



NAM FONG INTERNATIONAL HOLDINGS LIMITED

南方國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1176)

INTERIM REPORT 2004

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 2004 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2004 – unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2004 \$'000	2003 \$'000
Turnover		9,589	9,406
Cost of properties sold and rental outgoings	2, 3	(2,596)	(7,296)
Gross profit		6,993	2,110
Other revenue	3	41	585
Selling expenses		(46)	(53)
Administrative expenses		(7,908)	(10,645)
Other net operating income/(expenses)	4	(2,649)	(1,497)
Provision for claims		(6,550)	(6,896)
Loss from operations		(10,119)	(16,396)
Finance costs		(3,098)	(1,387)
Loss before taxation	5	(13,217)	(17,783)
Taxation	6	-	-
Net loss attributable to shareholders		(13,217)	(17,783)
Basic loss per share	7	(0.97) cent	(1.31) cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004 – unaudited

(Expressed in Hong Kong dollars)

	Note	30 June 2004 \$'000	31 December 2003 \$'000
Non-current assets			
Fixed assets		379	404
Investment properties		852,601	849,000
Properties held for/under development	8	386,372	383,445
Total non-current assets		1,239,352	1,232,849
Current assets			
Inventory of completed properties	9	4,029	4,025
Accounts receivable	10	1,339	1,334
Prepayments, deposits and other receivables		12,969	7,587
Pledged bank deposit		451	451
Cash and bank balances		305	610
Total current assets		19,093	14,007
Current liabilities			
Accounts payable	11	282,016	281,703
Accruals and other payables		276,437	258,885
Short-term borrowings	12	69,969	67,285
Taxation payable	6	457,646	457,010
Unclaimed dividends		25,024	25,024
Total current liabilities		1,111,092	1,089,907
Net current liabilities		(1,091,999)	(1,075,900)
Total assets less current liabilities		147,353	156,949
Minority interests		-	-
Net assets		147,353	156,949
Representing:			
Share capital		136,000	136,000
Reserves		11,353	20,949
Shareholders' funds	13	147,353	156,949

* For identification purposes only

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2004 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2004	2003
	\$'000	\$'000
Total shareholders' equity at 1 January	<u>156,949</u>	<u>102,077</u>
Transfer to profit and loss account on disposal	–	1,731
Exchange differences arising on translation of financial statements of PRC subsidiaries	<u>3,621</u>	<u>1,437</u>
Net gain not recognized in the profit and loss account	3,621	3,168
Net loss for the period	<u>(13,217)</u>	<u>(17,783)</u>
Total shareholders' equity at 30 June	<u><u>147,353</u></u>	<u><u>87,462</u></u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 June 2004 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2004	2003
	\$'000	\$'000
Net cash outflow from operating activities	<u>(2,610)</u>	<u>(7,654)</u>
Net cash inflow from investing activities	(1,225)	706
Net cash outflow from financing activities	<u>2,685</u>	<u>(500)</u>
Decrease in cash and cash equivalents	<u>(1,150)</u>	<u>(7,448)</u>
Effect of foreign exchange rates	844	7,901
Cash and cash equivalents at 1 January	<u>610</u>	<u>970</u>
Cash and cash equivalents at 30 June	<u><u>304</u></u>	<u><u>1,423</u></u>
Analysis of the balances of cash and cash equivalents		
Pledged bank deposit	–	451
Cash at bank and in hand	<u>304</u>	<u>972</u>
	<u><u>304</u></u>	<u><u>1,423</u></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\$13,217,000 for the six months ended 30 June 2004. As at 30 June 2004, the Group had overdue bank and other borrowings together with relevant interest of approximately HK\$107,429,000. The directors have been (i) in negotiations with new or existing bankers and third parties with a view to obtaining new facilities and/or renewals of the existing facilities granted to the Group; and (ii) closely monitoring the disposal of properties to raise funds.

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 expect that the existing business and raising fund arrangements will generate sufficient cash flow to meet its financial obligations and liabilities and funding requirements for the development of the Group's property project. Accordingly, the financial statements have been prepared 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The accounting policies and basis of preparation adopted in these unaudited condensed consolidated interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2003.

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	
	2004 \$'000	2003 \$'000
Turnover		
Proceeds from sales of properties		
– completed properties	626	1,413
– investment properties	–	114
	<u>626</u>	<u>1,527</u>
Rental income	<u>8,963</u>	<u>7,879</u>
	<u>9,589</u>	<u>9,406</u>
Other revenue		
Bad debts recovered	–	570
Interest income	1	–
Others	40	15
	<u>41</u>	<u>585</u>

(b) Segment information

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

	Property sales		Property rental		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
By principal activity						
TURNOVER						
External revenue	<u>626</u>	<u>1,527</u>	<u>8,963</u>	<u>7,879</u>	<u>9,589</u>	<u>9,406</u>
RESULTS						
Segment result	<u>595</u>	<u>(471)</u>	<u>6,398</u>	<u>2,581</u>	<u>6,993</u>	<u>2,110</u>
Other revenue					41	585
Unallocated corporate expenses					(17,153)	(19,091)
Finance costs					<u>(3,098)</u>	<u>(1,387)</u>
Loss before tax					<u>(13,217)</u>	<u>(17,783)</u>
Taxation					–	–
Net loss attributable to shareholders					<u>(13,217)</u>	<u>(17,783)</u>

NOTES TO THE ACCOUNTS (Cont'd)

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

(b) Segment information (Cont'd)

	30 June	31 December	30 June	31 December	30 June	31 December
	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ASSETS						
Segment assets	<u>396,493</u>	<u>390,508</u>	<u>856,972</u>	<u>853,826</u>	<u>1,253,465</u>	1,244,334
Unallocated corporate assets					<u>4,980</u>	<u>2,522</u>
Consolidated total assets					<u><u>1,258,445</u></u>	<u><u>1,246,856</u></u>
LIABILITIES						
Segment liabilities	<u>550,599</u>	<u>539,940</u>	<u>58,539</u>	<u>57,873</u>	<u>609,138</u>	597,813
Unallocated corporate liabilities					<u>501,954</u>	<u>492,094</u>
Consolidated total liabilities					<u><u>1,111,092</u></u>	<u><u>1,089,907</u></u>
OTHER INFORMATION						
Capital expenditure					1,153	14,180
Depreciation					28	84

No geographical analysis is shown as all the Group's assets, liabilities, 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	
	2004	2003
	\$'000	\$'000
Provision for doubtful debts for receivables and prepayments	(2,910)	(2,067)
Written back of provision for doubtful debts	<u>261</u>	<u>570</u>
	<u><u>(2,649)</u></u>	<u><u>(1,497)</u></u>

5. Loss before taxation

Loss before taxation is arrived at after charging:

	Six months ended 30 June	
	2004	2003
	\$'000	\$'000
Cost of properties sold	2,595	1,998
Interest on borrowings	3,097	1,387
Depreciation charges	28	143
Provision of claims	<u>6,550</u>	<u>6,896</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 2004 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\$13,217,000 (30/6/2003: approximately HK\$17,783,000) and on 1,360,000,000 (30/6/2003: 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\$386,372,000.

Pursuant to the sale of land contract regarding the aforesaid property development projects refer to in above, unless the costs of which have been settled 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 sale of land contract and receipt of the late payments penalties. As at 30 June 2004, the total carrying value of these projects was HK\$386,372,000. The aforesaid property development projects have not been received any guidance issued by the relevant land management bureau of PRC during the period, the Group will concern any new progress closely.

9. Inventory of completed properties

The carrying amount of inventory of completed properties held for sales carried at net realizable value was approximately HK\$4,029,000 (31/12/2003: approximately HK\$4,025,000).

10. Accounts receivable

The ageing analysis of accounts receivable as at 30 June 2004 is as follows:

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Within 3 months	-	649
4 - 6 months	-	701
7 - 12 months	1,355	2,315
Over 1 year	7,879	5,531
	<u>9,234</u>	<u>9,196</u>
Less: Provision for doubtful debts	(7,895)	(7,862)
	<u><u>1,339</u></u>	<u><u>1,334</u></u>

11. Accounts payable

The ageing analysis of accounts payable as at 30 June 2004 is as follows:

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Within 3 months	-	-
4 - 6 months	-	-
7 - 12 months	-	-
Over 1 year	282,016	281,703
	<u>282,016</u>	<u>281,703</u>

NOTES TO THE ACCOUNTS (Cont'd)

12. Bank and other borrowings

Bank and other borrowings comprise:

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Bank loans	32,783	32,783
Other loans	37,186	34,502
	<u>69,969</u>	<u>67,285</u>
Analysed as:		
Secured	41,442	41,442
Unsecured	28,527	25,843
	<u>69,969</u>	<u>67,285</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 2004	136,000	906,000	118,495	(1,003,546)	156,949
Translation of financial statements of PRC subsidiaries	–	–	3,621	–	3,621
Loss for the period	–	–	–	(13,217)	(13,217)
Balance at 30 June 2004	<u>136,000</u>	<u>906,000</u>	<u>122,116</u>	<u>(1,016,763)</u>	<u>147,353</u>

14. Pledge of assets

The Group pledged investment properties with valuation of approximately HK\$54,194,000 as at 31 December 2003 and bank deposit of approximately HK\$451,000 as security for a bank loan of approximately HK\$32,783,000 granted to a subsidiary.

15. Capital commitments

As at 30 June 2004, the Group had capital commitments not provided for in these financial statements as follows:

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Capital commitments in respect of construction in progress – contracted but not provided for	<u>231,833</u>	<u>232,001</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\$2,126,000 (31/12/2003: approximately HK\$77,740,000).
- (b) Guarantee given by the Company for a bank loan granted to subsidiary amounted to approximately HK\$32,783,000 (31/12/2003: approximately HK\$32,783,000) (note 14).
- (c) A subsidiary of the Group was sued by a contractor for default payments of approximately HK\$17,430,000 in relation to construction work carried out in one of the property development projects in Guangzhou. The Group counter-claimed against the contractor for inferior construction work performed on that site. The litigation is in the process of finalization, pending the decision from court in Guangzhou.
- (d) On 30 June 2004, a creditor filed a winding-petition with the High Court of Hong Kong against the Company. The amount which was the subject of the petition was HK\$43,207,363.37. The hearing is in the process of finalization, pending the decision from the High Court of Hong Kong.

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.

INTERIM DIVIDEND

The directors have resolved not to declare the payment of an interim dividend for the six months ended 30 June 2004 (2003: 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 2004, the construction works of Yue Xiu Plaza project in Guangzhou have been progressed to the eighth floor of the commercial arcade. The project is expected to be wholly completed at the end of 2005 and the presale activities will commence upon the completion of construction works scheduled in the mid of 2005.

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\$8,963,000 (30/6/2003: approximately HK\$7,879,000). The Group has been diligently managing lease activities. The sales proceeds of properties were approximately HK\$626,000 (30/6/2003: approximately HK\$1,527,000) and the decrease was mainly due to there was no property completed during the period.

Financial Review

As at 30 June 2004, the total borrowings of the Group amounted to approximately HK\$69,969,000 and the gearing ratio (calculated as the ratio of net borrowings to shareholders' funds) was 47.5%, as compared to the respective total borrowings and gearing ratio of approximately HK\$67,285,000 and 42.9% as at 31 December 2003.

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 macroeconomic regulatory effect in the PRC, although the property market still have a growing tendency, the financing of the investment development property has comparatively tightened. The Group will evaluate the projects for development and, based on the evaluation, dispose property assets in non-core areas so as to reduce borrowings of the Group; and start appropriate projects. Speeding up the construction progress in order to generate cash flow earlier and keep the going concern of the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2004, the Group had approximately 96 (31/12/2003: 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 2004, 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 2004, 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	Number of issued share capital
Great Capital Holdings Limited ("GCH")	429,162,000 <i>Note (1)</i>	31.56%
Sinowin Enterprises Limited	405,280,000 <i>Note (2)</i>	29.80%
CITIC Group (Formerly known as China International Trust and Investment Corporation)	80,746,000 <i>Note (3)</i>	5.94%
CITIC International Financial Holdings Limited	80,746,000 <i>Note (3)</i>	5.94%
Campiche Management Limited	68,205,210	5.02%

Note:

- (1) GCH had pledged a total of 264,162,000 shares of the Company to secure banking facilities for the group companies of GCH.
- (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.
- (3) The interests of CITIC Group in the Company duplicate those of CITIC International Financial Holdings Limited.

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 2004.

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 2004.

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.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Tong Shi Jun, Mr. Zhang Jian, Mr. Zhao Lishen, Mr. Chiu Kong, Ms. Huang Ling and Ms. Zhu Jun as executive directors and Mr. Chen Sang Sheng and Ms. Chang Ling as independent non-executive directors.

By Order of the Board
Tong Shi Jun
Chairman

Hong Kong, 18 September 2004