK\$263,306,000. The idle sites may be repossessed by the vendors, but an extension of the expiring schedule could be granted by the signing of supplementary agreements with the vendors with compensation payments.

9. Inventory of completed properties

The carrying amount of inventory of completed properties held for sales carried at net realizable value was approximately HK\$9,895,000 (31/12/2002: approximately HK\$9,899,000).

10. Accounts receivable

The ageing analysis of accounts receivable as at 30 June 2003 is as follows:–

	At 30 June 2003 \$'000	At 31 December 2002 \$'000
Within 3 months	1,497	269
4 – 6 months	–	–
7 – 12 months	267	1,537
Over 1 year	<u>116,600</u>	<u>116,965</u>
Total	<u>118,364</u>	118,771
Less: Provision for doubtful debts	<u>(116,814)</u>	<u>(116,538)</u>
	<u>1,550</u>	<u>2,233</u>

11. Accounts payable

The ageing analysis of accounts payable as at 30 June 2003 is as follows:–

	At 30 June 2003 \$'000	At 31 December 2002 \$'000
Within 3 months	–	–
4 – 6 months	–	1,795
7 – 12 months	2,393	9,668
Over 1 year	<u>463,711</u>	<u>451,948</u>
Total	<u>466,104</u>	<u>463,411</u>

NOTES TO THE ACCOUNTS (Cont'd)

12. Bank and other borrowings

Bank and other borrowings comprise:

	At 30 June 2003 \$'000	At 31 December 2002 \$'000
Bank loans	34,763	34,963
Other loans	9,800	11,459
Total	<u>44,563</u>	<u>46,422</u>
Analysed as:		
Secured	43,555	44,242
Unsecured	1,008	2,180
	<u>44,563</u>	<u>46,422</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 2003	136,000	906,000	60,609	(1,000,532)	102,077
Transfer to profit and loss account on disposal	-	-	1,731	-	1,731
Translation of financial statements of PRC subsidiaries	-	-	1,437	-	1,437
Loss for the period	-	-	-	(17,783)	(17,783)
Balance at 30 June 2003	<u>136,000</u>	<u>906,000</u>	<u>63,777</u>	<u>(1,018,315)</u>	<u>87,462</u>

14. Pledge of assets

The Group pledged investment properties with valuation of approximately HK\$54,194,000 as at 31 December 2002 and bank deposit of approximately HK\$451,000 (31/12/2002: approximately HK\$451,000) as security for a bank loan of approximately HK\$32,783,000 (31/12/2002: approximately HK\$32,783,000) granted to a subsidiary.

15. Capital commitments

As at 30 June 2003 the Group had capital commitments not provided for in these financial statements as follows:

	At 30 June 2003 \$'000	At 31 December 2002 \$'000
Capital commitments in respect of construction in progress – contracted but not provided for	<u>360,790</u>	<u>362,816</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\$126,280,000 (31/12/2002: approximately HK\$93,665,000).
- (b) Guarantee given by the Company for a bank loan granted to subsidiary amounted to approximately HK\$32,783,000 (31/12/2002: approximately HK\$32,783,000) (note 14).
- (c) In this connection with the contingent liabilities disclosed in 16(a), a total of 13 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 totalling approximately HK\$42,632,000 (31/12/2002: approximately HK\$59,618,000) 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) A subsidiary of the Group was sued by a contractor for default payments of approximately HK\$17,060,000 in relation to construction work carried out in one of the property development projects in Guangzhou. The Group counter-claimed against the contractor for interior construction work performed on that site. The litigation is in the process of finalization, pending the decision from court in Guangzhou.
- (f) 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) Certain investment properties of the Group in the Liwan Plaza seized by the finance company for disposal pursuant to a Letter of Undertaking given by the Company is still in process.
- (b) In August 2003, a winding-petition had been served by a company against the Company for a claim of HK\$479,980.00 as surety.

INTERIM DIVIDEND

The directors have resolved not to declare the payment of an interim dividend for the six months ended 30 June 2003 (2002: 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 2003, the construction works of Yue Xiu Plaza project in Guangzhou have been progressed to the sixth floor of the commercial arcade. The project is expected to be wholly completed by the end of 2004 and the presale activities will commence upon the completion of construction works scheduled at the end of 2003.

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\$7.9 million (30/6/2002: approximately HK\$13 million). This decrease was primarily due to the engagement of property agent services was suspended during the period. The Group has been diligently managing lease activities. The sales proceeds of properties were approximately HK\$1.5 million (30/6/2002: approximately HK\$3.9 million) and the decrease was mainly due to there was no property completed during the period.

Financial Review

As at 30 June 2003, the total borrowings of the Group amounted to approximately HK\$44.6 million and the gearing ratio (calculated as the ratio of net borrowings to shareholders' funds) was 50.9%, as compared to the respective total borrowings and gearing ratio of approximately HK\$46.4 million and 45.5% as at 31 December 2002. 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 2003, the Group had approximately 80 (31/12/2002: 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 SHARES

As at 30 June 2003, none of the directors and chief executive of the Company had, under Part XV of the Securities and Futures Ordinance, nor were they taken to or deemed to have under such provisions of the Securities and Futures Ordinance, any interests in the shares of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance) or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the Securities and Futures Ordinance or any interests which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

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 2003, in addition to the interests disclosed above in respect of the directors, the register of substantial shareholders kept under section 336 of the Securities and Futures Ordinance showed that the Company had been notified of the following substantial shareholders' interests being 5% or more of the issued share capital of the Company:

Name of Shareholders	Number of ordinary shares	Percentage of issued share capital
Great Capital Holdings Limited ("GCH")	453,712,000 <i>Note (1)</i>	33.36%
Sinowin Enterprises Limited	405,280,000 <i>Note (2)</i>	29.80%
Campiche Management Limited	68,205,210	5.02%

Note:

- (1) GCH had pledged a total of 288,712,000 shares of the Company to secure banking facilities for the group companies of GCH as at 30 June 2003.
- (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, so far as are known to the directors, the Company has not been notified of any interest in the issued share capital of the Company required to be recorded under section 336 of the Securities and Futures Ordinance as at 30 June 2003.

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 2003.

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, 19 September 2003