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**T**he Board of Directors of Nanyang Holdings Limited is pleased to announce that for the year ended 31st December 2003 the Group reported a profit after taxation of HK\$56.4 million (2002: loss of HK\$17.4 million, as restated). The current year's profit was derived mainly from appreciation of the investment portfolios. Earnings per share are HK\$1.22 (2002: loss per share was HK\$0.38, as restated).

The Directors recommend the payment of a final dividend of HK\$0.35 per share, representing a dividend distribution of approximately HK\$16.0 million (2002: final dividend of HK\$0.10 per share, representing a dividend distribution of HK\$4.6 million).

## **Textile Operations**

Earnings at the Company's 64.7% joint venture in Shanghai, Shanghai Sung Nan Textile Company Limited (Sung Nan) declined by 54% due to decrease in the sale of denim as affected by SARS and increase in the cost of raw materials. In 2004, sales of denim has recovered. However, the increase in the price of cotton may continue to have an adverse impact on Sung Nan's earnings.

Southern Textile Company Limited, the Company's 45% joint venture in Shenzhen, continued to report satisfactory results. Its main asset, a factory building which is located in a popular shopping area, is leased to third parties. Presently, the occupancy rate is 95%.

Kamunting Garments Sdn Bhd was a garment company in Malaysia whose operation ceased in 1996. Over the years we have tried to liquidate the company. In 2003, the voluntary liquidation was completed which resulted in an accounting loss of HK\$7.8 million. This has no impact on the Group's cash flow position.

## **Real Estate**

With the steady recovery of the Hong Kong economy from SARS, occupancy

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at Nanyang Plaza has improved and rental levels have stabilized. In 2004, there are more enquiries for space. The Company holds 290,000 sq.ft. of industrial/office (I/O) space which is presently 96.0% leased. However, in view of the abundant supply of new I/O and commercial space coming on stream in the vicinity, we continue to face intense competition.

### **Repurchase of the Company's Shares**

Pursuant to the mandate given by shareholders at the Annual General Meeting held on 23rd May 2003, during the year ended 31st December 2003, the Company purchased 630,000 of its own shares representing 1.36% of the issued share capital of the Company, for a total consideration of approximately HK\$3.91 million. Since the beginning of 2004, we bought a further 76,000 shares, for a total consideration of HK\$577,600. The Directors believe that share buy-back will be beneficial to the shareholders as they are traded at a deep discount to the net asset value per share.

### **Business Review and Prospects**

In the first quarter of 2003, world equity markets were affected by the war in Iraq. As the war ended, equity markets started to recover. During that time, we made some adjustments to the allocation of the various investments in the portfolios. We increased equities, reduced bond holdings and shortened the maturity of the bonds. We also increased our holding in non-US Dollar denominated securities, mainly through alternative investments. Although the US Dollar has been weakening, we did not make any substantial change to our currency position as our reporting currency, HK Dollar, is pegged to the US Dollar. In 2003, the Company's investment portfolios appreciated by 14.3%. At the end of the year, 52.0% was invested in equities of which 42% was in the U.S., 18.0% in bonds, 21.0% in alternative strategies and the balance of 9% in cash and money market instruments.

In 2004, there are a number of elections in Asia, the United States and Europe. While equity markets are fairly valued, we do not foresee any drastic downturn as we are still enjoying low interest rates and easy monetary policy.

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On the textile business, Sung Nan's board has decided to relocate the existing facilities to a suitable site. Shanghai has become a prosperous and fast growing metropolitan city. There have been new and more stringent environmental regulations that would affect industries with pollution problems. At the moment, the factory is located in a neighbourhood which has changed to a residential area. The relocation, which could take two to three years, will have a temporary adverse impact on Sung Nan's operations and earnings. However, in the long run, we would have a larger and modern textile mill. After the relocation, the existing factory site in Shanghai might have potential for real estate development.

**Financial Position**

As at 31st December 2003, the Group had net current assets of HK\$413 million (31/12/2002: HK\$353 million).

On behalf of the Board of Directors, I would like to take this opportunity to thank all the staff for their contribution to the Group.

**Rudolf Bischof**

Chairman

Hong Kong, 2nd April 2004