

T H E C H A I R M A N ' S S T A T E M E N T

The Board of Directors of Nanyang Holdings Limited announces that for the year ended 31st December 2006 the Group reported a profit after taxation of HK\$137.4 million (2005: profit of HK\$344.5 million). The Group valued its investment properties at fair value and the gain or loss was recognised in the income statement. In 2006, the change in fair value of investment properties resulted in a net gain of HK\$60.7 million. If the net effect resulting from revaluation of the investment properties was deducted, the net profit of the year would be HK\$76.7 million (2005: HK\$39.7 million, excluding the net effect from revaluing the investment properties at fair value of HK\$304.9 million). Earnings per share were HK\$3.10 (2005: HK\$7.67), but if the net effect of recognising at fair value of the investment properties was deducted, earnings per share would be HK\$1.73 (2005: HK\$0.88).

The Directors recommend the payment of a final dividend of HK\$0.40 per share and a special dividend of HK\$0.30 per share representing a total dividend distribution of approximately HK\$30.9 million (2005: final dividend of HK\$0.35 per share, special dividend 'Nil', representing a dividend distribution of HK\$15.47 million).

Textile Operations

Earnings at the Company's 64.7% joint venture in Shanghai, Shanghai Sung Nan Textile Company Limited improved despite lower sales due to the increased price of the new fancy design denims which are in growing demand. However, 2007 earnings will be affected by a reduction in tax subsidy for exported goods and the appreciation of the RMB exchange rate.

The Company's 45% joint venture in Shenzhen, Southern Textile Company Limited, performed satisfactorily. Its main asset, a factory building which is leased to third parties, had its land use rights extended for four years to 2013. Presently it has an occupancy rate of 95.6%.

T H E C H A I R M A N ' S

S T A T E M E N T (con't)

Real Estate

In the second half of 2006, the local economy benefited from sustained strong growth. Rental rates of prime grade 'A' office buildings continued to improve due to a low vacancy rate. The spillover effect from the office sector continued to benefit the industrial/office (I/O) market. We were able to achieve higher rental levels at our building for renewals and new leases. Of the 290,000 sq.ft. of I/O space the Company holds at Nanyang Plaza, presently 95.5% is leased. The revaluation of the Company's investment properties at fair value resulted in a net gain of HK\$60.7 million which has been recognised in the consolidated income statement.

Business Review and Prospects

In the second half of 2006, all the major markets performed well. The Hong Kong market benefited from the continued growth in the local economy and speculation on the revaluation of the RMB. During this period, we reduced cash and hedge funds and increased equity holdings in the US, European and Hong Kong markets. For the year, the Company's trading investment portfolios appreciated by 13.3%. As at 31st December 2006, 47.5% was invested in equities of which 34.1% was in the US market, 13.8% in bonds of short term maturities, 14.4% in alternative strategies and the balance in cash or money market instruments.

During 2006, the Company subscribed for new shares in a private bank in Taiwan, the Shanghai Commercial and Savings Bank Limited, for an aggregate consideration of approximately HK\$105 million. These shares have been classified as available-for-sale financial assets and will be held for the long term. The shares were stated at fair value and the unrealised fair value gains of approximately HK\$247 million arising therefrom have been recognised in the investments reserve. This was a good opportunity to add to a sound long-term investment.

T H E C H A I R M A N ' S

S T A T E M E N T (con't)

Business Review and Prospects (con't)

In the beginning of 2007, the markets continued to climb but have become volatile since the end of February. The US sub-prime mortgage market and unwinding of the yen carry trade became a concern and clouded the outlook of the markets. The PRC shares recovered subsequently and the continued appreciation of the RMB and the robust PRC economy will benefit Hong Kong and its Asian trading partners.

Financial Position

The Group's investment properties with a value of HK\$864.3 million (31/12/2005: HK\$791.7 million) have been mortgaged to a bank to secure general banking facilities. As at 31st December 2006, HK\$90 million (31/12/2005: none) of the facilities were utilised. At the end of the year, the Company had net current assets of HK\$393.6 million (31/12/2005: HK\$446.1 million).

Employees

The Group employed 26 employees as at 31st December 2006. Remuneration is determined by reference to the qualifications and experience of the staff concerned. Salaries are reviewed annually with discretionary bonuses being paid depending on individual performance. The Group also provides other benefits including medical cover and provident funds.

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, 30th March 2007