Contents

Results

The Group's unaudited loss before taxation and minority interests for the six months ended 30 June 2002 was HK$182,408,000 (2001: a profit of HK$4,432,000). Turnover for the period under review was HK$314,168,000, a drop of 13.66% against HK$363,855,000 for the same period in 2001.

The loss comprised provisions totaling HK$178,383,000 and the major provisions are as follows:

- an impairment loss of goodwill of HK$133,349,000 arising from the acquisition of Nanhai Tannery & Leather Products Co. Ltd. ("Nanhai Tannery");
- a provision of HK$32,574,000 for doubtful trade receivables; and
- a provision of HK$11,057,000 for inventories.

As at 31 December 2001, the Group has goodwill of HK$133,349,000 arising from acquisition of Nanhai Tannery, as permitted by HK SSAP 30, remained eliminated against reserves. In light of the claims (if any) from the PRC authorities, as described under the sub-heading "Nanhai Tannery Incident" below, the directors determined that an impairment loss of the goodwill of HK$133,349,000 was made by a release of the goodwill from reserves to the current period profit and loss account and it did not affect the net asset value of the Group.

Taken into account for the above, the unaudited net asset value of the Group as at 30 June 2002 was reduced to HK$309,822,000, a reduction by HK$46,554,000 from that of 31 December 2001.

No interim dividend is recommended by the Board of Directors for the six months ended 30 June 2002 (2001: Nil) .

Corporate Restructuring

As mentioned in our Annual Report 2001, the Group has embarked on a programme of corporate restructuring since 2000. The purpose of the restructuring is to enhance the Group's overall operational efficiency by disengaging its interests in certain non-core businesses and optimizing its assets structure. For instance, the Group has disposed of its leather ware business in China and Hong Kong in July 2002. The Saint Jack leather ware business was sold at HK$6.8 million. The trademark of the Group's leather ware products in China was also sold at a consideration of HK$1.5 million. Inventories and trade receivables of the packaging materials business in Xuzhou were sold/assigned to a contractor for a total consideration of HK$7,226,000, and certain plant and machinery was leased at RMB800,000 per annum.

Negotiations on closing down Qingdao Nanhai Tannery Co. Ltd. ("Qingdao Nanhai Tannery") have been called off given that the amount requested by the Chinese joint venture partner was too high. In July 2002, the Chinese joint venture partner illegally transferred to it the assets of Qingdao Nanhai Tannery plant valued at HK$22 million without our permission. We have reported to all major authorities in Qingdao following the incident, and are preparing to resolve the issue of closing down the Qingdao Nanhai Tannery by legal means. Further provisions have been made at an appropriate level according to the practical situation and all relevant information currently available, including full provision against the Group's remaining inventories at Qingdao Nanhai Tannery amounting to HK$11,057,000.

Corporate Restructuring *(Cont'd)*

On the other hand, the Group has devised plans to expand the production scale of Xuzhou Tannery. Acquisition of the assets such as the plant and machinery of the original bankrupt Chinese joint venture partners of the two plants in Xuzhou was completed earlier this year. This move not only helped reduce the operating cost of Xuzhou Nanhai Tannery, but also provided a good foundation for its future growth.

Debt Restructuring

In January 2002, a refinance arrangement was made by the Group under which a facility of HK$50,000,000 was secured from a bank in China. This facility, together with the Group's internal fund, was applied to repay in full the outstanding loan of approximately HK$108,000,000 as at 31 December 2001 under the Tannery Override Agreement.

Market

The leather market was highly competitive during the first half of 2002. Keen competition was particularly faced by black nappa cow leather as similar products flooded into the market to compete with it. Selling price of this flagship product of the Group was adversely affected and its market share was eroded. On the other hand, the Group's sales was directly hit as the sales performance of some of the downstream businesses, such as the handbag business, were particularly weak. In anticipation of increasing market competition, the Group will strive to develop new lines of innovative products. Market research will be carried out to gain better insights into the market, and to identify and develop products with higher market acceptability.

Cost

The Group's sourcing structure was reshuffled in June 2002 in a bid to minimize its operating costs, with the mix of production, supply and sales being readjusted. Sourcing of supplies was centralized and standardized raw materials were purchased through open tender. As raw leather always accounts for a major portion of production costs, regular visits to internet websites for raw cow hides kept the Group abreast of the international market trends of raw cow hides in a more efficient and convenient way. Gross margin for the period reduced to 4% from last year of 11%, primarily due to the keen leather market competition and the sale of lower quality inventories.

Production

The Group's total leather production for the period under review was 22,148,000 sq. ft., decreased by 4,995,000 sq. ft. from 27,143,000 sq. ft. for the same period last year. Productions of cow hides, cow splits, coated cow splits and lamb leather were 14,470,000 sq. ft. (2001: 17,429,000 sq. ft.), 1,895,000 sq. ft. (2001: 4,099,000 sq. ft.), 4,585,000 sq. ft. (2001: 5,608,000 sq. ft.) and 1,198,000 sq. ft. (2001: 7,000 sq. ft.), respectively.

Financial Position

As at 30 June 2002, the Group's interest bearing borrowings and cash and bank balances are analysed as follows together with their comparative figures as at 31 December 2001.

	30 June 2002 HK$'000	31 December 2001 HK$'000
Interest bearing borrowings		
Hong Kong dollar	**25,500**	24,473
Renminbi	**79,154**	52,763
United States dollar	**–**	83,544
	104,654	160,780
Cash and bank balances		
Hong Kong dollar	**5,956**	70,420
Renminbi	**7,355**	15,755
United States dollar	**24,259**	29,265
	37,570	115,440
Interest rates		
At fixed rate	**79,154**	–
At floating rate	**25,500**	160,780
	104,654	160,780

At 30 June 2002, after deduction of cash and bank deposits, the Group's ratio of net interest-bearing borrowings to shareholders' equity was 21.7% (31 December 2001: 12.7%). Loan facilities bear interest at 3% to 6% per annum. Of the Group's total borrowings, HK$79,654,000 was repayable within one year. Interest expense incurred by the Group during the period was significantly reduced by 63% against the same period last year.

Net cash outflow from operating activities for the period was HK$18,028,000. Cash inflow from new financing was HK$182,861,000 and cash outflow from repayment of the loan principals and accrued interest was HK$242,346,000. Net Cash outflow for the period amounted to HK$77,563,000.

As at 30 June 2002, certain of the Group's leasehold land and buildings, and bank deposits with a total net book value of HK$104,347,000 (31 December 2001: HK$31,162,000) were pledged to secure general banking facilities granted to the Group. The Group's capital expenditure during the period amounted to HK$12,496,000 (2001: HK$5,859,000). They were incurred mainly for the purchase of the machinery and equipment from the original Chinese joint venture partners of two plants in Xuzhou to cope with the long-term growth of the leather business.

Litigations

1. In February 2001, Guangdong Enterprise (North America) Fur Holdings Limited ("GDNA") and Harbour Hill International Limited ("Harbour Hill") filed suit against Hennessy International Group, Inc. ("HIGI") and others, including one of HIGI's shareholders, on account of the financing provided by GDNA and Harbour Hill to HIGI and guaranteed by the said shareholder. The financing amount outstanding is in excess of US$2,250,000. The defendants have answered the complaint denying the liability, and brought a counterclaim in an amount of US$2 million for the alleged breach of a Shareholders' Agreement. As no ruling has been made by the court on the summary judgment, trial is scheduled to be held in mid-August 2002.

2. In June 2002, 青島制革總廠, the original Chinese joint venture partner of Qingdao Nanhai Tannery, took unilateral action albeit our strong opposition to check over our assets at Qingdao Nanhai Tannery, pry open the door and seal up the tannery with paper strips. We have engaged solicitors to present a petition to the Qingdao Intermediate People's Court (the "Court") for the protection of properties, claiming confiscation of the properties transferred to 青島制革總廠 from Qingdao Nanhai Tannery in an amount of RMB20 million. A civil adjudication was given by the Court on 19 July 2002 which agreed that the said petition was in compliance with the laws and permitted the confiscation of the said properties pursuant to related legislations.

Nanhai Tannery Incident

Following the change in senior management of the Company in June 2002, it was discovered that certain former executives ("Rogue Executives") of Nanhai Tannery, some of whom were also former directors of the Company, had been involved in a deception against the Company for illegal personal gain. Nanhai Tannery is a wholly owned subsidiary of the Company and is a sino-foreign cooperative joint venture company established in the People's Republic of China ("PRC").

An internal audit team assigned by the holding companies of the Company working together with the new management to investigate the deception discovered that the Rogue Executives had been running a "rogue" operation in Nanhai in parallel to the legitimate operations of Nanhai Tannery and on occasion using Nanhai Tannery's name and resources in doing so. The rogue operation appeared to have involved various irregularities in their transactions under the applicable PRC laws and regulations.

The Company has reported the rogue operation to the relevant PRC authorities who have detained the Rogue Executives in the Nanhai Municipality for investigations. The Company has also instructed its auditors and local PRC lawyers to carry out special investigations with a view to ascertaining the extent of the rogue operation as well as the extent of any potential liability of the Group and the Group's possible recourse against the Rogue Executives. However, it appears at present that the business generated by the rogue operation would not have been available to the Group due to the irregularities in its transactions.

Nanhai Tannery Incident *(Cont'd)*

The rogue operation has not been incorporated into the financial statement of the Group. Based on the findings of the auditors and the advice of the PRC lawyers, the directors of the Company are of the opinion that it is correct that the rogue operation should not be incorporated into the financial statements of the Group. However, since the rogue operations were elaborate and their transactions were complex, the legal consequences which may arise as a result are uncertain. Therefore, Nanhai Tannery may have contingent liabilities in respect of claims, if any, by the PRC authorities arising out of the various irregularities on the part of the Rogue Executives. Such contingent liabilities are not presently capable of being quantified.

As a result of the detention of the Rogue Executives in the PRC by the PRC law enforcement authorities as well as the authorities' seizure of all relevant documents relating to the rogue operation for their investigations, it has not been possible for the Company and its advisors to further their investigations at this stage.

As at the date of this report, there has been no claim against Nanhai Tannery by the PRC authorities. As the investigations of the PRC authorities are still ongoing, it is not possible to ascertain with certainty the consequential actions that may be taken by the PRC authorities in respect of the irregularities and the existence or otherwise of any penalties and claims. As of the date of this report, no provision has been made in the financial statements for such contingencies.

A committee has been established by the Board of Directors to handle the issue.

Taking into account the impact of the issue on Nanhai Tannery, the Group has made an impairment loss on goodwill arising from the acquisition of Nanhai Tannery for HK$133,349,000 by a release of the goodwill from the reserves to the current period profit and loss account.

Employees

The Company and its subsidiaries have 1,607 employees. Employees' cost was HK$20,209,000. The pay levels of employees are made with reference to the Group's operating results and the employee's performance. The Group offered social and medical insurance and provident fund to all employees in different areas. The Company has adopted a new share option scheme in May 2002, and the purpose of which is to provide incentives to participants to contribute to the Group, to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

Auditors – Services provided other than audit

Save and except the special investigation into the "rogue operation" described under "Nanhai Tannery Incident" above and the interim review, no other service was provided by Messrs. Ernst & Young, the Company's auditor, during the period other than the statutory audit work.

Prospects

The Group's policy of streamlining its operations and enhancing the effectiveness will continue to guide it in the second half of 2002. Based on its well-established management and complemented by available market resources, the Group is able to stay ahead of the latest market trends and lay a solid platform for the long-term development of its leather business.

Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2002

	Notes	For the six months ended 30 June 2002 HK$'000 (Unaudited)	2001 HK$'000 (Unaudited)
TURNOVER	2	**314,168**	363,855
Cost of sales		**(286,890)**	(318,224)
Gross profit		**27,278**	45,631
Other revenue and gains	2	**2,872**	3,310
Selling and distribution costs		**(9,040)**	(8,889)
Administrative expenses		**(20,327)**	(22,772)
Other operating expenses, net		**(179,286)**	(3,649)
Staff compensation payments in respect of a discontinued operation	4(b)	**(552)**	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	2, 3	**(179,055)**	13,631
Finance costs	5	**(3,353)**	(9,133)
Share of loss of an associate		**–**	(66)
PROFIT/(LOSS) BEFORE TAX		**(182,408)**	4,432
Tax	6	**–**	93
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		**(182,408)**	4,525
Minority interests		**77**	493
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS AND LOSS ACCUMULATED AT END OF PERIOD		**(182,331)**	5,018
EARNINGS/(LOSS) PER SHARE	8		
– Basic		**(34.79 cents)**	0.96 cent
– Diluted		**N/A**	N/A

GDH

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2002

	Ordinary share capital HK$'000 (Unaudited)	Share premium account HK$'000 (Unaudited)	General reserve fund HK$'000 (Unaudited)	Capital redemption reserve HK$'000 (Unaudited)	Other reserve fund HK$'000 (Unaudited)	Exchange translation reserve HK$'000 (Unaudited)	Property revaluation reserve HK$'000 (Unaudited)	Accumulated losses HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
At 1 January 2002	52,415	412,116	34,397	445	553	779	35,623	(179,952)	356,376
Loss for the period	–	–	–	–	–	–	–	(182,331)	(182,331)
Release of goodwill from reserve in respect of impairment of an investment in a subsidiary	–	–	133,349	–	–	–	–	–	133,349
Surplus arising on revaluation of leasehold land and buildings	–	–	–	–	–	–	2,409	–	2,409
Exchange adjustments	–	–	–	–	–	19	–	–	19
At 30 June 2002	**52,415**	**412,116**	**167,746**	**445**	**553**	**798**	**38,032**	**(362,283)**	**309,822**

	Ordinary share capital HK$'000 (Unaudited)	Share premium account HK$'000 (Unaudited)	General reserve fund HK$'000 (Unaudited)	Capital redemption reserve HK$'000 (Unaudited)	Other reserve fund HK$'000 (Unaudited)	Exchange translation reserve HK$'000 (Unaudited)	Property revaluation reserve HK$'000 (Unaudited)	Accumulated losses HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
At 1 January 2001	52,415	412,116	12,478	445	553	487	39,626	(107,670)	410,450
Profit for the period	–	–	–	–	–	–	–	5,018	5,018
Exchange adjustments	–	–	–	–	–	266	–	–	266
At 30 June 2001	52,415	412,116	12,478	445	553	753	39,626	(102,652)	415,734

Condensed Consolidated Balance Sheet

30 June 2002

	Notes	**30 June 2002 HK$'000 (Unaudited)**	31 December 2001 HK$'000 (Audited)
NON-CURRENT ASSETS			
Fixed assets		**200,679**	204,436
Trademarks		**800**	1,500
		201,479	205,936
CURRENT ASSETS			
Inventories	9	**234,898**	181,126
Trade receivables	10	**34,821**	58,208
Bills receivable		**14,615**	2,822
Tax recoverable		**8**	8
Prepayments, deposits and other debtors		**16,535**	9,304
Loan to an officer		**1,036**	1,058
Due from a PRC joint venture partner	11	**33**	33
Due from a fellow subsidiary	12	**196**	196
Cash and cash equivalents	13	**21,223**	98,769
Pledged bank deposits	13	**16,347**	16,671
		339,712	368,195
CURRENT LIABILITIES			
Trade and bills payables	14	**(88,624)**	(18,466)
Accruals and other liabilities		**(28,991)**	(28,806)
Tax payable		**(286)**	(286)
Due to PRC joint venture partners	11	**(1,215)**	(1,748)
Due to a minority shareholder of a subsidiary	15	**(504)**	(498)
Loans from the immediate holding company	16	**(46,173)**	–
Loans from fellow subsidiaries	17	**(18,846)**	–
Bank borrowings		**(14,635)**	(96,763)
Provisions		**(3,000)**	(3,000)
		(202,274)	(149,567)
NET CURRENT ASSETS		**137,438**	218,628

Condensed Consolidated Balance Sheet

30 June 2002

	Notes	30 June 2002 HK$'000 (Unaudited)	31 December 2001 HK$'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		**338,917**	424,564
NON-CURRENT LIABILITIES			
Bank borrowings		**(25,000)**	(64,017)
		313,917	360,547
MINORITY INTERESTS		**(4,095)**	(4,171)
		309,822	356,376
CAPITAL AND RESERVES			
Issued capital	18	**52,415**	52,415
Reserves		**257,407**	303,961
		309,822	356,376

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2002

	For the six months ended 30 June	
	2002	2001
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash used in operations	**(14,675)**	(32,643)
Interest paid	**(3,353)**	(9,133)
Profits tax refunded	**–**	1,700
Net cash outflow from operating activities	**(18,028)**	(40,076)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	**(12,496)**	(5,859)
Proceeds from disposal of fixed assets	**8,150**	888
(Increase)/decrease in pledged bank deposits	**324**	(6,239)
Repayment from PRC joint venture partners	**–**	2,132
Repayment from loans to officers	**22**	1,629
Interest received	**597**	1,535
Net cash outflow from investing activities	**(3,403)**	(5,914)
CASH FLOWS FROM FINANCING ACTIVITIES		
New loans from the immediate holding company	**80,096**	–
Repayment of loans from the immediate holding company	**(33,923)**	–
New loans from fellow subsidiaries	**18,846**	–
New bank loans	**83,919**	57,166
Repayment of bank loans	**(205,070)**	(87,792)
Net cash outflow from financing activities	**(56,132)**	(30,626)
DECREASE IN CASH AND CASH EQUIVALENTS	**(77,563)**	(76,616)
Cash and cash equivalents at beginning of period	**98,769**	111,825
Effect of foreign exchange rate changes, net	**17**	303
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**21,223**	35,512

1. ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance 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 presentation used in the preparation of these interim financial statements are the same as those used in the audited financial statements for the year ended 31 December 2001, except the following new/revised SSAPs have been adopted for the first time in the preparation of the current period's condensed consolidated financial statements:

- SSAP 1 (Revised): "Presentation of Financial Statements"
- SSAP 11 (Revised): "Foreign Currency Translation"
- SSAP 15 (Revised): "Cash Flow Statements"
- SSAP 33: "Discontinuing Operations"
- SSAP 34: "Employee Benefits"

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the condensed consolidated financial statements is that the profit and loss account of subsidiaries and associates operating in Mainland China and overseas are translated at an average rate for the period on consolidation, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. This SSAP is required to be applied retrospectively. The Group has adopted the transitional provision of this SSAP that where the calculation of a prior year adjustment is impractical, these changes in policy are applied only to current and future financial statements and the effect on the results of the current period is not significant.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 33 prescribes the basis for reporting information about discontinuing/discontinued operations. The impact of this SSAP is the inclusion of significant additional disclosures which are set out in note 4 to the condensed consolidated financial statements.

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has had no major impact on these condensed consolidated financial statements.

2. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the leather processing segment processes raw leather to finished leather for use in the leather ware products manufacture industry mainly in Mainland China;

(b) the merchandise trading segment purchases commodities from overseas and sells to customers in Mainland China;

(c) the property investment segment invests in residential and commercial properties in Hong Kong and Mainland China for rental income purpose;

(d) the corporate and other segment mainly comprises the Group's corporate income and expense items;

(e) the packaging materials manufacture and distribution segment produces and distributes packaging materials in Mainland China; and

(f) the leather ware products manufacture and distribution segment produces leather ware products in Mainland China and sells them mainly in Hong Kong.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers.

There were no intersegment sales and transfers during the period.

2. SEGMENT INFORMATION *(Cont'd)*

(a) Business segments

The following table presents revenue and profit/(loss) for the Group's business segments.

Group

	Leather processing		Merchandise trading		Property investment	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Segment revenue:						
Sales to external customers	**199,240**	211,615	**89,838**	125,922	**–**	–
Other revenue (excluding exchange gains/(losses), net)	**548**	428	**47**	163	**980**	817
Exchange gains/(losses), net	**(9)**	556	**(28)**	(177)	**–**	–
Total	**199,779**	212,599	**89,857**	125,908	**980**	817
Segment results	**(14,552)**	11,487	**(28,677)**	6,379	**344**	633
Interest income						
Unallocated expense						
Profit/(loss) from operating activities						
Finance costs						
Share of loss of an associate						
Profit/(loss) before tax						
Tax						
Minority interests						
Net profit/(loss) from ordinary activities attributable to shareholders						

Corporate and Other		Packaging materials manufacture and distribution (Discontinued)		Leather ware products manufacture and distribution (Discontinuing)		Consolidated	
For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
-	–	**8,324**	11,113	**16,766**	15,205	**314,168**	363,855
113	11	**8**	1	**579**	169	**2,275**	1,589
-	(54)	**-**	–	**(42)**	(139)	**(79)**	186
113	(43)	**8,332**	11,114	**17,303**	15,235	**316,364**	365,630
(3,185)	(4,643)	**(89)**	(539)	**(144)**	(1,221)	**(46,303)**	12,096
						597	1,535
						(133,349)	–
						(179,055)	13,631
						(3,353)	(9,133)
						-	(66)
						(182,408)	4,432
						-	93
						77	493
						(182,331)	5,018

2. SEGMENT INFORMATION *(Cont'd)*

(b) Geographical segments

The following table presents revenue and profit/(loss) for the Group's geographical segments.

Group

	Mainland China For the six months ended 30 June		Hong Kong For the six months ended 30 June		Elsewhere For the six months ended 30 June		Consolidated For the six months ended 30 June	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Segment revenue:								
Sales to external customers	**288,265**	334,006	**15,370**	14,103	**10,533**	15,746	**314,168**	363,855
Other revenue (excluding exchange gains/(losses), net)	**847**	1,025	**1,428**	561	**–**	3	**2,275**	1,589
Exchange gains/(losses), net	**(36)**	386	**(43)**	(194)	**–**	(6)	**(79)**	186
Total	**289,076**	335,417	**16,755**	14,470	**10,533**	15,743	**316,364**	365,630
Segment results	**(44,999)**	19,505	**(437)**	(3,531)	**(867)**	(3,878)	**(46,303)**	12,096

3. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging:

	For the six months ended 30 June	
	2002	2001
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**286,890**	318,224
Depreciation	**8,222**	10,675
Amortisation of trademarks*	**700**	700
Staff costs#	**20,209**	17,767
Operating lease expenses in respect of land and buildings:#		
Minimum lease payments	**3,854**	2,740
Contingent rent payments	**1,512**	1,658
	5,366	4,398
Annual fees paid to PRC joint venture partners	**404**	5,252
Exchange losses, net	**79**	–
Expenses included in other operating expenses, net		
Provision for doubtful debts	**32,574**	2,185
Fixed assets written off	**26**	1,273
Loss on disposal of fixed assets, net	**949**	191
Release of goodwill from reserve in respect of impairment of an investment in a subsidiary (Note)	**133,349**	–
Provision against inventories	**11,057**	–
Provision for impairment of fixed assets	**1,403**	–

and after crediting:

Gross rental income from investment properties	**980**	764
Add: sublease income	**82**	61
Total rental income in respect of minimum lease receivables	**1,062**	825
Less: outgoings from investment properties	**(12)**	(9)
Net rental income	**1,050**	816
Surplus arising on revaluation of investment properties	**12**	–
Surplus arising on revaluation of leasehold land and buildings	**60**	–
Royalty income	**500**	500
Interest income	**597**	1,535
Exchange gains, net	**–**	186

3. PROFIT/(LOSS) FROM OPERATING ACTIVITIES *(Cont'd)*

* *This amortisation for the period is included in "Administrative expenses" on the face of the condensed consolidated profit and loss account.*

\# *Certain amounts in the staff costs and operating leases in respect of land and buildings in the prior period were classified as administrative expenses. To accord with the presentation adopted in the current period, which in the opinion of the directors, better reflects the underlying nature of the transactions, they have been reclassified to selling and distribution costs.*

Note: The goodwill of HK$133,349,000 was related to the Company's acquisition of Nanhai Tannery which is engaged in leather processing operation in Mainland China. In light of the claims, if any, from the PRC authorities, that would affect the operations of Nanhai Tannery, the directors consider that the goodwill would not be recoverable and, accordingly, an impairment loss on the goodwill was made in the current period.

4. DISCONTINUING/DISCONTINUED OPERATIONS

(a) Disposal of the Group's entire 60% interest in Alpha Universal Limited ("Alpha Universal")

On 28 June 2002, the Company entered into a conditional sales and purchases agreement with an independent third party for the disposal of the Group's entire 60% interest in Alpha Universal and its subsidiaries (the "Alpha Universal Group") at HK$6,596,000 (net of expenses). The Alpha Universal Group principally operates the Group's leather ware products manufacture and distribution business.

On 15 July 2002, the Group's disposal of its entire 60% interest in the Alpha Universal Group was completed and did not result in any significant impact on the financial results of the Group. Upon the completion of this transaction, Alpha Universal ceased to be a subsidiary of the Company and the Group's leather ware products manufacture and distribution business was then discontinued.

4. DISCONTINUING/DISCONTINUED OPERATIONS *(Cont'd)*

(b) Discontinued operation of Xuzhou Gangwei Colour Package Co., Ltd ("Xuzhou Gangwei")

In June 2002, the Company negotiated with the staff of Xuzhou Gangwei for the compensation payments in respect of the decision of the board of directors of Xuzhou Gangwei to discontinue its packaging materials manufacture and distribution operations and lease all its plant and machinery to an independent third party. Xuzhou Gangwei commenced to lease its plant and machinery on 30 June 2002 and the discontinuation of packaging materials manufacture and distribution operations was then completed.

The discontinuation of the packaging materials manufacture and distribution business is consistent with the Group's strategy to concentrate on its leather processing business.

In connection with the decision to discontinue the packaging materials manufacture and distribution business, the Group incurred compensation payments to staff of HK$552,000.

The carrying amounts of the total assets and liabilities relating to the discontinuing/discontinued operations as at 30 June 2002 are as follows. Comparative information for leather ware products manufacture and distribution business and packaging materials manufacture and distribution business in 2001 is included in accordance with SSAP 33 "Discontinuing Operations".

	Leather ware products manufacture and distribution		**Packaging materials manufacture and distribution**	
	30 June 2002 HK$'000 (Unaudited)	31 December 2001 HK$'000 (Audited)	**30 June 2002 HK$'000 (Unaudited)**	31 December 2001 HK$'000 (Audited)
Total assets	**15,534**	22,811	**15,477**	12,721
Total liabilities	**(5,257)**	(12,382)	**(6,687)**	(3,996)
Net assets	**10,277**	10,429	**8,790**	8,725

4. DISCONTINUING/DISCONTINUED OPERATIONS *(Cont'd)*

The turnover, other revenue, expenses and results from the ordinary operations of leather ware products manufacture and distribution business and packaging materials manufacture and distribution business for the six months ended 30 June 2002 and 2001 are as follows:

	Leather ware products manufacture and distribution For the six months ended 30 June		**Packaging materials manufacture and distribution For the six months ended 30 June**	
	2002 HK$'000 (Unaudited)	2001 HK$'000 (Unaudited)	**2002 HK$'000 (Unaudited)**	2001 HK$'000 (Unaudited)
TURNOVER	**16,766**	15,205	**8,324**	11,113
Cost of sales	**(5,615)**	(4,707)	**(6,089)**	(9,877)
Gross profit	**11,151**	10,498	**2,235**	1,236
Other revenue and gains	**601**	536	**165**	100
Selling and distribution costs	**(6,845)**	(6,349)	**(840)**	(1,023)
Administrative expenses	**(5,069)**	(5,540)	**(760)**	(754)
Other operating income/ (expenses), net	**41**	–	**(732)**	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	**(121)**	(855)	**68**	(441)
Finance costs	**(32)**	(379)	**–**	–
PROFIT/(LOSS) BEFORE TAX	**(153)**	(1,234)	**68**	(441)
Tax	**–**	–	**–**	–
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**(153)**	(1,234)	**68**	(441)

4. DISCONTINUING/DISCONTINUED OPERATIONS *(Cont'd)*

The net cash flows attributable to the leather ware products manufacture and distribution business and packaging materials manufacture and distribution business for the six months ended 30 June 2002 and 2001 are as follows:

	Leather ware products manufacture and distribution For the six months ended 30 June		**Packaging materials manufacture and distribution For the six months ended 30 June**	
	2002 HK$'000 (Unaudited)	2001 HK$'000 (Unaudited)	**2002 HK$'000 (Unaudited)**	2001 HK$'000 (Unaudited)
Operating	**(608)**	(313)	**(287)**	(1,210)
Investing	**(317)**	(189)	**154**	12
Financing	**–**	–	**–**	–
Net cash outflows	**(925)**	(502)	**(133)**	(1,198)

5. FINANCE COSTS

This represents interest on bank borrowings and loans from the Company's immediate holding company and fellow subsidiaries which are wholly repayable within five years during the period.

6. TAX

No provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in Hong Kong during the period (2001: Nil).

The Group did not have any assessable profits in respect of subsidiaries of the Company in Mainland China and overseas during the period (2001: Nil). Overprovision of profits tax in respect of an overseas subsidiary in the prior period of HK$93,000 was credited to the condensed consolidated profit and loss account in the prior period.

There was no material unprovided deferred tax in respect of the period (2001: Nil).

7. DIVIDEND

The directors do not recommend the payment of any interim dividend in respect of the ordinary shares for the six months ended 30 June 2002 (2001: Nil).

8. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the unaudited net loss attributable to shareholders for the period of HK$182,331,000 (2001: unaudited profit of HK$5,018,000) and the weighted average number of 524,154,000 ordinary shares in issue during the period.

Diluted earnings/(loss) per share for the six months ended 30 June 2002 and 2001 have not been calculated as no diluting events existed during these periods.

9. INVENTORIES

	As at 30 June 2002 HK$'000 (Unaudited)	As at 31 December 2001 HK$'000 (Audited)
Raw materials	**85,820**	56,381
Work in progress	**81,698**	46,267
Finished goods	**67,380**	78,478
	234,898	181,126

The carrying amount of inventories carried at net realisable value included in the above is HK$10,230,000 (as at 31 December 2001: HK$41,944,000).

10. TRADE RECEIVABLES

The ageing analysis of the Group's trade receivables at the balance sheet date was as follows:

	As at 30 June 2002 HK$'000 (Unaudited)	As at 31 December 2001 HK$'000 (Audited)
Within 3 months	**63,947**	58,245
More than 3 months and less than 6 months	**2,888**	250
More than 6 months and less than 1 year	**4,224**	3,343
More than 1 year	**8,904**	8,965
	79,963	70,803
Less: Provisions for doubtful debts	**(45,142)**	(12,595)
	34,821	58,208

Credit terms

Trading terms with customers are largely on credit, except for new customers where payment in advance is normally required. Invoices are normally payable ranging from 30 days of issuance, except for certain well established customers, where the terms are extended to two to three months. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

11. DUE FROM/TO PRC JOINT VENTURE PARTNERS

The balances with the PRC joint venture partners are unsecured, interest-free and have no fixed terms of repayment.

12. DUE FROM A FELLOW SUBSIDIARY

The amount due from a fellow subsidiary represented a rental deposit which is unsecured, interest-free and has no fixed terms of repayment.

13. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	As at 30 June 2002 HK$'000 (Unaudited)	As at 31 December 2001 HK$'000 (Audited)
Cash and bank balances	**37,345**	31,118
Time deposits	**225**	84,322
	37,570	115,440
Less : Pledged bank deposits*	**(16,347)**	(16,671)
Cash and cash equivalents	**21,223**	98,769

* *These deposits are pledged to banks for letters of credit facilities granted.*

As at 31 December 2001, pursuant to the Group's debt restructuring document, the Group shall retain cash and bank balances, from time to time, in a working capital reserve of up to HK$80 million, a reserve equal to a limit available from trade facilities granted by a bank of HK$25 million and a capital expenditure reserve of up to HK$10 million which are applied in the Group's operations. The remaining portion of cash and bank balances will be applied in, amongst other things, the payment of interest and repayment of bank borrowings.

During the period, the Group fully repaid the bank debts under the Group's debt restructuring document which was then terminated and the provisions prescribed in the debt restructuring document were released.

14. TRADE AND BILLS PAYABLES

The ageing analysis of the Group's trade and bills payables at the balance sheet date was as follows:

	As at 30 June 2002 HK$'000 (Unaudited)	As at 31 December 2001 HK$'000 (Audited)
Within 3 months	**85,394**	15,841
More than 3 months and less than 6 months	**706**	2,202
More than 6 months and less than 1 year	**2,117**	207
More than 1 year	**407**	216
	88,624	18,466

15. DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due to a minority shareholder of a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

16. LOANS FROM THE IMMEDIATE HOLDING COMPANY

The loans from the immediate holding company are unsecured, bear interest at 3.8% per annum and are repayable in November 2002.

17. LOANS FROM FELLOW SUBSIDIARIES

The loans represent two unsecured loans of RMB8 million and RMB12 million from Shenzhen Guangdong Hotel Enterprise Ltd. and Yue Hai Hotel, Zhuhai, fellow subsidiaries of the Company, through entrusted loan agreements, which are repayable in September 2002 and January 2003, respectively. These loans from fellow subsidiaries bear interest at 4.2% per annum.

18. SHARE CAPITAL

There were no changes to the carrying amount or the number of ordinary shares in issue during the six months ended 30 June 2001 and 2002.

19. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 3 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rental adjustments according to the then prevailing market conditions.

As at 30 June 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with their tenants falling due as follows:

	As at 30 June 2002 HK$'000 (Unaudited)	As at 31 December 2001 HK$'000 (Audited)
Within one year	**1,420**	1,613
In the second to fifth years, inclusive	**616**	960
	2,036	2,573

(b) As lessee

The Group lease certain of their office properties and retail units under operating lease arrangements. Leases for properties and retail units are negotiated for terms ranging from 1 to 2 years, whereby certain leases for retail units are calculated at the higher of certain percentage of the monthly sale or monthly minimum lease payment. The contingent rent payments are the portion exceeding the minimum lease payment.

As at 30 June 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 June 2002 HK$'000 (Unaudited)	As at 31 December 2001 HK$'000 (Audited)
Within one year	**5,298**	5,285
In the second to fifth years, inclusive	**1,735**	1,352
	7,033	6,637

As at 30 June 2002, the Group did not have any future minimum sublease payment expected to be recorded under non-cancellable sublease (as at 31 December 2001: HK$287,000).

20. COMMITMENTS

(a) As at 30 June 2002, the Group did not have any outstanding contracted capital commitments in respect of property, plant and equipment (as at 31 December 2001: HK$259,000).

(b) As at 30 June 2002, the Group had commitments to make annual fee payments of HK$808,000 (as at 31 December 2001: HK$808,000) to its joint venture partners in Mainland China in the following year.

21. CONTINGENT LIABILITIES

(a) Guangdong Enterprises (North America) Fur Holdings Limited ("GDNA") and Harbour Hill International Limited (the "Plaintiffs"), wholly-owned subsidiaries of the Company, commenced an action in the Southern District of New York against a company called Hennessy International Group, Inc. ("HIGI") and its owners/controllers (the "Defendants"). HIGI is one-third held by GDNA and is an associate of the Group. The Plaintiffs are attempting to recover from the Defendants approximately US$2.25 million in financing that the Plaintiffs provided to HIGI. The Defendants have counterclaimed for US$2 million amount, claiming that the Plaintiffs wrongly terminated HIGI's financing. Both the Plaintiffs and the Defendants are moving for summary judgement, which motions were fully submitted to the court by 8 March 2002. The Plaintiffs requested a sum of US$0.5 million for settlement in the progress of summary judgement, but it was rejected by the Defendants. In consequence, a trial will be convened on 14 August 2002.

The directors, based on legal advice, do not believe there is a strong reason for any claim brought against the Group. Accordingly, no provision was made in respect thereof as at 30 June 2002.

(b) Following the change in senior management of the Company in June 2002, it was discovered that certain former executives (the "Former Executives") of Nanhai Tannery & Leather Products Co Ltd. ("Nanhai Tannery") (some of whom were also former directors of the Company) had been involved in certain irregularities. Nanhai Tannery is a wholly owned subsidiary of the Company and is a sino-foreign cooperative joint venture company established in Nanhai, the People's Republic of China (the "PRC").

Upon discovery of the irregularities, an internal audit team of the Company's holding companies, working with the new management, conducted a preliminary investigation of the irregularities. The investigation revealed that the Former Executives apparently operated a business in parallel to the operations of Nanhai Tannery (the "Parallel Operation") for their own personal gain.

The incident has been reported by the Company to the relevant PRC authorities who have detained the Former Executives in the Nanhai Municipality and seized the relevant documents related to the Parallel Operation for investigations. The Company has also instructed its auditors and the PRC lawyers to carry out special investigations with a view to ascertaining the effects of the Parallel Operation on the business of Nanhai Tannery and to advise management of the Group's possible recourse against the Former Executives.

21. CONTINGENT LIABILITIES *(Cont'd)*

(b) *(Cont'd)*

Based on the findings of the auditors and the advice of the PRC lawyers, the directors of the Company are of the opinion that the Parallel Operation should not be incorporated in the financial statements of the Group. However, the Parallel Operation appeared to have involved various irregularities in their transactions under the applicable PRC laws and regulations.

As the investigations of the PRC authorities are still ongoing, it is not possible to ascertain with certainty the consequential actions that may be taken by the PRC authorities for the aforesaid irregularities and the existence or otherwise of any penalties and claims. As of the date of this report, no provision has been made in the financial statements for such contingencies.

22. PLEDGED OF ASSETS

As at 30 June 2002, certain of the Group's leasehold land and buildings and bank deposits with a total net book value of HK$104,347,000 (as at 31 December 2001: HK$31,162,000) were pledged to secure general banking facilities granted to the Group.

Included in the above net book value of the pledged assets in an amount of HK$88,000,000 (as at 31 December 2001: HK$4,581,000) related to pledged leasehold land and buildings.

23. RELATED PARTY TRANSACTIONS

The Group had the following significant related party transactions during the period:

		For the six months ended 30 June	
		2002	2001
	Notes	**HK$'000**	HK$'000
		(Unaudited)	(Unaudited)
Annual fees paid to PRC joint venture partners	(a)	**404**	5,252
Interest on loans from the immediate holding company	(b)	**565**	–
Interest on loans from fellow subsidiaries	(b)	**357**	–
Rental paid to a fellow subsidiary	(c)	**341**	218

23. RELATED PARTY TRANSACTIONS *(Cont'd)*

Notes:

(a) The annual fees paid to PRC joint venture partners are in accordance with the respective sino-foreign co-operative joint venture agreements. Balances with PRC joint venture partners are set out in note 11 to the condensed consolidated financial statements.

(b) Details of the interest on loans from the Company's immediate holding company and fellow subsidiaries are set out in notes 16 and 17, respectively, to the condensed consolidated financial statements.

(c) Rental is charged by a fellow subsidiary at approximately HK$73,000 per month in accordance with the terms of a rental agreement between the Company and a fellow subsidiary.

In addition to the above, as at 30 June 2002, the Group had a bank loan of HK$25,500,000 which is secured by certain amount of debt securities held by an intermediate holding company of the Company at nil consideration.

24. POST BALANCE SHEET EVENTS

Significant post balance sheet events in respect of Nanhai Tannery's exposure to claims, if any, from the PRC authorities and the Group's discontinuing leather ware products manufacture and distribution business have been set out in notes 21 and 4, respectively, to the condensed consolidated financial statements.

25. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved and authorised for issue by the board of directors on 5 August 2002.

To the Board of Directors
Guangdong Tannery Limited

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 7 to 29.

Directors' responsibilities

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with SSAP 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Fundamental uncertainty – Contingent liabilities

In arriving at our review conclusion, we have considered the adequacy of the disclosures made in the interim financial report concerning the PRC authorities' investigations in respect of the irregularities involving certain former executives of a subsidiary of the Company. As the investigations of the PRC authorities are still ongoing, it is not possible to ascertain with certainty the consequential actions that may be taken by the PRC authorities for the apparent breaches of certain PRC laws and regulations and the existence or otherwise of any penalties and claims as a result of the aforesaid irregularities. As of the date of this report, no provision has been made in the financial statements for such contingencies. We consider that appropriate disclosures have been made and our review conclusion is therefore not modified in this respect.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2002.

Ernst & Young
Certified Public Accountants

Hong Kong
5 August 2002

As at 30 June 2002, the interests of the Directors of the Company in the equity or debt securities of the Company and its associated corporations recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules were as follows:

(A) Guangdong Tannery Limited

Name	Number of Ordinary Shares (Personal Interest)
Cheng Hok Lai, James	500,000

(B) Guangdong Investment Limited

Name	Number of Ordinary Shares (Personal Interest)
Zeng Haipeng	894,000
Ho Lam Lai Ping, Theresa	250,000
Lau Chi Sing	400,000

(C) Guangdong Brewery Holdings Limited

Name	Number of Ordinary Shares (Personal Interest)
Ho Lam Lai Ping, Theresa	80,000

As at 30 June 2002, the following Directors had interests recorded in the register kept under Section 29 of the SDI Ordinance being options granted under the existing share option scheme of Guangdong Investment Limited, to subscribe for shares in Guangdong Investment Limited.

Guangdong Investment Limited

	No. of options held on 01/01/2002	Options granted during the period Date granted	Options granted during the period Options granted	Period during which rights are exercisable (dd/mm/yyyy) (Note (1))	Price to be paid per share on exercise of options (HK$)	No. of options exercised during the period	No. of options held on 30/06/2002
Ho Lam Lai Ping, Theresa	500,000	–	–	19/08/1998-18/08/2003	2.892	–	500,000
	1,200,000	–	–	11/02/2002-10/02/2007	0.5312	–	1,200,000
	–	07/05/2002	1,200,000	08/11/2002-07/11/2007	0.814	–	1,200,000
Lau Chi Sing	400,000	–	–	11/02/2002-10/02/2007	0.5312	400,000	–
	–	07/05/2002	500,000	08/11/2002-07/11/2007	0.814	–	500,000

Notes:

(1) If the last day of any option period is not a business day in Hong Kong, the option period expires at 5:01 p.m. on the business day preceding that day.

(2) No consideration has been paid by any of the Directors for the options granted by Guangdong Investment Limited.

(3) Mr. Lau Chi Sing ceased to be a director of the Company with effect from 1 August 2002.

Save as disclosed above, as at 30 June 2002, none of the Directors of the Company or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to section 28 of the SDI Ordinance, including interests which they were deemed or taken to have under Section 31 or Part I of the Schedule to that Ordinance, or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein.

Set out below are the names of all parties which were, directly or indirectly, interested in 10% or more of the nominal value of the share capital of the Company and the respective relevant numbers of shares in which they were and/or were deemed to be, interested as at 30 June 2002 as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

Names		**No. of Ordinary Shares**	**Percentage of the Company's Share Capital**
(i)	Guangdong Yue Gang Investment Holdings Company Limited	375,100,000	71.56
(ii)	GDH Limited	375,100,000	71.56
(iii)	Guangdong Investment Limited	375,100,000	71.56

Note: For the avoidance of doubt and double counting, it should be noted that duplication occurs in respect of the above-stated shareholdings to the extent that the shareholdings stated against parties (iii) above are entirely duplicated and included in the shareholdings stated against party (ii) above; the shareholdings stated against parties (ii) above are entirely duplicated and included in the shareholdings stated against party (i) above. The abovenamed parties were deemed to be interested in the relevant shareholdings under the SDI Ordinance as at 30 June 2002.

Save as discussed above, no person, other than the Directors of the Company, whose interest are set out in the "Directors' Interests" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

GDH

Share Option Scheme

The following share options were outstanding under the share option scheme of the Company during the period:

Name or category of participant	Number of share options: At 1 January 2002	Cancelled during the period	At 30 June 2002		Date of grant of share options *(Note 3)*	Exercise period of share options	Exercise price of share options *(Note 4)* HK$
Directors							
Poon Kin	500,000	(500,000)	–	*(Note 1)*	15/01/1997	15/07/1997 – 14/01/2002	1.3936
Other employees in aggregate	3,900,000	(3,900,000)	–	*(Note 1)*	15/01/1997	15/07/1997 – 14/01/2002	1.3936
	2,000,000	(2,000,000)	–	(Note 2)	27/05/1997	27/11/1997 – 26/05/2002	2.2240
	5,900,000	(5,900,000)	–				
	6,400,000	(6,400,000)	–				

Notes:

(1) The options were lapsed upon expiration on 14 January 2002.

(2) The options were lapsed upon expiration on 26 May 2002.

(3) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

(4) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

(5) No options were granted or exercised during the period.

CORPORATE GOVERNANCE

Regular meetings have been held by the Audit Committee since its establishment and it shall meet at least twice each year to review and supervise the Group's financial reporting process and internal controls.

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this interim report, in compliance with Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group's interim financial report for the six months ended 30 June 2002 has not been audited, but has been reviewed by the Company's auditor Messrs. Ernst & Young.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2002. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

By Order of the Board
Xiong Guangyang
Chairman

Hong Kong, 5 August 2002

GDH

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Xiong Guangyang *(Chairman)*
Zeng Haipeng *(Managing Director)*
Hui Wai Man Lawrence *(Director & Chief Financial Officer)*

Non-Executive Directors

Cheng Hok Lai James
Cheung Sing Tai
Ho Lam Lai Ping Theresa
Poon Kin

COMPANY SECRETARY

Chan Miu Ting

AUDITORS

Ernst & Young

REGISTERED OFFICE

Unit A, 28th Floor
Guangdong Investment Tower
148 Connaught Road Central
Hong Kong

INTERNET ADDRESS

www.gdtann.com