



粤海制革有限公司
GUANGDONG TANNERY LIMITED



INTERIM REPORT 2003 中期報告

CONTENTS

	<i>Pages</i>
Management Discussion and Analysis	2
Unaudited Interim Financial Report	
Condensed Consolidated Profit and Loss Account	8
Condensed Consolidated Balance Sheet	9
Condensed Consolidated Summary Statement of Changes in Equity	10
Condensed Consolidated Cash Flow Statement	11
Notes to Condensed Consolidated Financial Statements	12
Independent Auditors' Review Report	29
Directors'/Chief Executive's Interests in Securities	31
Substantial Shareholders' Interests	34
Other Information	35
Corporate Information	36

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM RESULTS

The Group's unaudited loss attributable to shareholders for the six months ended 30 June 2003 was HK\$2,382,000, decreased by HK\$179,949,000 against the loss of HK\$182,331,000 for the same period in 2002. The loss for the period was reduced by HK\$35,543,000, as compared to HK\$37,925,000 for the same period last year after deducting the provisions for impairment of goodwill of Nanhai Tannery & Leather Products Co., Ltd. ("Nanhai Tannery") and provision for obsolete stock of Qingdao Nanhai Tannery Co., Ltd. ("Qingdao Tannery") totalling to HK\$144,406,000. Loss per share for the period was 0.45 HK cent (2002: 34.79 HK cents).

The unaudited net asset value of the Group as at 30 June 2003 was HK\$264,163,000, down by HK\$35,459,000 and HK\$11,480,000 as compared to 30 June 2002 and 31 December 2002, respectively.

No interim dividend is recommended by the Board of Directors for the six months ended 30 June 2003.

OPERATIONS

The Group has disengaged its interests in certain non-core operations and focused its resources mainly on the core leather business following the corporate restructuring program initiated two years ago. In the early 2003, the Group's effort to rationalise its distribution network, supplier channels, production mix and product positioning has proven its worth, enabling the leather business to get back on track to a steady and positive development. However, the Group's production and operations were indirectly affected from April to June this year due to reduced orders from shoes manufacturers, the Group's major customers, in the face of a slowing consumer market amid the outbreak of Severe Acute Respiratory Syndrome ("SARS") in Mainland China and Hong Kong.

To expand further its market coverage, the Group has adjusted its distribution strategy, shifting the focus from a few distributors to direct sales customers and new regional distributors. During the period, the sales contributed by the Group's top five customers dropped to 52% from 76% for the same period last year. The Group's nationwide direct sales distribution network spans a number of major provinces and cities in Mainland China, including Guangdong, Fujian, Shandong, Jiangsu, Shanghai, Zhejiang, Chongqing and Sichuan.

On the product front, the Group is actively strengthening its research and development effort to develop techniques that turn defective leather into innovative products with higher market acceptance, such as "imitation reindeer leather" and "Kaibianzhu". With such product developments, the Group reduced its inventory level by clearing up the defective leather inventories at a higher return.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONS *(continued)*

The Group has further optimised its assets during the period. A total of approximately HK\$20,101,000 was realised from the disposal of certain of its properties, including the Company's former office in Tsim Sha Tsui, Hong Kong; an office unit at Huanghua Road, Guangzhou; as well as an industrial premise in Hong Kong.

TURNOVER

Turnover for the period was HK\$142,380,000, decreased by HK\$171,788,000 or 55% from HK\$314,168,000 for the same period last year.

The decrease in turnover was primarily caused by a number of factors including: a drop of HK\$25,090,000 as a result of discontinuation of the paper box packaging business and disengagement of the Group's interests in the leather ware business; a reduction of HK\$10,250,000 arising from the production of double face leather; a decrease of HK\$89,838,000 in turnover for leather ware trading; and a decline of HK\$46,610,000 in turnover for the leather business hit by the fallout from the SARS outbreak. Turnover of the leather business (by product) in the first half of 2002 and 2003 are as follows:

Product	Turnover		
	2003 <i>(HK\$'000)</i>	2002 <i>(HK\$'000)</i>	+ / (-) <i>(%)</i>
Cow hides	116,712	156,494	(25)
Cow split, coated cow split & others	25,668	42,746	(40)
Total	<u>142,380</u>	<u>199,240</u>	<u>(29)</u>

Turnover of the Group is expected to improve in the second half year, as a revitalised leather market in Mainland China is anticipated given the subsiding repercussions of the SARS outbreak.

COSTS

Leather sourcing cost, which accounts for approximately 79% of total sourcing costs, was reduced markedly following the expansion of supplier network, introduction of competition into the sourcing process, and enhanced efforts in market research and price negotiation. During the period under review, average sourcing prices per sq. ft. of domestic large, medium and small cow hides dropped approximately by 2%, 10% and 5% respectively against the same period last year. Sourcing of chemicals and metals was carried out through open tender in order to lower the overall production costs.

MANAGEMENT DISCUSSION AND ANALYSIS

PRODUCTION

The Group's total leather production for the period was 15,269,000 sq. ft., declined by 6,879,000 sq. ft. from 22,148,000 sq. ft. for the same period last year. Production volume of the leather business (by product) in the first half of 2002 and 2003 are as follows:

Product	Production Volume		
	2003 (<i>'000 sq. ft.</i>)	2002 (<i>'000 sq. ft.</i>)	+ / (-) (%)
Cow hides	11,142	14,470	(23)
Cow split, coated cow split and others	4,127	7,678	(46)
Total	15,269	22,148	(31)

INVENTORIES

As at 30 June 2003, the Group's consolidated inventories amounted to HK\$229,197,000, reduced by HK\$5,701,000 against the same period last year. The inventories actually surged by HK\$1,115,000 after deduction of the inventories from those discontinued operations amounting to HK\$6,816,000. A rise of HK\$37,008,000 was recorded when compared to the inventories as at 31 December 2002. The increase was primarily triggered by weakened sales following the SARS outbreak in the first half year.

TRADE RECEIVABLES

Balance of trade receivables at the end of the period was HK\$75,031,000. After deducting the provisions for doubtful debts of HK\$35,507,000, trade receivables amounted to HK\$39,524,000, an increase of HK\$4,703,000 and HK\$18,052,000 as compared to 30 June 2002 and 31 December 2002, respectively. The increase was mainly attributable to an expanded customer base, a higher level of credit limit to customers, and slower payments from customers who were adversely affected by the SARS outbreak.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL POSITION

As at 30 June 2003, the Group's interest-bearing borrowings and cash and bank balances are analysed as follows together with their comparative figures as at 31 December 2002:

	30 June 2003	31 December 2002
	(HK\$'000)	(HK\$'000)
Interest-bearing borrowings		
<i>Currencies:</i>		
Hong Kong dollar	24,400	24,400
Renminbi	71,506	69,694
United States dollar	19,402	28,548
	<u>115,308</u>	<u>122,642</u>
<i>Interest rates:</i>		
At fixed rate	71,506	69,694
At floating rate	43,802	52,948
	<u>115,308</u>	<u>122,642</u>
Cash and bank balances		
<i>Currencies:</i>		
Hong Kong dollar	3,694	666
Renminbi	13,811	43,094
United States dollar	10,193	21,066
	<u>27,698</u>	<u>64,826</u>

At 30 June 2003, after deduction of cash and bank balances, the Group's ratio of net interest-bearing borrowings to shareholders' equity was 33% (31 December 2002: 21%). Loan facilities bear interest at approximately 3% to 6% per annum. On 2 September 2003, the repayment date of certain loans to the Group of HK\$46,163,000 was extended to 30 September 2004, therefore, of the Group's total borrowings, HK\$60,812,000 is repayable within one year. Interest expense incurred by the Group during the period was HK\$2,589,000, a drop of 23% as compared to the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL POSITION *(continued)*

Net cash outflow from operating activities for the period was HK\$47,928,000 and net cash outflow from financing was HK\$7,352,000. Net cash outflow for the period amounted to HK\$27,263,000.

Fixed assets as at 30 June 2003 were HK\$143,159,000, a reduction of HK\$37,835,000 as compared to 31 December 2002. The Group's capital expenditure during the period amounted to HK\$2,046,000 (2002: HK\$12,496,000). It was incurred mainly for the replacement of the leather manufacture machinery and equipment, a move to cope with the operations and development of the leather business.

As at 30 June 2003, certain of the Group's leasehold land and buildings, receivables and bank balances with a total net book value of HK\$32,726,000 (31 December 2002: HK\$48,972,000) were pledged to secure general banking facilities granted to the Group.

LITIGATIONS

In September 2002, the Company submitted a claim to China International Economic and Trade Arbitration Commission (the "Arbitration Commission") in Shenzhen, Mainland China, against a PRC joint venture partner of Qingdao Tannery seeking, amongst others, termination of the joint venture agreement of Qingdao Tannery (the "Qingdao Joint Venture Agreement") and compensation of losses and damages of approximately RMB24,000,000. However, the PRC joint venture partner also applied to the Arbitration Commission in Beijing against the Company claiming for loss of fixed return under the Qingdao Joint Venture Agreement and damages in an aggregate amount of RMB15,000,000. The two arbitration proceedings are still in progress.

EMPLOYEES

The Company and its subsidiaries have 1,028 employees (2002: 1,607 employees). Employees' cost for the period was HK\$11,264,000 (2002: HK\$20,209,000). In June 2003, certain directors and employees were granted options to subscribe for a total of 9,650,000 shares of the Company. The purpose of the Company's share option scheme is to provide incentives to participants to contribute to the Group, and 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

No other service was provided by Messrs. Ernst & Young, the auditors of the Group, other than the interim review during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The Group is poised to benefit from China's sustained robust economic growth, given the closer economic partnership between Hong Kong and Mainland China, and the accelerated implementation of various economic and trading policies following China's admission to the World Trade Organisation. To venture into new markets and develop innovative products under strict cost control will continue to be the thrust of our expansion philosophy. We are confident that the Group is set to improve its operational efficiency steadily, and strive to achieve profitability in the year of 2003.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2003

	Notes	For the six months ended 30 June	
		2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
TURNOVER	2		
Continuing operations		142,380	289,078
Discontinued operations		—	25,090
		<u>142,380</u>	<u>314,168</u>
Cost of sales		(132,169)	(286,890)
Gross profit		<u>10,211</u>	<u>27,278</u>
Other revenue and gains		1,707	2,872
Selling and distribution costs		(1,195)	(9,040)
Administrative expenses		(11,461)	(20,327)
Other operating income/(expenses), net		659	(179,286)
Staff compensation payments in respect of a discontinued operation	3(b)	—	(552)
LOSS FROM OPERATING ACTIVITIES	2,4	<u>(79)</u>	<u>(179,055)</u>
Finance costs	5	<u>(2,589)</u>	<u>(3,353)</u>
LOSS BEFORE TAX			
Continuing operations		(2,668)	(182,323)
Discontinued operations		—	(85)
		<u>(2,668)</u>	<u>(182,408)</u>
Tax — Continuing operations	6	<u>286</u>	<u>—</u>
LOSS BEFORE MINORITY INTERESTS		<u>(2,382)</u>	<u>(182,408)</u>
Minority interests		—	77
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u><u>(2,382)</u></u>	<u><u>(182,331)</u></u>
LOSS PER SHARE	8		
— Basic		<u><u>(0.45) cent</u></u>	<u><u>(34.79) cents</u></u>
— Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2003

	<i>Notes</i>	30 June 2003	31 December 2002
		HK\$'000	HK\$'000
		(Unaudited)	(Audited) (Restated)
NON-CURRENT ASSETS			
Fixed assets		143,159	180,994
Receivables	10	<u>—</u>	<u>1,268</u>
		143,159	182,262
CURRENT ASSETS			
Inventories	9	229,197	192,189
Receivables, prepayments and deposits	10	80,371	43,357
Loan to an officer		993	1,015
Cash and cash equivalents	11	24,591	51,854
Pledged bank balances	11	3,107	12,972
		338,259	301,387
CURRENT LIABILITIES			
Trade and bills payables	12	(57,703)	(49,272)
Accruals and other liabilities		(33,214)	(21,882)
Tax payable		—	(286)
Due to a PRC joint venture partner	13	(1,131)	(1,131)
Loans from the former immediate holding company	14	—	(46,148)
Loans from the current immediate holding company	14	(46,163)	—
Due to the current immediate holding company	14	(399)	—
Loan from a fellow subsidiary	15	—	(9,418)
Bank borrowings		(60,812)	(50,409)
Provisions		(3,000)	(3,000)
		(202,422)	(181,546)
NET CURRENT ASSETS		135,837	119,841
TOTAL ASSETS LESS CURRENT LIABILITIES		278,996	302,103
NON-CURRENT LIABILITIES			
Bank borrowings		(8,333)	(16,667)
Deferred tax liabilities	1	(6,500)	(9,793)
		(14,833)	(26,460)
		264,163	275,643
CAPITAL AND RESERVES			
Issued capital	16	52,415	52,415
Reserves	18	211,748	223,228
		264,163	275,643

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2003

	<i>Notes</i>	For the six months ended 30 June	
		2003 <i>HK\$'000</i> (Unaudited)	2002 <i>HK\$'000</i> (Unaudited) (Restated)
Total equity at 1 January:			
As previously reported		285,436	356,376
Prior period adjustments	<i>1</i>	(9,793)	(9,549)
As restated		275,643	346,827
(Deficit)/surplus arising on revaluation of properties	<i>18</i>	(9,103)	1,758
Exchange differences on translation of the financial statements of subsidiaries and an associate in Mainland China	<i>18</i>	5	19
Net gains/(losses) not recognised in the profit and loss account		(9,098)	1,777
Release of goodwill in respect of impairment in value of an investment in a subsidiary	<i>18</i>	—	133,349
Net loss from ordinary activities attributable to shareholders		(2,382)	(182,331)
Total equity at 30 June		264,163	299,622

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2003

	For the six months ended 30 June	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash used in operations	(45,584)	(14,675)
Interest received	94	597
Interest paid	(2,438)	(3,353)
	<u>(47,928)</u>	<u>(17,431)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(2,046)	(12,496)
Proceeds from disposal of fixed assets	12,178	8,150
Disposal of a subsidiary — <i>Note 23(e)</i>	7,998	—
Decrease in pledged bank balances	9,865	324
Repayment from a loan to an officer	22	22
	<u>28,017</u>	<u>(4,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
New loans from fellow subsidiaries	—	18,846
New loans from the former immediate holding company	—	80,096
New bank loans	57,847	83,919
Repayment of a loan from a fellow subsidiary	(9,418)	—
Repayment of loans from the former immediate holding company	—	(33,923)
Repayment of bank loans	(55,781)	(205,070)
	<u>(7,352)</u>	<u>(56,132)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(27,263)	(77,563)
Cash and cash equivalents at beginning of period	51,854	98,769
Effect of foreign exchange rate changes, net	—	17
	<u>24,591</u>	<u>21,223</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	24,591	21,223
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u>24,591</u>	<u>21,223</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

1. ACCOUNTING POLICIES AND PRIOR PERIOD ADJUSTMENTS

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 2002, except for the revised SSAP 12 "Income Taxes" and the new interpretations relating thereto which have been retrospectively adopted for the first time in the preparation of the current period's condensed consolidated financial statements.

SSAP 12 (Revised) prescribes the basis for accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

Due to the adoption of SSAP 12 (Revised) in the current period, prior period adjustments were made to recognise the deferred tax liabilities in respect of the revaluation of the Group's leasehold land and buildings, which was not required in the prior periods. The principal effects of the adjustments on these condensed consolidated financial statements are as follows:

- (a) A decrease in the Group's property revaluation reserve as at 1 January 2003 by HK\$9,793,000 (as at 1 January 2002: HK\$9,549,000) which represents the deferred tax liabilities recognised in respect of the net revaluation surplus on the Group's leasehold land and buildings recorded in the reserves at that date; and
- (b) An increase in the deferred tax liabilities of HK\$651,000 as at 30 June 2002 by a reduction of revaluation surplus on the Group's leasehold land and buildings of the same amount credited to the property revaluation reserve for the six months then ended.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

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 the other business segments. Summary details of the business segments are as follows:

Continuing operations

- (a) the leather processing segment processes raw leather to finished leather for use in the leather ware products manufacturing industry mainly in the mainland of the People's Republic of China (the "PRC" or "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; and
- (d) the corporate and other segment mainly comprises the Group's corporate income and expense items.

Discontinued operations

- (a) the leather ware products manufacture and distribution segment produced leather ware products in Mainland China and sold them mainly in Hong Kong. This segment was discontinued following the Group's disposal of its entire 60% interest in Alpha Universal Limited ("Alpha Universal") in July 2002 as set out in the note 3(a) to these condensed consolidated financial statements; and
- (b) the packaging materials manufacture and distribution segment produced and distributed packaging materials in Mainland China. This segment was discontinued following the Group's discontinuation of the operation of Xuzhou Gangwei Colour Packaging Co., Ltd. ("Xuzhou Gangwei") in June 2002 as set out in note 3(b) to these condensed consolidated financial statements.

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

There were no intersegment sales and transfers during the periods.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

2. SEGMENT INFORMATION (continued)

(a) Business segments

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

	Leather processing (Continuing)		Merchandise trading (Continuing)		Property investment (Continuing)		Corporate and other (Continuing)		Leather ware products manufacture and distribution (Discontinued)		Packaging materials manufacture and distribution (Discontinued)		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		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Segment revenue:														
Sales to external customers	142,380	199,240	—	89,838	—	—	—	—	—	16,766	—	8,324	142,380	314,168
Other revenue (excluding exchange gains/(losses), net)	575	548	—	47	991	980	47	113	—	579	—	8	1,613	2,275
Exchange gains/(losses), net	54	(9)	—	(28)	—	—	(4)	—	—	(42)	—	—	50	(79)
Total	143,009	199,779	—	89,857	991	980	43	113	—	17,303	—	8,332	144,043	316,364
Segment results	2,107	(147,901)*	—	(28,677)	1,990	344	(4,270)	(3,185)	—	(144)	—	(89)	(173)	(179,652)
Interest income													94	597
Loss from operating activities													(79)	(179,055)
Finance costs													(2,589)	(3,353)
Loss before tax													(2,668)	(182,408)
Tax													286	—
Minority interests													—	77
Net loss from ordinary activities attributable to shareholders													(2,382)	(182,331)
Other segment information:														
Capital expenditure	2,037	12,066	—	—	—	—	9	91	—	339	—	—	2,046	12,496
Depreciation	7,973	7,802	—	7	—	—	52	192	—	221	—	—	8,025	8,222
Amortisation	—	—	—	—	—	—	—	—	—	700	—	—	—	700
Revaluation deficit/(surplus) on properties	23	33	—	—	(1,300)	(12)	—	—	—	—	—	(93)	(1,277)	(72)
Other non-cash expenses	9	12,465	—	32,574	—	—	974	21	—	—	—	—	983	45,060
Impairment of goodwill	—	133,349	—	—	—	—	—	—	—	—	—	—	—	133,349

* The balance includes an impairment of goodwill amounting to HK\$133,349,000 in respect of the Group's acquisition of Nanhai Tannery & Leather Products Co., Ltd.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

2. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue for the Group's geographical segments.

	Mainland China		Hong Kong		Elsewhere		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	
	2003	2002	2003	2002	2003	2002	2003	2002
	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	142,380	288,265	—	15,370	—	10,533	142,380	314,168
Other revenue (excluding exchange gains/(losses), net)	1,168	847	445	1,428	—	—	1,613	2,275
Exchange gains/(losses), net	54	(36)	(4)	(43)	—	—	50	(79)
Total	<u>143,602</u>	<u>289,076</u>	<u>441</u>	<u>16,755</u>	<u>—</u>	<u>10,533</u>	<u>144,043</u>	<u>316,364</u>

3. DISCONTINUED OPERATIONS

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

In 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 operated the Group's leather ware products manufacture and distribution business.

In July 2002, the Group's disposal of its entire 60% interest in the Alpha Universal Group was completed and resulted in a gain of HK\$636,000 in the prior year. 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

3. DISCONTINUED OPERATIONS (continued)

(b) Discontinuation of operation of Xuzhou Gangwei

In June 2002, the Group 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 was 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 turnover, other revenue and gains, expenses, profit/(loss) before tax, and tax attributable to the discontinued operations for the six months ended 30 June 2003 and 2002 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	
	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
TURNOVER	—	16,766	—	8,324
Cost of sales	—	(5,615)	—	(6,089)
Gross profit		11,151		2,235
Other revenue and gains	—	601	—	165
Selling and distribution costs	—	(6,845)	—	(840)
Administrative expenses	—	(5,069)	—	(760)
Other operating income/(expenses), net	—	41	—	(732)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	—	(121)	—	68
Finance costs	—	(32)	—	—
PROFIT/(LOSS) BEFORE TAX	—	(153)	—	68
Tax	—	—	—	—
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	—	(153)	—	68

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

3. DISCONTINUED OPERATIONS (continued)

The cash flows attributable to the discontinued operations for the six months ended 30 June 2003 and 2002 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	
	2003 <i>HK\$'000</i> (Unaudited)	2002 <i>HK\$'000</i> (Unaudited)	2003 <i>HK\$'000</i> (Unaudited)	2002 <i>HK\$'000</i> (Unaudited)
Operating	—	(608)	—	(287)
Investing	—	(317)	—	154
Financing	—	—	—	—
Net cash outflow	<u>—</u>	<u>(925)</u>	<u>—</u>	<u>(133)</u>

There were no assets and liabilities attributable to the discontinued operations as at 30 June 2003 and 31 December 2002.

4. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	For the six months ended 30 June	
	2003 <i>HK\$'000</i> (Unaudited)	2002 <i>HK\$'000</i> (Unaudited)
Cost of inventories sold	132,169	286,890
Depreciation	8,025	8,222
Amortisation of trademarks *	—	700
Staff costs (including Directors' remuneration)		
Wages and salaries	10,602	19,464
Pension scheme contributions	662	745
Less: Forfeited contributions	—	—
Net pension scheme contributions	<u>662</u>	<u>745</u>
	<u>11,264</u>	<u>20,209</u>

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

4. LOSS FROM OPERATING ACTIVITIES (continued)

The Group's loss from operating activities is arrived at after charging:

	For the six months ended 30 June	
	2003 <i>HK\$'000</i> (Unaudited)	2002 <i>HK\$'000</i> (Unaudited)
Operating lease expenses in respect of land and buildings:		
Minimum lease payments	182	3,854
Contingent rent payments	—	1,512
	<u>182</u>	<u>5,366</u>
Annual fee paid to a PRC joint venture partner	—	404
Exchange (gains)/losses, net	(50)	79
Expenses included in other operating (income)/expenses, net:		
(Gain)/loss on disposal of fixed assets, net	(380)	949
Surplus arising on revaluation of investment properties	(1,300)	(12)
Deficit/(surplus) arising on revaluation of leasehold land and buildings	23	(60)
Loss on disposal of a subsidiary — Note 23(e)	15	—
Write-off of fixed assets	983	26
Provision for doubtful debts	—	32,574
Provision against inventories	—	11,057
Provision for impairment of fixed assets	—	1,403
Impairment of goodwill arising from an acquisition of a subsidiary	—	133,349
and after crediting:		
Gross rental income from investment properties	850	980
Add: Sublease income	—	82
	<u>850</u>	<u>1,062</u>
Total rental income in respect of minimum lease receivables	850	1,062
Less: Outgoings from investment properties	(231)	(12)
	<u>619</u>	<u>1,050</u>
Net rental income	619	1,050
Other rental income	154	—
Royalty income	—	500
Interest income	94	597
	<u>94</u>	<u>597</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

5. FINANCE COSTS

This represented interest on bank borrowings and loans from the Company's former immediate holding company, Guangdong Investment Limited (as further explained in Note 14), the Company's current immediate holding company, GDH Limited, and fellow subsidiaries during the period.

These bank and other borrowings are wholly repayable within five years.

6. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period (2002: Nil). The tax credit for the period represented the reversal of overprovision of Hong Kong profits tax in the prior periods.

The Group did not have any assessable profits in respect of subsidiaries of the Company in Mainland China and overseas during the period (2002: Nil).

7. DIVIDEND

The directors do not recommend the payment of any interim dividend in respect of the ordinary shares of the Company for the six months ended 30 June 2003 (2002: Nil).

8. LOSS PER SHARE

The calculation of basic loss per share is based on the unaudited net loss attributable to shareholders for the period of HK\$2,382,000 (2002: HK\$182,331,000) and the weighted average number of 524,154,000 ordinary shares in issue during the period.

No diluted loss per share amount is presented for the six months ended 30 June 2003 as the options outstanding during the period had an anti-dilutive effect on the basic loss per share for the period.

No diluted loss per share amount is presented for the six months ended 30 June 2002 as no diluting events existed during that period.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

9. INVENTORIES

	As at 30 June 2003 <i>HK\$'000</i> (Unaudited)	As at 31 December 2002 <i>HK\$'000</i> (Audited)
Raw materials	15,406	64,577
Work in progress	121,744	74,867
Finished goods	92,047	52,745
	<u>229,197</u>	<u>192,189</u>

The carrying amount of inventories carried at net realisable value included in the above as at 30 June 2003 is HK\$13,068,000 (as at 31 December 2002: HK\$46,356,000).

10. RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 30 June 2003, included in the receivables, prepayments and deposits are trade receivables of HK\$39,524,000 (as at 31 December 2002: HK\$21,472,000) due from the Group's customers.

The Group's trading terms with customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well-established customers, where the terms are extended for 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.

An aged analysis of the Group's trade receivables, based on payment due date, at the balance sheet date is as follows:

	As at 30 June 2003 <i>HK\$'000</i> (Unaudited)	As at 31 December 2002 <i>HK\$'000</i> (Audited)
Within 3 months	36,335	21,472
More than 3 months and less than 6 months	2,071	—
More than 6 months and less than 1 year	1,446	28,469
More than 1 year	35,179	7,038
	<u>75,031</u>	<u>56,979</u>
Less: Provision for doubtful debts	(35,507)	(35,507)
	<u>39,524</u>	<u>21,472</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

11. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

	As at 30 June 2003 <u>HK\$'000</u> (Unaudited)	As at 31 December 2002 <u>HK\$'000</u> (Audited)
Cash and bank balances	27,698	64,826
Less: Pledged bank balances*	<u>(3,107)</u>	<u>(12,972)</u>
Cash and cash equivalents	<u><u>24,591</u></u>	<u><u>51,854</u></u>

* These bank balances are pledged to a bank for trading facilities granted.

12. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payables, based on payment due date, at the balance sheet date is as follows:

	As at 30 June 2003 <u>HK\$'000</u> (Unaudited)	As at 31 December 2002 <u>HK\$'000</u> (Audited)
Within 3 months	45,426	37,752
More than 3 months and less than 6 months	5,170	11,050
More than 6 months and less than 1 year	5,173	20
More than 1 year	<u>1,934</u>	<u>450</u>
	<u><u>57,703</u></u>	<u><u>49,272</u></u>

13. DUE TO A PRC JOINT VENTURE PARTNER

The amount due to a PRC joint venture partner is unsecured, interest-free and has no fixed terms of repayment.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

14. BALANCES WITH THE FORMER AND THE CURRENT IMMEDIATE HOLDING COMPANIES

As at 31 December 2002, the loans from the former immediate holding company consisted of two unsecured loans of RMB19,000,000 and RMB30,000,000 (the "Loans") which were advanced by Guangdong Investment Limited ("GDI"). The Loans bore interest at 3.8% per annum and were repayable in July and August 2003, respectively.

GDI was the Company's then immediate holding company. Following the completion of disposal of GDI's entire shareholdings in various investments (including the Company and the Loans) to GDH Limited, GDI's immediate holding company, on 31 March 2003, GDI and GDH Limited became the Company's fellow subsidiary and immediate holding company, respectively.

As at 30 June 2003, the Loans were payable to GDH Limited. On 2 September 2003, the repayment of the Loans were extended by GDH Limited to 30 September 2004.

The amount due to the current immediate holding company is unsecured, interest-free and has no fixed terms of repayment.

15. LOAN FROM A FELLOW SUBSIDIARY

As at 31 December 2002, the loan represented an unsecured loan of RMB10,000,000 from Yue Hai Hotel, Zhuhai, a fellow subsidiary of the Company, through an entrusted loan agreement, which bore interest at 4.2% per annum and was fully repaid during the period.

16. SHARE CAPITAL

There were no changes in ordinary share in issue during the six months ended 30 June 2002 and 2003.

17. SHARE OPTION SCHEME

The movements of the Company's share options under its share option scheme during the period are as follows:

Name or category of participant	Number of share options			Date of grant of share options* (dd/mm/yyyy)	Exercise period of share options# (dd/mm/yyyy)	Exercise price of share options** HK\$	Price of the Company's shares date of grant of share options*** HK\$
	At 1 January 2003	Granted during the period	At 30 June 2003				
Directors							
Xiong Guangyang	—	3,000,000	3,000,000	09/06/2003	10/09/2003 – 09/09/2008	0.22	0.22
Zeng Haipeng	—	3,000,000	3,000,000	09/06/2003	10/09/2003 – 09/09/2008	0.22	0.22
Cheng Hok Lai James	—	300,000	300,000	09/06/2003	10/09/2003 – 09/09/2008	0.22	0.22
Fung Lak	—	300,000	300,000	09/06/2003	10/09/2003 – 09/09/2008	0.22	0.22
	—	<u>6,600,000</u>	<u>6,600,000</u>				
Other employees							
In aggregate	—	3,050,000	3,050,000	09/06/2003	10/09/2003 – 09/09/2008	0.22	0.22
Total	—	<u>9,650,000</u>	<u>9,650,000</u>				

On 2 September 2003, the share options of Mr. Zeng Haipeng totalling 3,000,000 options were cancelled.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

17. SHARE OPTION SCHEME (continued)

- * The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- ** 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.
- *** The price of the Company's shares disclosed as at the date of the grant of the share options is the closing price on The Stock Exchange of Hong Kong Limited on the business day on which the options were granted.
- # If the last day of the option period is not a business day in Hong Kong, the exercise period expires at 5:01 p.m. on the business day preceding that day (Hong Kong time).

18. RESERVES

Group

	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 2003:								
As previously reported	412,116	167,746	445	—	969	36,345	(384,600)	233,021
Prior period adjustments (Note 1)	—	—	—	—	—	(9,793)	—	(9,793)
As restated	412,116	167,746	445	—	969	26,552	(384,600)	223,228
Loss for the period	—	—	—	—	—	—	(2,382)	(2,382)
Deficit arising on revaluation of leasehold land and buildings	—	—	—	—	—	(9,103)	—	(9,103)
Exchange adjustment	—	—	—	—	5	—	—	5
At 30 June 2003	412,116	167,746	445	—	974	17,449	(386,982)	211,748
	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:								
As previously reported	412,116	34,397	445	553	779	35,623	(179,952)	303,961
Prior period adjustments (Note 1)	—	—	—	—	—	(9,549)	—	(9,549)
As restated	412,116	34,397	445	553	779	26,074	(179,952)	294,412
Loss for the period	—	—	—	—	—	—	(182,331)	(182,331)
Release of goodwill in respect of impairment in value of an investment in a subsidiary	—	133,349	—	—	—	—	—	133,349
Surplus arising on revaluation of leasehold land and buildings (Restated) — Note 1	—	—	—	—	—	1,758	—	1,758
Exchange adjustment	—	—	—	—	19	—	—	19
At 30 June 2002	412,116	167,746	445	553	798	27,832	(362,283)	247,207

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

19. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties and certain plant and machinery under operating lease arrangements, with leases negotiated for terms ranging from one to four years.

As at 30 June 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with their leasees falling due as follows:

	As at 30 June 2003 <i>HK\$'000</i> (Unaudited)	As at 31 December 2002 <i>HK\$'000</i> (Audited)
Within one year	1,234	1,742
In the second to fifth years, inclusive	2,261	2,936
	<u>3,495</u>	<u>4,678</u>

(b) As lessee

The Group leases certain office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

As at 30 June 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 June 2003 <i>HK\$'000</i> (Unaudited)	As at 31 December 2002 <i>HK\$'000</i> (Audited)
Within one year	41	340
In the second to fifth years, inclusive	21	113
	<u>62</u>	<u>453</u>

20. COMMITMENTS

As at 30 June 2003, the Group did not have any outstanding contracted capital commitments in respect of property, plant and equipment (as at 31 December 2002: Nil).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

21. CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following significant contingent liabilities:

- (a) 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") (one of whom was also a former director of the Company) had been involved in certain irregularities. Nanhai Tannery is a wholly owned subsidiary of the Company in Nanhai, Mainland China.

Upon discovery of the irregularities, an internal audit team of the Company's then holding companies, working with the then 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 was reported by the Company to the relevant PRC authorities who detained the Former Executives and seized documents related to the Parallel Operation for investigations. The Company 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.

Based on the findings of the special investigations and having regard to the professional advice received, the directors of the Company are of the opinion that the Parallel Operation should not be incorporated in the financial statements of the Group and that the Parallel Operation appeared to have involved various irregularities in its 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 any degree of reasonable certainty of 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 action has been taken against the Group and there have been no indications that any adverse actions against it are pending. Accordingly, based on currently available information, no provision has been made in the financial statements for such contingencies.

- (b) In September 2002, the Company submitted a claim to China International Economic and Trade Arbitration Commission (the "Arbitration Commission") in Shenzhen, Mainland China against a PRC joint venture partner of Qingdao Nanhai Tannery Co., Ltd., a subsidiary of the Company, seeking, among others, termination of the relevant joint venture agreement and compensation of losses and damages of approximately RMB24,000,000. However, the PRC joint venture partner also applied to the Arbitration Commission in Beijing against the Company claiming for loss of fixed return under the aforesaid joint venture agreement and damages in an aggregate of RMB15,000,000. The two arbitration proceedings are still in progress.

In the opinion of the Directors, based on legal advice, it is too premature to conclude the likely outcome of the two arbitration proceedings. Accordingly, no provision has been made in the condensed consolidated financial statements as at 30 June 2003.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

22. PLEDGED OF ASSETS

As at 30 June 2003, assets of the Group pledged to banks as security of its general banking facilities were as follows:

	As at 30 June 2003 <i>HK\$'000</i> (Unaudited)	As at 31 December 2002 <i>HK\$'000</i> (Audited)
Leasehold land and buildings	27,340	36,000
Bank balances	3,107	12,972
Receivables	2,279	—
	<u>32,726</u>	<u>48,972</u>

23. RELATED PARTY TRANSACTIONS

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

	<i>Notes</i>	For the six months ended 30 June	
		2003 <i>HK\$'000</i> (Unaudited)	2002 <i>HK\$'000</i> (Unaudited)
Annual fee paid to a PRC joint venture partner	<i>(a)</i>	—	404
Interest expense to fellow subsidiaries	<i>(b)</i>	14	357
Interest expense to the former immediate holding company	<i>(c)</i>	434	565
Interest expense to the current immediate holding company	<i>(c)</i>	448	—
Office rental paid to a fellow subsidiary	<i>(d)</i>	162	341
Sale of a subsidiary to a fellow subsidiary	<i>(e)</i>	<u>8,076</u>	<u>—</u>

Notes:

- (a) The annual fee paid to a PRC joint venture partner was in accordance with the relevant Sino-foreign co-operative joint venture agreement. The balance with the PRC joint venture partner is set out in note 13 to these condensed consolidated financial statements.
- (b) The interest expense to fellow subsidiaries arose from unsecured loans advances from Shenzhen Guangdong Hotel Enterprise Ltd. and Yue Hai Hotel, Zhuhai, through entrusted loan agreements. These loans bore interest at 4.2% per annum and were fully repaid in the prior year and during the period.
- (c) The interest to the former and the current immediate holding companies arose from loans payable to them. Further details of the loans, including the terms, are disclosed in note 14 to these condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

23. RELATED PARTY TRANSACTIONS *(continued)*

Notes: (continued)

- (d) Office rental is charged by Bateson Developments Limited (“Bateson”) at monthly rentals of HK\$28,000 and HK\$26,000 for the first and second quarters of 2003 (HK\$73,000 for the four months ended 30 April 2002 and HK\$28,000 for the two months ended 30 June 2002) in accordance with the terms of rental agreements between the Group and Bateson.
- (e) On 26 April 2003, the Group sold its entire 100% interest in Prized Time Limited to Guangdong Assets Management Limited, a fellow subsidiary of the Company, for a cash consideration of HK\$7,998,000 (net of expenses) at a loss of HK\$15,000. The principal asset of Prized Time Limited was an investment property of the Group in Mainland China. The net inflow of cash and cash equivalents in respect of this transaction was HK\$7,998,000.
- (f) As at 30 June 2003, the Group had a bank loan of HK\$24,400,000 which was secured by certain assets of GDH Limited at nil consideration.

The connected transaction in note 23(e) above is disclosable in accordance with Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

24. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group had the following significant post balance sheet events:

- (a) On 3 June 2003, the Group entered into a conditional sale and purchase agreement with independent third parties for the disposal of its entire 100% interest in Kwok Wing (Hong Kong) Leather Ware Company Limited (“Kwok Wing”) for a cash consideration of HK\$4,274,000. Kwok Wing and its subsidiary held a leather ware factory in Mainland China and had no significant operation since last year.

On 2 September 2003, the above transaction was completed and did not result in any significant gain or loss to the Group.
- (b) In July 2003, the Group obtained a banking facility amounting to RMB20,000,000 of which RMB10,000,000 was utilised by the Group. The utilised portion was secured by certain of the Group’s bills receivable, properties, plant and equipment of an aggregate carrying value of HK\$19,004,000.
- (c) In August 2003, the Group disposed of a Hong Kong property to an independent third party at a consideration of HK\$1,000,000. This transaction did not result in any significant gain or loss to the Group.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

25. COMPARATIVE AMOUNTS

As further explained in note 1 to these condensed consolidated financial statements, due to the adoption of the revised SSAP 12 during the period, the accounting treatment and presentation of certain items and balances in these condensed consolidated financial statements have been revised to comply with the new requirements. Accordingly, prior period adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current period's presentation.

26. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved and authorised for issue by the Board of Directors on 5 September 2003.

INDEPENDENT AUDITORS' REVIEW REPORT



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 8 to 28.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 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.

INDEPENDENT AUDITORS' REVIEW REPORT

FUNDAMENTAL UNCERTAINTY — CONTINGENT LIABILITIES

In arriving at our review conclusion, we have considered the adequacy of the disclosures made in note 21(a) of the interim financial report concerning the investigations of the authorities of the People's Republic of China (the "PRC") 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 any degree of reasonable certainty of 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 and estimates 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 2003.

Ernst & Young

Certified Public Accountants

Hong Kong

5 September 2003

DIRECTORS'/CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

DIRECTORS' INTERESTS AND SHORT POSITION IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2003, the interests and short positions of the Directors and Chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(1) Interests and short positions in the Company

a. Interest in ordinary shares

Name of director	Nature of interests	Number of shares	% of issued share capital	Long/short positions
Cheng Hok Lai James	Personal	500,000	0.0954	Long position
Tam Chiu Pang Jaffe	Personal	100,000	0.0191	Long position

b. Interest in options relating to ordinary shares

	No. of options held on 01/01/2003	Options granted during the period		Period during which rights are exercisable (dd/mm/yyyy) (Note (3))	Price to be paid per share on exercise of options (HK\$)	No. of options exercised during the period	No. of options held on 30/06/2003
		Date granted	Number granted				
Xiong Guangyang	—	09/06/2003	3,000,000	10/09/2003—09/09/2008	0.22	—	3,000,000
Cheng Hok Lai James	—	09/06/2003	300,000	10/09/2003—09/09/2008	0.22	—	300,000
Fung Lak	—	09/06/2003	300,000	10/09/2003—09/09/2008	0.22	—	300,000
Zeng Haipeng (Note (1))	—	09/06/2003	3,000,000	10/09/2003—09/09/2008	0.22	—	3,000,000

Note: (1) The options totaling 3,000,000 granted to Mr Zeng Haipeng were cancelled on 2 September 2003.

(2) The total consideration paid by each Director for the options granted by the Company was HK\$1.00.

(3) If 09/09/2008 is not a business day in Hong Kong, the option period expires at 5:01p.m. on the business day preceding that day (Hong Kong time).

(4) The above options, being unlisted physically settled equity derivatives, to subscribe for the ordinary shares of the Company were granted to the above Directors pursuant to the approved share option scheme of the Company.

DIRECTORS'/CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

(2) Interests and short positions in Guangdong Investment Limited ("GDI")

a. Interest in ordinary shares of GDI

Name of director	Nature of interests	Number of shares	% of issued share capital of GDI	Long/short Long/short positions
Ho Lam Lai Ping Theresa	Personal	300,000	0.0057	Long position
Wang Man Kwan Paul	Personal	700,000	0.0134	Long position
Tam Chiu Pang Jaffe	Personal	400,000	0.0077	Long position

b. Interest in options relating to ordinary shares of GDI

Name of director	No. of options held on 01/01/2003	Options granted during the period		Period during which rights are exercisable (dd/mm/yyyy) (Note)	Total consideration paid for share option (HK\$)	Price to be paid per share on exercise of options (HK\$)	No. of options exercised during the period	No. of options held on 30/06/2003
		Date granted	Number granted					
Ho Lam Lai Ping Theresa	500,000	18/02/1998	—	19/08/1998—18/08/2003	—	2.892	—	500,000
	1,200,000	10/08/2001	—	11/02/2002—10/02/2007	—	0.5312	900,000	300,000
	1,200,000	07/05/2002	—	08/11/2002—07/11/2007	—	0.814	—	1,200,000
	1,200,000	04/12/2002	—	05/03/2003—04/03/2008	1	0.96	—	1,200,000
	—	07/05/2003	1,500,000	08/08/2003—07/08/2008	1	1.22	—	1,500,000
Wang Man Kwan Paul	1,000,000	10/08/2001	—	11/02/2002—10/02/2007	—	0.5312	1,000,000	—
	1,500,000	07/05/2002	—	08/11/2002—07/11/2007	—	0.814	—	1,500,000
	1,500,000	04/12/2002	—	05/03/2003—04/03/2008	1	0.96	—	1,500,000
	—	07/05/2003	1,500,000	08/08/2003—07/08/2008	1	1.22	—	1,500,000
Tam Chiu Pang Jaffe	400,000	10/08/2001	—	11/02/2002—10/02/2007	—	0.5312	400,000	—
	400,000	07/05/2002	—	08/11/2002—07/11/2007	—	0.814	400,000	—
	400,000	04/12/2002	—	05/03/2003—04/03/2008	1	0.96	400,000	—
	—	07/05/2003	400,000	08/08/2003—07/08/2008	1	1.22	—	400,000
Yuen Lam Fai Antony	400,000	10/08/2001	—	11/02/2002—10/02/2007	—	0.5312	400,000	—
	500,000	07/05/2002	—	08/11/2002—07/11/2007	—	0.814	—	500,000
	600,000	04/12/2002	—	05/03/2003—04/03/2008	1	0.96	—	600,000
	—	07/05/2003	600,000	08/08/2003—07/08/2008	1	1.22	—	600,000

DIRECTORS'/CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

DIRECTORS' INTERESTS AND SHORT POSITION IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(continued)*

(2) Interests and short positions in Guangdong Investment Limited ("GDI") *(continued)*

b. Interest in options relating to ordinary shares of GDI (continued)

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

(2) The above options, being unlisted physically settled equity derivatives, to subscribe for the ordinary shares of GDI were granted to the above Directors pursuant to the approved share option scheme of GDI.

(3) Interests and short positions in Guangdong Brewery Holdings Limited ("GDB") — Interest in ordinary shares

Name of director	Nature of interests	Number of shares	% of issued share capital of GDB	Long/short positions
Ho Lam Lai Ping Theresa	Personal	180,000	0.0143	Long position
Tam Chiu Pang Jaffe	Personal	20,000	0.0016	Long position

Save as disclosed above, as at 30 June 2003, to the knowledge of the Company, none of the Directors, the chief executives of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and the chief executives were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

So far as is known to any Director or chief executive of the Company, as at 30 June 2003, the persons or companies (not being a Director or chief executive of the Company) who have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholders	Direct Interests	Number of Ordinary Shares of the Company held		Percentage of issued capital
		Deemed Interests	Long/short position	
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) (Note)	—	375,100,000	Long position	71.56
GDH Limited	375,100,000	—	Long position	71.56

Note: The attributable interest which 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) has in the Company is held through its 100 per cent. direct interest in GDH Limited.

Save as disclosed above, as at 30 June 2003, the Directors are not aware of any other person who had an interest or short position in the Shares, underlying Shares or debentures which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

OTHER INFORMATION

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 2003 has not been audited, but has been reviewed by the Company's auditors 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 2003. 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 September 2003

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Xiong Guangyang (*Chairman*)

Hui Wai Man Lawrence (*Director & Chief Financial Officer*)

Non-Executive Directors

Cheng Hok Lai James

Fung Lak

Ho Lam Lai Ping Theresa

Tam Chiu Pang Jaffe

Wang Man Kwan Paul

Yuen Lam Fai Antony

Company Secretary

Chan Miu Ting

Auditors

Ernst & Young

Registered Office

Unit B, 9th Floor

Guangdong Investment Tower

148 Connaught Road Central

Hong Kong

Internet Address

www.gdtann.com