

INTERIM REPORT 2001

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of presentation of the financial statements

The condensed financial statements have been prepared under the historical cost convention and in accordance with Statement of Standard Accounting Practice ("SSAP") 25 Interim Financial Reporting issued by the Hong Kong Society of Accountants, except that for the first year of implementation of SSAP 25, as permitted by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, no comparative figures have been presented for the first condensed consolidated statement of recognised gains and losses and for the first condensed consolidated cash flow statement. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December 2000, except as described below.

In the current period, the Group has adopted for the first time a number of new/revised SSAP issued by the Hong Kong Society of Accountants and which has resulted in the adoption of the following new/revised accounting policies. In accordance with SSAP 9 (Revised) Events after the Balance Sheet Date, dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment. As detailed in note 12, the financial effect of the adoption of SSAP 9 (Revised) is that the retained profits at 1st January 2001 has increased by HK\$6,864,000 (1st January 2000: Nil) which is the reversal of the provision for 2000's proposed final dividend previously recorded as a liability at 31st December 2000 although not declared after the balance sheet date. The adjustment has resulted in a decrease in current liabilities at 31st December 2000 as the proposed dividend is no longer required.

The Group has complied with SSAP 14 (Revised) for the first time in this interim reporting period. As a result, the total future minimum operating lease commitments are disclosed instead of annual operating lease commitments under non-cancellable operating lease.

In the current period, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 Segment Reporting. Segment disclosures for the six months ended 30th June 2000 have been amended so that they are presented on a consistent basis.

The Group has adopted SSAP 30 Business Combination in the current period and has elected not to restate goodwill previously eliminated against reserves. Accordingly, goodwill arising on acquisitions prior to 1st January 2001 is held in reserves and will be charged to the income statement at the time of disposal of relevant subsidiary or at such time as the goodwill is determined to be impaired.

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2. Turnover and operating profit by geographical segment

An analysis by activity is not presented as the Group is solely engaged in the manufacture and sale of leather. A geographical analysis of the turnover and contribution to operating profit by location of markets is as follows:

	Turnover for the six months ended 30th June,		Contribution to operating profit for the six months ended 30th June,	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
United States of America	230,030	306,832	24,373	42,600
The People's Republic of China	74,171	57,411	8,753	8,382
Japan	22,415	1,312	3,430	244
Taiwan	13,077	10,849	153	1,080
Other countries	12,236	29,907	134	3,938
	<u>351,929</u>	<u>406,311</u>	<u>36,843</u>	<u>56,244</u>
Unallocated corporate income			5,725	7,063
Operating profit			<u>42,568</u>	<u>63,307</u>

3. Depreciation and amortization

During the period, the operating profit has been arrived at after charging depreciation and amortization of approximately HK\$16,914,000 (2000: HK\$14,681,000).

4. Taxation

	Six months ended 30th June	
	2001 HK\$'000	2000 HK\$'000
The charge comprises:		
Enterprise income tax of the People's Republic of China ("PRC")	<u>3,490</u>	<u>4,557</u>

Pursuant to the relevant laws and regulations in PRC, all the Group's PRC subsidiaries are entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. One of its PRC subsidiaries had obtained the 50% relief from PRC enterprise income tax for another three years upon the expiry of the original tax relief period. The reduced tax rate for the relief period, including the extended period, of that subsidiary is 12% and the charge of PRC enterprise income tax for the period has been provided taking into account these tax incentives. The tax incentives for another PRC subsidiary of the Company has expired during the period and the tax rate payable is 24%.

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4. Taxation (Cont'd)

No provision for Hong Kong Profit Tax has been made in the financial statements, as the company operating in Hong Kong did not have any estimated assessable income.

A portion of the Group's profit is not subject to taxation in the jurisdiction in which it operates.

There was no significant unprovided deferred taxation for the year or at the balance sheet date.

5. Dividend

The directors of the Company do not recommend the payment of an interim dividend for the period ended 30th June 2001. (six months ended 30th June 2000: Nil).

6. Earnings per share

The calculation of the basic earnings per share for the period is based on profit for the period of HK\$24,800,000 (six months ended 30th June 2000: HK\$42,452,000) and on the weighted average number of 686,400,000 shares (six months ended 30th June 2000: 676,594,286 shares) in issue during the period.

The Company has no dilutive potential ordinary shares in both periods.

7. Additions to property, plant and equipment

During the period, there were additions of property, plant and equipment amounted to HK\$29,067,000 (six months ended 30th June 2000: HK\$38,239,000).

8. Trade and other receivables

The Group has a policy of allowing an average credit period of 60 days to its trade customers. Included in the trade and other receivables are trade receivables of HK\$156,764,000 (2000: HK\$169,074,000). The aged analysis of which at the balance sheet date is as follows:

	30th June 2001 HK\$'000	31st December 2000 HK\$'000
Up to 30 days	40,799	88,718
31 - 60 days	26,926	31,029
61 - 90 days	37,928	28,714
More than 90 days	51,111	20,613
	<u>156,764</u>	<u>169,074</u>

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9. Trade and other payables

Included in trade and other payables are trade payables of HK\$18,943,000 (2000: HK\$16,621,000). The aged analysis of which at the balance sheet date is as follows:

	30th June 2001 HK\$'000	31st December 2000 HK\$'000
Up to 30 days	12,826	12,331
31 - 60 days	2,049	2,078
61 - 90 days	1,511	757
More than 90 days	2,557	1,455
	<u>18,943</u>	<u>16,621</u>

10. Bank loans

	30th June 2001 HK\$'000	31st December 2000 HK\$'000
Secured bank loans	59,395	74,958
Unsecured bank loans	92,128	96,107
	<u>151,523</u>	<u>171,065</u>
The bank loans are repayable:		
Within one year	151,523	169,623
One to two year	-	1,442
Two to five years	-	-
	<u>151,523</u>	<u>171,065</u>
Less: Amount due within one year shown under current liabilities	<u>(151,523)</u>	<u>(169,623)</u>
Due after one year	<u>-</u>	<u>1,442</u>

11. Share capital

	Number of ordinary shares of HK\$0.1 each	Value HK\$'000
Authorised:		
At 30th June 2001 and 31st December 2000	<u>1,500,000,000</u>	<u>150,000</u>
Issued and fully paid:		
At 30th June 2001 and 31st December 2000	<u>684,000,000</u>	<u>68,640</u>

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12. Reserves

	Translation reserve	Goodwill reserve	Special reserve	PRC statutory reserves	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January 2001						
As originally stated	6,480	(24,509)	238,966	11,829	282,919	515,685
Derecognition of liability for final dividend (<i>Note 1</i>)	-	-	-	-	6,864	6,864
As Restated	6,480	(24,509)	238,966	11,829	289,783	522,549
2000 final dividend paid	-	-	-	-	6,864	6,864
Profit for the period	-	-	-	-	24,800	24,800
	<u>6,480</u>	<u>(24,509)</u>	<u>238,966</u>	<u>11,829</u>	<u>307,719</u>	<u>540,485</u>
At 30th June 2001						

13. Commitments

(a) Operating lease commitments:

A subsidiary was committed to make rental payments to Xian People's Tannery Factory ("Xian People's Tannery") in respect of land and buildings under a non-cancellable operating lease which will expire in December 2012.

	30th June 2001	31st December 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount payable		
Within one year	1,155	1,155
One to two years	1,155	1,155
Two to five years	3,465	3,465
Over five years	7,507	8,085
	<u>13,282</u>	<u>13,860</u>

At 30th June 2001, another subsidiary was also committed to make rental payments to a third party amounting to HK\$68,000 (31st December 2000: HK\$150,000) within one year in respect of land and building under a non-cancellable operating lease which will expire in December 2001.

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(b) *Capital commitments:*

30th June 2001 HK\$'000	31st December 2000 HK\$'000
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Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment

<u> -</u>	<u> 4,969</u>
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(c) *Other:*

Under the terms of the cooperative joint venture agreement in respect of Xin Hui Hua Lien Tannery Co., Ltd. ("Xin Hui Hua Lien"), a subsidiary of the Company, Galloon International (Holding) Company, Limited ("Galloon International"), is entitled to all of the net profit or loss of Xin Hui Hua Lien throughout the entire cooperative joint venture period after the payment of a pre-determined distribution by Xin Hui Hua Lien each year to the PRC joint venture partner. In the event that Xin Hui Hua Lien does not have sufficient distributable profit to make the required payments to the PRC joint venture partner, Galloon International is responsible for making such payments to the PRC joint venture partner as compensation. At 30th June 2001, the pre-determined distributions to be paid to the PRC joint venture partner over the entire cooperative joint venture period are as follows:

30th June 2001 HK\$'000	31st December 2000 HK\$'000
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Amount payable
Within one year
One to two years
Two to five years
Over five years

5,239	5,239
5,239	5,239
15,716	15,716
72,896	75,516
<u>99,090</u>	<u>101,710</u>

14. Related party transactions

Details of significant related party transactions during the interim reporting period were as follows

Sale of raw hides		Receivable	
30th June 2001 HK\$'000	30th June 2000 HK\$'000	30th June 2001 HK\$'000	31st December 2000 HK\$'000

Chai Watana Tannery Group Public
Company Limited
(the "Chai Watana") (Note 1)

<u>2,838</u>	<u> -</u>	<u> -</u>	<u> -</u>
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14. Related party transactions (Cont'd)

	Rental Expenses		Payable	
	30th June	30th June	30th June	31st December
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Xian People's Tannery (Note 2)	<u>578</u>	<u>578</u>	<u>3,019</u>	<u>2,463</u>

Notes:

- (1) Chai Watana is a shareholder to the Company and related to one of the directors of the Company. The transactions were carried out at cost plus a percentage of mark-up.
- (2) Xian People's Tannery is the minority shareholder of a subsidiary and rental expenses paid were pre-determined fixed amounts.
- (3) The Group was committed to pay a pre-determined distribution to the PRC joint venture partner of Xin Hui Hua Lien, details of which are set out in note 13 (c).

15. Pledge of assets

	30th June 2001	31st December 2000
The following assets of the Group are pledged to secured credit facilities granted to the Group		
Property, plant and equipment	40,215,000	124,573,000
Bank deposits	<u>13,818,000</u>	<u>10,755,000</u>
	<u>54,033,000</u>	<u>135,328,000</u>

16. Contingent liabilities

	30th June 2001	31st December 2000
	HK\$'000	HK\$'000
Bills discounted with recourse	<u>2,637</u>	<u>—</u>

17. Comparative figures

Certain comparative figures have been reclassified to conform with current period presentation.