



粵海制革有限公司
GUANGDONG TANNERY LIMITED

股份代號 STOCK CODE: 1058

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BUSINESS AND FINANCIAL REVIEW

RESULTS

The unaudited consolidated profit attributable to shareholders for the six months ended 30 June 2007 of Guangdong Tannery Limited (the "Company") and its subsidiaries (the "Group") was HK\$6,949,000, representing an increase of HK\$6,025,000 or 652.1% as compared to the profit of HK\$924,000 for the same period last year. The increase in profit was mainly due to the continuous improvement in the operating results of the production base in Xuzhou.

The unaudited net asset value of the Group as at 30 June 2007 was HK\$219,318,000, representing an increase of HK\$44,941,000 and HK\$19,597,000 as compared to the net asset value as at 30 June 2006 and 31 December 2006 respectively.

The board of directors (the "Board") of the Company resolved not to declare the payment of an interim dividend for the six months ended 30 June 2007 (2006: Nil).

BUSINESS REVIEW

Upon the completion of disposal of idle assets by the Group last year, the Group's operations were centralized in the production base in Xuzhou. The Group's productivity continues to be enhanced. By increasing the outsourcing of chromed hide processing activities, problems originated from lack of synergy between the upstream and downstream production capacities and the pressure from environmental issues have been solved.

In addition, the Group developed an appropriate production strategy and plans and acquired crucial equipments in time, which effectively eased the bottleneck in production while utilized the potential production capacity of the production base in Xuzhou. As a result, the Group is able to ensure large-scale of production with a fully utilization of production capacity. During the period under review, the total production of cowhides of the Group was 16,843,000 sq.ft., representing an increase of 7,339,000 sq.ft. or 77.2% as compared to 9,504,000 sq.ft. for the same period last year. The increase in production marked the Group's success in large-scale operation.

The results of the Group's effort in product development last year have been initially seen fruitful to a certain extent. The Group has currently established two major leather series — domestic leather and imported leather — comprising a comprehensive product line with 6 major kinds of products, i.e. nappa leather, casual leather, natural dry milled leather, smooth leather, corrected upper leather and emboss leather. Consequently, the market recognition, the capability to adjust to ever-changing market styles and the product competitiveness of the Group have been strengthened, which greatly enhances the sales and marketing achievement. The Group continued to adopt "Regional balance and High-end Customers" as the objective in terms of its marketing strategies. In order to achieve such goal, the Group explored new markets to balance the market distribution as a whole, as well as solicited potential and valued customers to further extend its market coverage. In addition, the Group continued to invest in market survey and product development through the analysis of the results of market survey and the feedback from the prevailing market trend, whereby the Group modified the style of its products and developed new products in order to align with the market trend. As a result, a product-development and sales-driven model was basically realized.

BUSINESS AND FINANCIAL REVIEW

BUSINESS REVIEW (Continued)

Consolidated turnover for the period under review was HK\$304,515,000, which increased by HK\$144,500,000 or 90.3% as compared to HK\$160,015,000 for the same period of 2006. Despite certain adverse factors, including the material changes in taxation policies and production constraints due to environmental protection issues, the Group had the foresight to launch the mechanism of strategic partnership with suppliers to offer more favorable terms than those in the market. The Group fully utilized various resources and adopted appropriate operational strategies by which the Group succeeded in finding a way to operate scale production business with high efficiency. Turnover of cowhides during the period under review increased by 84.5% to HK\$263,496,000 (2006: HK\$142,817,000), while turnover of grey hide and other products increased by 138.5% to HK\$41,019,000 (2006: HK\$17,198,000). As at 30 June 2007, the consolidated inventories of the Group amounted to HK\$280,027,000, which increased by HK\$112,453,000 and HK\$69,951,000 as compared to 30 June 2006 and 31 December 2006 respectively. The increase in inventories was mainly due to the implementation of an extensive forward-looking and large-scale procurement strategy of hides and imported chemicals, which ensure smooth production by stocking up sufficient raw materials and minimizing the impact of rising raw materials prices.

As at 30 June 2007, the trade receivables of the Group was HK\$49,705,000. After deducting the impairment of trade receivables of HK\$1,432,000, the balance net of impairment amounted to HK\$48,273,000, representing an increase of HK\$16,306,000 and HK\$24,242,000 as compared to 30 June 2006 and 31 December 2006 respectively. Trade receivables turnover was 17 times, and the average collection period was 22 days, representing a decrease of 9 days as compared to 31 days for the same period in 2006.

FINANCIAL REVIEW

As at 30 June 2007, the Group's interest-bearing borrowings amounted to HK\$135,166,000 (as at 31 December 2006: HK\$100,309,000), of which HK\$10,350,000 was denominated in Hong Kong dollars, HK\$30,686,000 in Renminbi and HK\$94,130,000 in US dollars. All of these interest-bearing borrowings are charged at floating rates.

As at 30 June 2007, the Group's cash and bank balances amounted to HK\$32,582,000 (as at 31 December 2006: HK\$54,424,000), which were denominated in Hong Kong dollars (HK\$6,163,000), Renminbi (equivalent to HK\$25,817,000) and US dollars (equivalent to HK\$602,000).

As at 30 June 2007, after deduction of the cash and bank balances, the Group's ratio of net interest-bearing borrowings to shareholders' equity was 46.77% (as at 31 December 2006: 22.97%). The annual interest rate of the borrowings was approximately 4.9% to 6.7%. All of the Group's total borrowings were due and repayable beyond one year. Interest expense incurred by the Group during the period was HK\$3,977,000, representing an increase of 105.7% as compared with the same period last year.

During the period, net cash outflow from operating activities was HK\$54,110,000, which mainly represented the Group's implementation of large-scale forward-looking procurement strategy during the period to stock up sufficient raw materials to ensure smooth production and to minimize the impact of rising raw materials prices. Our net cash inflow from financing activities was HK\$37,617,000, and the net decrease in cash and cash equivalents during the period was HK\$24,027,000.

BUSINESS AND FINANCIAL REVIEW

FINANCIAL REVIEW (Continued)

As at 30 June 2007, the net value of non-current assets, including property, plant and equipment and investment property, were HK\$39,696,000, representing an increase of HK\$4,911,000 as compared with the net value of HK\$34,785,000 as at 31 December 2006. During the period, the Group's capital expenditure amounted to HK\$6,472,000 (2006: HK\$983,000), which was incurred mainly for the renewal and purchase of leather manufacturing machines and equipments to cope with the production requirements of the production base in Xuzhou.

As at 30 June 2007, certain of the Group's bank deposits, inventories, machinery and equipments and buildings with a total net book value of HK\$55,974,000 (as at 31 December 2006: HK\$16,568,000) were pledged to secure general banking facilities granted to the Group.

The assets, liabilities and transactions of the Group are primarily denominated in Hong Kong dollars, US dollars or Renminbi. During the period, the exchange rates of Hong Kong dollars and US dollars were relatively stable without causing any material risk of exchange rates to the Group. As to the appreciation of Renminbi, since the sales of the Group are settled in Renminbi whereas the purchases are made in Renminbi or US dollars, the Group does not expose to any material foreign exchange risks.

EMPLOYEES

As at 30 June 2007, a total of 994 employees (as at 30 June 2006: 731 employees) were employed by the Group. The remuneration policy of the Group is based on 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 share option scheme in May 2002, and the purpose of which 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.

PROSPECTS

In 2007, the tannery industry continues to encounter operational difficulties caused by a number of unfavourable factors, such as the sharp drop in the supply of domestic hides and significant growth in the prices of hides resulted from the surging prices of foodstuff, including fodder; major reductions and cancellation of preferential policies in relation to tax refund for export of leather and leather products, announced by the State, leading to great fluctuations in the prices of imported hides and thus increasing the costs of the downstream footwear manufacturers; and due to the occurrence of some material environmental incidences, triggered the immediate introduction by the State of more stringent policies on environmental protection, which bring about intense pressure on tannery enterprises. To confront with these operational difficulties, the Group continues to, based on the core enterprise culture of "faith, integrity and efficiency", further implement the strategy of large-scale operation, and to maintain and expand growth in the supply and sales markets by launching the business model of strategic partnership with customers. With the increase in outsourcing activities, the Group is able to realize large-scale production under normal circumstances. In addition, in a bid of create more business opportunities and bring higher profit contribution for the Group in the future, the Group has been actively seeking investment opportunities in the tannery business and satisfactory progress has been achieved.

INDEPENDENT AUDITORS' REVIEW REPORT



To the board of directors of
Guangdong Tannery Limited
(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 6 to 20 which comprises the condensed consolidated balance sheet of the Company as at 30 June 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

12 September 2007

UNAUDITED INTERIM FINANCIAL STATEMENTS

Condensed Consolidated Income Statement

Six months ended 30 June 2007

	Notes	Six months ended 30 June	
		2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
REVENUE			
Processing and sale of leather	3	304,515	160,015
Cost of sales		(283,536)	(144,142)
Gross profit		20,979	15,873
Other income and gains	3	3,291	2,670
Selling and distribution costs		(883)	(520)
Administrative expenses		(9,075)	(10,892)
Other operating expenses, net		(49)	(2,060)
Finance costs	4	(3,977)	(1,933)
PROFIT BEFORE TAX	4	10,286	3,138
Tax	5	(3,337)	(2,214)
PROFIT FOR THE PERIOD		6,949	924
EARNINGS PER SHARE	6		
— Basic		HK1.30 cents	HK0.18 cent
— Diluted		HK1.29 cents	HK0.18 cent

UNAUDITED INTERIM FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheet

30 June 2007

	Notes	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		37,396	32,600
Investment property		2,300	2,185
Interest in an associate		—	1,219
Total non-current assets		39,696	36,004
CURRENT ASSETS			
Inventories		280,027	210,076
Receivables, prepayments and deposits	8	99,563	81,358
Pledged bank balances		14,408	12,888
Cash and bank balances		18,174	41,536
Total current assets		412,172	345,858
CURRENT LIABILITIES			
Trade and bills payables	9	67,450	51,403
Other payables and accruals		23,023	23,736
Interest-bearing bank borrowings	10	49,690	15,451
Due to a PRC joint venture partner	11	1,131	1,131
Loan from a fellow subsidiary	12	—	54,600
Provision	13	3,260	3,162
Tax payable		1,597	1,212
Total current liabilities		146,151	150,695
NET CURRENT ASSETS		266,021	195,163
TOTAL ASSETS LESS CURRENT LIABILITIES		305,717	231,167
NON-CURRENT LIABILITIES			
Loan from a fellow subsidiary	12	54,600	—
Loans from the immediate holding company	14	30,876	30,258
Deferred tax liabilities		923	1,188
Total non-current liabilities		86,399	31,446
Net assets		219,318	199,721
EQUITY			
Issued capital	15	53,690	52,415
Reserves	17	165,628	147,306
Total equity		219,318	199,721

UNAUDITED INTERIM FINANCIAL STATEMENTS

Condensed Consolidated Statement of Changes in Equity

Six months ended 30 June 2007

	Issued capital <i>HK\$'000</i> (Unaudited)	Share premium account <i>HK\$'000</i> (Unaudited)	General reserve fund <i>HK\$'000</i> (Unaudited)	Reserve funds <i>HK\$'000</i> (Unaudited)	Share option reserve <i>HK\$'000</i> (Unaudited)	Capital redemption reserve <i>HK\$'000</i> (Unaudited)	Exchange translation reserve <i>HK\$'000</i> (Unaudited)	Property revaluation reserve <i>HK\$'000</i> (Unaudited)	Accumulated losses <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
At 1 January 2006	52,415	412,116	167,746	1,378	—	445	6,530	4,910	(473,106)	172,434
Deficit on revaluation of buildings	—	—	—	—	—	—	—	(2,979)	—	(2,979)
Deferred tax credited to the property revaluation reserve	—	—	—	—	—	—	—	810	—	810
Exchange realignment	—	—	—	—	—	—	3,078	—	—	3,078
Equity-settled share option arrangement	—	—	—	—	110	—	—	—	—	110
Profit for the period	—	—	—	—	—	—	—	—	924	924
At 30 June 2006	52,415	412,116*	167,746*	1,378*	110*	445*	9,608*	2,741*	(472,182)*	174,377
At 1 January 2007	52,415	412,116	167,746	3,867	110	445	15,121	1,313	(453,412)	199,721
Issue of shares	1,275	1,772	—	—	(110)	—	—	—	—	2,937
Surplus on revaluation of buildings	—	—	—	—	—	—	—	93	—	93
Deferred tax credited to the property revaluation reserve	—	—	—	—	—	—	—	134	—	134
Exchange realignment	—	—	—	—	—	—	9,484	—	—	9,484
Profit for the period	—	—	—	—	—	—	—	—	6,949	6,949
At 30 June 2007	53,690	413,888*	167,746*	3,867*	—*	445*	24,605*	1,540*	(446,463)*	219,318

* These reserve accounts comprise the consolidated reserves of HK\$165,628,000 (2006: HK\$121,962,000) in the condensed consolidated balance sheet.

UNAUDITED INTERIM FINANCIAL STATEMENTS

Condensed Consolidated Cash Flow Statement

Six months ended 30 June 2007

	Six months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
CASH OUTFLOW FROM OPERATING ACTIVITIES	(54,110)	(20,366)
CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	(7,534)	259
CASH INFLOW FROM FINANCING ACTIVITIES	37,617	3,117
NET DECREASE IN CASH AND CASH EQUIVALENTS	(24,027)	(16,990)
Cash and cash equivalents at beginning of period	41,536	55,914
Effect of foreign exchange rate changes, net	665	445
CASH AND CASH EQUIVALENTS AT END OF PERIOD	18,174	39,369
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	18,174	39,369

UNAUDITED INTERIM FINANCIAL STATEMENTS

Notes to Condensed Consolidated Interim Financial Statements

30 June 2007

1. ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”.

The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2006.

1.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current period’s condensed consolidated interim financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of these new and revised standards and interpretation has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated interim financial statements.

1.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, which have been issued but are not yet effective, in these unaudited condensed consolidated interim financial statements:

HKFRS 8	Operating Segments
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HKAS 23 (Revised)	Borrowing Costs

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group’s major customers. This standard will supersede HKAS 14 “Segment Reporting”.

The HK(IFRIC)-Int 11, 12 and HKAS 23 (Revised) shall be applied for annual periods beginning on or after 1 March 2007, 1 January 2008 and 1 January 2009, respectively.

The Group has not early adopted these new HKFRSs in the financial statements for the period ended 30 June 2007. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

UNAUDITED INTERIM FINANCIAL STATEMENTS

Notes to Condensed Consolidated Interim Financial Statements (Continued) 30 June 2007

2. SEGMENT INFORMATION

No separate analysis of segment information is presented by the Group as over 90% of the Group's revenue, results and assets relate to the leather processing activities in Mainland China.

3. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and value added tax.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Revenue		
Processing and sale of leather	304,515	160,015
Other income and gains		
Gross rental income	367	448
Interest income	489	393
Others	2,435	1,829
	3,291	2,670

4. PROFIT BEFORE TAX

This is arrived at after charging:

	Six months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Cost of inventories sold	279,480	144,142
Depreciation	3,075	4,197
Interest on:		
Bank loans and discounted bills	1,453	292
Loans from the immediate holding company	780	598
Loan from a fellow subsidiary	1,744	1,043
	3,977	1,933
Provision for inventories	4,056	—
Impairment of items of property, plant and equipment	—	2,123

UNAUDITED INTERIM FINANCIAL STATEMENTS

Notes to Condensed Consolidated Interim Financial Statements (Continued) 30 June 2007

5. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2006: Nil). Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in Mainland China in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Xuzhou Nanhai Leather Factory Co., Ltd. ("Xuzhou Tannery"), a wholly-owned PRC subsidiary of the Company, was exempt from PRC corporate income tax for the first two profit-making years, and is eligible for a 50%-relief from PRC corporate income tax for the following three years under the PRC tax laws. Starting from the year ended 31 December 2006, which is the third profitable year of Xuzhou Tannery, the applicable tax rate of Xuzhou Tannery, after the 50% reduction, was 15%.

The other subsidiary of the Company established in the PRC, was exempt from PRC corporate income tax for two years commencing from its first profit-making year of operations, and is eligible for a 50%-relief from PRC corporate income tax for the following three years under the PRC tax laws. The standard PRC corporate income tax rate applicable to this PRC subsidiary is 33% for the periods ended 30 June 2006 and 2007.

	Six months ended 30 June	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Group:		
Current — PRC corporate income tax	3,468	2,264
Deferred	(131)	(50)
Total tax charge for the period	3,337	2,214

On 16 March 2007, the National people's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which is effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to domestic companies from 1 January 2008 will decrease from 33% to 25%. This reduction in the income tax rate will directly reduce the Group's effective tax rate prospectively from 2008. According to HKAS 12 "Income Taxes", deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled.

At the date of approval of these financial statements, detailed implementation and administrative requirements relating to the New CIT Law have yet to be announced. These detailed requirements include regulations concerning the computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions. The Group will further evaluate the impact on its operating results and financial positions of future periods as more detailed requirements are issued.

UNAUDITED INTERIM FINANCIAL STATEMENTS

Notes to Condensed Consolidated Interim Financial Statements (Continued) 30 June 2007

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on the profit for the period of HK\$6,949,000 (2006: HK\$924,000), and the weighted average number of 534,917,536 (2006: 524,154,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the period is based on the profit for the period of HK\$6,949,000. The weighted average number of ordinary shares used in the calculation is 534,917,536 ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average number of 1,747,405 ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares during the period.

7. DIVIDEND

At a meeting of the Board held on 12 September 2007, the directors resolved not to pay an interim dividend to shareholders (2006: Nil).

8. RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 30 June 2007, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK\$88,697,000 (31 December 2006: HK\$65,880,000) 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. Each customer has a maximum credit limit. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

UNAUDITED INTERIM FINANCIAL STATEMENTS

Notes to Condensed Consolidated Interim Financial Statements (Continued)

30 June 2007

8. RECEIVABLES, PREPAYMENTS AND DEPOSITS (Continued)

As at 30 June 2007, the aged analysis of the Group's trade and bills receivables, based on the payment due date, is as follows:

	30 June 2007	31 December 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within 1 month	87,332	62,097
1 to 3 months	1,064	2,401
3 to 6 months	128	553
Over 6 months	1,605	2,251
	90,129	67,302
Less: Impairment	(1,432)	(1,422)
	88,697	65,880

A provision is made when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of the receivables.

9. TRADE AND BILLS PAYABLES

As at 30 June 2007, the aged analysis of the Group's trade and bills payables, based on the payment due date, is as follows:

	30 June 2007	31 December 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within 3 months	53,075	25,420
3 to 6 months	8,852	21,776
6 to 12 months	1,594	796
Over 12 months	3,929	3,411
	67,450	51,403

UNAUDITED INTERIM FINANCIAL STATEMENTS

Notes to Condensed Consolidated Interim Financial Statements (Continued) 30 June 2007

10. INTEREST-BEARING BANK BORROWINGS

	30 June 2007 (Unaudited)			31 December 2006 (Audited)		
	Effective interest rate (%)	Maturity	Amount HK\$'000	Effective interest rate (%)	Maturity	Amount HK\$'000
Current						
Bank loan, secured	LIBOR+1.0%	2007	36,759	LIBOR+1.0%	2007	15,451
Bank loan, secured	Benchmark lending rate announced by People's Bank of China plus 1.0%	2007	10,160	N/A	N/A	—
Bank loan, secured	5.85%	2007	2,771	N/A	N/A	—
			<u>49,690</u>			<u>15,451</u>

As at 30 June 2007, the Group's bank loan is secured by certain of the Group's buildings, plant and machinery, inventories and the pledged bank deposits (note 20).

The carrying amount of the Group's bank borrowings approximate to its fair values.

11. 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. The carrying value of this amount approximates to its fair value.

12. LOAN FROM A FELLOW SUBSIDIARY

The loan represented an unsecured loan of US\$7,000,000 (31 December 2006: US\$7,000,000) (equivalent to approximately HK\$54,600,000 (31 December 2006: HK\$54,600,000)) advanced from Guangdong Assets Management Limited, a fellow subsidiary of the Company. The loan bears interest at a rate of 3-month LIBOR + 1% (31 December 2006: 3.8% per annum for the period from 1 January to 30 June 2006 and 3-month LIBOR + 1% per annum for the period from 1 July to 31 December 2006) per annum and is repayable on 31 December 2008 (31 December 2006: repayable on 31 December 2007).

The carrying value of the loan approximates to its fair value.

UNAUDITED INTERIM FINANCIAL STATEMENTS

Notes to Condensed Consolidated Interim Financial Statements (Continued)

30 June 2007

13. PROVISION

	Early termination of a joint venture agreement <i>HK\$'000</i> (Note)
At 1 January 2007 (Audited)	3,162
Exchange realignment	98
At 30 June 2007 (Unaudited)	3,260

Note: Provision for early termination of a joint venture agreement

With respect to the Group's decision in August 2001 to curtail the operations of Qingdao Nanhai Tannery Co., Ltd. ("Qingdao Tannery") due to its continuous losses, provisions of HK\$3,000,000 was made as at 31 December 2001 for (i) staff redundancy payments of HK\$2,000,000; and (ii) compensation of HK\$1,000,000 to the PRC joint venture partner for early termination of the joint venture agreement of Qingdao Tannery. These provisions were determined based on the relevant employment contracts and the terms of the joint venture agreement.

During the year ended 31 December 2004, the arbitration proceedings undertaken by the Group and the PRC joint venture partner were concluded by the China International Economic and Trade Arbitration Commissions in Shenzhen and Beijing. These proceedings determined that (i) the joint venture agreement of Qingdao Tannery was terminated with effect from 23 August 2001; (ii) Qingdao Tannery should be liquidated in accordance with the joint venture agreement and with the relevant laws and regulations in the PRC; and (iii) the PRC joint venture partner's claim against the Company for an economic loss of RMB15 million due to the termination of the joint venture agreement be revoked.

As the liquidation of Qingdao Tannery has not been completed, no payment for the provision, additional provision or reversal of provision was made during the period.

14. LOANS FROM THE IMMEDIATE HOLDING COMPANY

The loans represented unsecured loans of RMB20,000,000 (31 December 2006: RMB20,000,000) (equivalent to approximately HK\$20,526,000 (31 December 2006: HK\$19,908,000)) and HK\$10,350,000 (31 December 2006: HK\$10,350,000) advanced from GDH Limited ("GDH"), the Company's immediate holding company. The loans bore interest at an annual rate of three-to-five-year benchmark lending rate announced by the People's Bank of China minus 1% (31 December 2006: 4.15% per annum for the period from 1 January to 30 June 2006 and three-to-five-year benchmark lending rate announced by the People's Bank of China minus 1% per annum for the period from 1 July to 31 December 2006) and 3-month HIBOR + 1% (31 December 2006: 3.8% per annum for the period from 1 January to 30 June 2006 and 3-month HIBOR + 1% per annum for the period from 1 July to 31 December 2006) per annum, respectively, and are repayable on 31 December 2008.

The carrying values of the loans approximate to their fair values.

UNAUDITED INTERIM FINANCIAL STATEMENTS

Notes to Condensed Consolidated Interim Financial Statements (Continued) 30 June 2007

15. SHARE CAPITAL

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
Authorised:		
700,000,000 ordinary shares of HK\$0.10 each	70,000	70,000
Issued and fully paid:		
536,904,000 (31 December 2006: 524,154,000) ordinary shares of HK\$0.10 each	53,690	52,415

During the period, the movement in share capital was as follow:

- (a) The subscription rights attaching to 5,500,000 and 5,700,000 share options were exercised on 5 December 2006 at the subscription prices of HK\$0.22 and HK\$0.246 per share respectively, resulting in the issue of 11,200,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$2,612,200. The 11,200,000 shares were issued to the subscribers on 9 January 2007.
- (b) On 18 June 2007, the subscription rights attaching to 250,000 and 300,000 share options were exercised at the subscription prices of HK\$0.22 and HK\$0.246 per share respectively (note 16), resulting in the issue of 550,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$128,800.
- (c) On 27 June 2007, the subscription rights attaching to 1,000,000 share options were exercised at a subscription price of HK\$0.196 per share (note 16), resulting in the issue of 1,000,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$196,000.

UNAUDITED INTERIM FINANCIAL STATEMENTS

Notes to Condensed Consolidated Interim Financial Statements (Continued)

30 June 2007

16. SHARE OPTION SCHEME

Details of the Company's share options under its share option scheme are as follows:

Name or category of participant	Number of share options					At 30 June 2007	Date of grant of share options* (dd/mm/yyyy)	Exercise period of share options (dd/mm/yyyy)	Exercise price of share options** HK\$ per share	Price of the Company's shares***		
	At 1 January 2007	Granted during the period	Exercised during the period	Lapsed during the period	At 30 June 2007					At grant date of options HK\$ per share	Immediately before the exercise date HK\$ per share	At exercise date of options HK\$ per share
Director												
Fung Lak	300,000	—	—	—	300,000	09/06/2003	10/09/2003 – 09/09/2008	0.220	0.204	—	—	
	300,000	—	—	—	300,000	11/02/2004	12/05/2004 – 11/05/2009	0.246	0.240	—	—	
Sub-total	600,000	—	—	—	600,000							
Other employees												
In aggregate	250,000	—	(250,000)	—	—	09/06/2003	10/09/2003 – 09/09/2008	0.220	0.204	1.46	1.35	
	300,000	—	(300,000)	—	—	11/02/2004	12/05/2004 – 11/05/2009	0.246	0.240	1.46	1.35	
	1,000,000	—	(1,000,000)	—	—	03/04/2006	04/07/2006 – 03/07/2011	0.196	0.191	1.36	1.49	
Sub-total	1,550,000	—	(1,550,000)	—	—							
Total	2,150,000	—	(1,550,000)	—	600,000							

* 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 trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of The Stock Exchange of Hong Kong Limited closing prices immediately before the dates on which the options were exercised.

As the share options were exercised during the period, the attributable share option reserve of HK\$110,000 was transferred to share premium account.

The 11,200,000 and 1,550,000 shares options exercised immediately prior to 31 December 2006 and during the period respectively has resulted in the issue of 12,750,000 ordinary shares of the Company and new share capital of HK\$1,275,000 and share premium of HK\$1,772,000 (before expenses), as further detailed in note 15 to the unaudited condensed consolidated interim financial statements.

UNAUDITED INTERIM FINANCIAL STATEMENTS

Notes to Condensed Consolidated Interim Financial Statements (Continued) 30 June 2007

17. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior periods are presented in the unaudited condensed consolidated statement of changes in equity of the interim financial statements.

18. COMMITMENTS

As at 30 June 2007, the Group has contracted but not provided for capital commitments in respect of purchases of plant and machinery of approximately HK\$3,330,000 (31 December 2006: HK\$3,185,000).

19. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In addition to the transactions and balances detailed elsewhere in these unaudited condensed consolidated interim financial statements, the Group had the following material transactions with related parties during the period:

	Six months ended 30 June	
	2007 <i>HK\$'000</i> (Unaudited)	2006 <i>HK\$'000</i> (Unaudited)
Office rental paid to the immediate holding company	39	46
Office rental paid to a fellow subsidiary	111	—
Computer system maintenance service fees paid to the immediate holding company	85	72
Interest expense to the immediate holding company	780	598
Interest expense to a fellow subsidiary	1,744	1,043

(b) Outstanding balances with related parties

- (i) Details of an amount due to a PRC joint venture partner, and loans from a fellow subsidiary and the immediate holding company as at the balance sheet date are included in notes 11, 12 and 14 to the unaudited condensed consolidated interim financial statements, respectively.
- (ii) As at 31 December 2006, the Group's gross amount due from its associate amounted to HK\$1,219,000. The amount was fully settled during the current period.

UNAUDITED INTERIM FINANCIAL STATEMENTS

Notes to Condensed Consolidated Interim Financial Statements (Continued)

30 June 2007

19. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Short term employee benefits	469	846
Post-employment benefits	172	192
Total compensation paid to key management personnel	641	1,038

20. PLEDGE OF ASSETS

As at 30 June 2007, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
Buildings	7,390	—
Plant and machinery	3,118	3,680
Inventories	31,058	—
Bank balances	14,408	12,888
	55,974	16,568

21. SUBSEQUENT EVENT

On 11 July 2007, the Group entered into the subscription agreement with GDH in relation to the subscription of the convertible note with an aggregate principal amount of HK\$61,500,000 (the "Convertible Note").

Under the subscription agreement, the Convertible Note may be converted at the option of GDH into 32,368,421 fully paid ordinary shares of the Company, representing approximately 6.03% of the existing issued share capital of the Company and approximately 5.69% of the issued share capital of the Company as enlarged by the conversion of the Convertible Note, with a par value of HK\$0.10 each at a conversion price of HK\$1.90 per share.

22. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board on 12 September 2007.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30 June 2007, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executive were taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange ("Listing Rules"), were as follows:

(1) INTERESTS AND SHORT POSITIONS IN THE COMPANY

Interests in options relating to ordinary shares

Name of Director	Number of options held as at 1 January 2007	Options granted during the six months ended 30 June 2007		Period during which share options are exercisable (dd/mm/yyyy) (Note)	Total consideration paid for share options (HK\$)	Price per ordinary share payable on exercise of options (HK\$)	Number of options exercised during the six months ended 30 June 2007	Number of options held as at 30 June 2007	Long/Short Position
		Date (dd/mm/yyyy)	Number						
Fung Lak	300,000	—	—	10/09/2003–09/09/2008	1.00	0.220	—	300,000	Long position
	300,000	—	—	12/05/2004–11/05/2009	1.00	0.246	—	300,000	Long position

Note: If the last day of any of the option periods is not a business day in Hong Kong, the option period shall end at the close of business on the business day preceding that day.

(2) INTERESTS AND SHORT POSITIONS IN GUANGDONG INVESTMENT LIMITED ("GDI")

Interests in ordinary shares of GDI

Name of Director	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of shareholding
Ho Lam Lai Ping, Theresa	Personal	4,900,000	Long position	0.08%

Note: The number of ordinary shares of GDI in issue as at 30 June 2007 was 6,094,448,071.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

(3) INTERESTS AND SHORT POSITIONS IN KINGWAY BREWERY HOLDINGS LIMITED ("KINGWAY")

Interests in ordinary shares of Kingway

Name of Director	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of shareholding
Ho Lam Lai Ping, Theresa	Personal	98,000	Long position	0.01%

Note: The number of ordinary shares of Kingway in issue as at 30 June 2007 was 1,706,672,000.

Save as disclosed above, as at 30 June 2007, none of the directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executive are taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Save as disclosed above, at no time during the period was the Company or its holding companies, or any of its subsidiaries or its fellow subsidiaries a party to any arrangements to enable the directors of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2007, so far as is known to the directors or the chief executive of the Company, the following persons (other than a director or the chief executive of the Company) had, or were deemed or taken to 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, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Derivative interests (Number of shares to be issued upon conversion of the HK\$61,500,000 Convertible Note issued by the Company)	Approximate percentage of the Company's issued ordinary share capital (including derivative interests)
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) (Note)	Beneficial owner/ interests of controlled corporation	375,100,000	Long position	32,368,421	75.89%
GDH Limited	Beneficial owner/ interests of controlled corporation	375,100,000	Long position	32,368,421	75.89%

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% direct interest in GDH Limited.

Save as disclosed above, as at 30 June 2007, so far as the directors or the chief executive of the Company were aware, there were no other persons (other than a director or the chief executive of the Company) who had, or were deemed or taken to 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, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

During the period, no options have been granted under the share option scheme (the "Share Option Scheme") adopted by the Company on 31 May 2002 and there are no changes in any terms of the Share Option Scheme. Details of the movements in the Company's share options under the Share Option Scheme during the period were set out in note 16 to the unaudited condensed consolidated interim financial statements and the detailed terms of the Share Option Scheme were disclosed in the annual report 2006 of the Company.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2007.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors’ securities transactions. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2007.

AUDIT COMMITTEE

The Company established an audit committee (“Audit Committee”) in September 1998 and its terms of reference are in line with the CG Code. The Audit Committee comprises three independent non-executive directors, Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat. Mr. Fung Lak is the Chairman of the Audit Committee. The principal duties of the Audit Committee include, inter alia, the review of the completeness, accuracy and fairness of the Company’s financial reports and the Group’s internal controls and risk management systems.

REMUNERATION COMMITTEE

The Company established a remuneration committee (“Remuneration Committee”) in June 2005 and its terms of reference are in line with the CG Code. The Remuneration Committee comprises one executive director, Mr. Zhang Chunting, and three independent non-executive directors, Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat. Mr. Zhang Chunting is the Chairman of the Remuneration Committee. The principal duties of the Remuneration Committee include, inter alia, making recommendations to the Board relating to the Company’s policy for directors’ and senior management’s remuneration, determining the executive directors’ and senior management’s remuneration packages, reviewing and approving their performance-based remuneration and compensation payable for their loss of offices.

NOMINATION COMMITTEE

The Company established a nomination committee (“Nomination Committee”) in June 2005 and its terms of reference are in line with the CG Code. The Nomination Committee comprises one executive director, Mr. Zhang Chunting, and three independent non-executive directors, Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat. Mr. Zhang Chunting is the Chairman of the Nomination Committee. The principal duties of the Nomination Committee include, inter alia, nominating and recommending candidates to fill vacancies on the Board.

CORPORATE GOVERNANCE AND OTHER INFORMATION

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited interim financial statements and the interim report of the Group for the six months ended 30 June 2007. In addition, the Company's auditors, Ernst & Young, have also reviewed the aforesaid unaudited interim financial statements.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2007.

By order of the Board
Zhang Chunting
Chairman

Hong Kong
12 September 2007

CORPORATE INFORMATION

BOARD OF DIRECTORS

Zhang Chunting (*Chairman*)
Deng Rongjun (*Managing Director*)
Zhang Yaping
Xiong Guangyang
Fung Lak*
Choi Kam Fai, Thomas*
Chan Cheong Tat*
Ho Lam Lai Ping, Theresa

* *Independent Non-Executive Director*

COMPANY SECRETARY

Lee Wai Mei

AUDITORS

Ernst & Young

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LISTING INFORMATION

Stock Code: 1058

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