

1. ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" except that the comparative figures of the condensed consolidated cash flow statement has not been prepared as permitted under the transitional provisions set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. 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 2000, except the following new/revised SSAPs have been adopted for the first time in the preparation of the current period's condensed consolidated financial statements:

•	SSAP 9 (revised)	Events after the Balance Sheet Date
•	SSAP 14 (revised)	Leases
•	SSAP 28	Provisions, Contingent Liabilities and Contingent Assets
•	SSAP 29	Intangible Assets
•	SSAP 30	Business Combinations
•	SSAP 31	Impairment of Assets
•	SSAP 32	Consolidated Financial Statements and Accounting for
		Investments in Subsidiaries

A summary of their major effects is as follows:

SSAP 9 (revised) prescribes the accounting treatment and disclosures for events occurring after the balance sheet date. This has had no impact on these financial statements.

SSAP 14 (revised) prescribes the accounting treatment and disclosures for leases and hire purchase contracts. This SSAP has been applied prospectively. This has had no major impact on these financial statements, however, the disclosures for commitments under non-cancellable operating leases have been changed. In prior period, operating lease commitments were disclosed as payment committed to be made during the next year, analysed between those in which the commitment would expire within that year, in the second to fifth years, inclusive, and over five years. In the current period, such disclosure has changed to the total of future minimum lease payments under non-cancellable operating leases analysed into those not later than one year, later than one year and not later than five years and later than five years. Disclosures as required are set out in note 16(b) to these financial statements.



1. ACCOUNTING POLICIES (Cont'd)

SSAP 28 prescribes the accounting treatment and disclosures for provisions, contingent liabilities and contingent assets. This has had no major impact on these financial statements.

SSAP 29 prescribes the accounting treatment and disclosures of intangible assets. This has had no major impact on these financial statements.

SSAP 30 prescribes the accounting treatment and disclosures for business combinations. This SSAP has been applied prospectively. Under SSAP 30, goodwill/negative goodwill arising from business combinations after 1 January 2001 is capitalised and amortised over its useful life.

The Group has taken advantage of the transitional provisions in SSAP 30 and the goodwill/negative goodwill arose from acquisitions prior to 1 January 2001 which have been previously eliminated against/taken to reserves had not been retrospectively restated under the new accounting policy. Therefore, goodwill arising on acquisitions prior to 1 January 2001 is held in reserves and will be charged the profit and loss account at the time of disposal of the subsidiaries/associates, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1 January 2001 is held in reserves and will be credited to the profit and loss account at the time of disposal of the relevant subsidiaries/associates.

SSAP 31 requires enterprises to consider whether assets are carried in excess of their recoverable amounts and prescribes the accounting treatment for any resulting impairment losses. This SSAP has been applied prospectively. This has had no major impact on these financial statements.

SSAP 32 prescribes the accounting treatment and disclosures in the preparation and presentation of consolidated financial statements. This has had no major impact on these financial statements.



2. SEGMENT INFORMATION

An analysis of the Group's turnover and profit from operating activities by principal activity and geographical area of operations is as follows:

		Pro	fit from
Turnover		operating activities	
for the six months		for the six months	
ende	d 30 June	ended 30 June	
2001	2000	2001	2000
HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
226,820	253,847	7,167	1,092
125,922	73,989	6,905	4,844
11,113	10,954	(441)	(37)
363,855	338,790	13,631	5,899
334,006	315,614	20,632	11,292
14,103	13,992	(3,123)	(3,097)
15,746	9,184	(3,878)	(2,296)
363,855	338,790	13,631	5,899
	for the ender 2001 HK\$'000 (Unaudited) 226,820 125,922 11,113 363,855 334,006 14,103 15,746	for the six months ended 30 June 2001 2000 HK\$'000 HK\$'000 (Unaudited) (Unaudited) 226,820 253,847 125,922 73,989 11,113 10,954 363,855 338,790 334,006 315,614 14,103 13,992 15,746 9,184	Turnover operation for the six months for the six months ended 30 June ender 2001 2001 2001 HK\$'000 HK\$'000 HK\$'000 (Unaudited) (Unaudited) (Unaudited) 226,820 253,847 7,167 125,922 73,989 6,905 11,113 10,954 (441) 363,855 338,790 13,631 334,006 315,614 20,632 14,103 13,992 (3,123) 15,746 9,184 (3,878)



3. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months		
	ended 30 June		
	2001	2000	
	HK\$'000	HK\$'000	
	(Unaudited)	(Unaudited)	
Cost of inventories sold	318,224	302,851	
Depreciation	10,675	10,393	
Amortisation of trademarks	700	1,000	
Provisions for doubtful debts	2,185	663	
Fixed assets written off	1,273	-	
Loss on disposal of fixed assets, net	191	164	
Operating lease expenses in respect of			
land and buildings	4,398	3,927	
Annual fees paid to PRC joint venture partners	5,252	5,082	
Exchange losses, net	-	2,433	
and after crediting:			
Gross rental income from investment properties	825	324	
Less: Outgoings	(9)	(3)	
Net rental income from investment properties	816	321	
Royalty income	500		
Interest income	1,535	4,462	
Exchange gains, net	186		

4. FINANCE COSTS

This represents interest on bank and other loans wholly repayable within five years incurred during the period.



5. TAX

No provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in Hong Kong during the period. Hong Kong profits tax had been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong in prior period. Taxes on assessable profits of subsidiaries of the Company in Mainland China and overseas have been calculated at the rate of tax applicable to those subsidiaries based on existing legislation, interpretations and practices in respect thereof.

	For the six months		
	end	ed 30 June	
	2001 200		
	HK\$'000	HK\$'000	
	(Unaudited)	(Unaudited)	
Company and subsidiaries:			
Hong Kong	_	417	
Overseas	_	249	
Overprovision in prior periods	(93)	(1,235)	
Tax credited for the period	(93)	(569)	

There was no material unprovided deferred tax in respect of the period (2000: Nil).

6. DIVIDEND

The directors do not recommend the payment of any interim dividend in respect of the ordinary shares for the six months ended 30 June 2001 (2000: Nil).

7. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the unaudited net profit attributable to shareholders for the period of HK\$5,018,000 (2000: unaudited loss of HK\$4,809,000) and the weighted average number of 524,154,000 ordinary shares in issue during the period.

Diluted earnings/(loss) per share for the six months ended 30 June 2001 and 2000 have not been calculated as no diluting events existed during these periods.



8. INVENTORIES

	As at	As at
	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Raw materials	78,602	74,894
Work in progress	111,072	70,129
Finished goods	56,669	66,288
	246,343	211,311

The carrying amount of inventories carried at net realisable value included in the above is HK\$32,600,000 (as at 31 December 2000: HK\$42,769,000).

9. TRADE RECEIVABLES

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

	As at	As at
	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Within 3 months	88,860	84,336
More than 3 months and less than 6 months	3,555	22,930
More than 6 months and less than 1 year	34,160	6,837
More than 1 year	18,691	17,256
	145,266	131,359
Less: Provisions for doubtful debts	(54,307)	(68,601)
	90,959	62,758

Credit terms

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



10. DUE FROM/(TO) PRC JOINT VENTURE PARTNERS

Included in the amounts due from PRC joint venture partners are secured loans of HK\$1,512,000 (as at 31 December 2000: HK\$2,765,000) which bear interest at approximately 7% per annum and have no fixed terms of repayment. The loans are secured by machinery and equipment of the PRC joint venture partners.

The remaining amounts due from the PRC joint venture partners are unsecured, interest-free and have no fixed terms of repayment.

The amounts due to PRC joint venture partners are unsecured, interest-free and have no fixed terms of repayment.

11. CASH AND BANK BALANCES

	As at	As at
	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Cash and cash equivalents	35,512	111,825
Pledged bank deposits*	45,378	39,139
	80,890	150,964

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

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



12. TRADE AND BILLS PAYABLE

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

	As at	As at
	30 June	31 December
	2001	2000
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Within 3 months	49,386	45,390
More than 3 months and less than 6 months	360	1,261
More than 6 months and less than 1 year	586	388
More than 1 year	435	578
	50,767	47,617
		

13. SHARE CAPITAL

There were no movements in the share capital of the Company for the six months ended 30 June 2001 and 2000.

14. RESERVES

	Share	General	Capital	Other	Exchange	Property		
	premium	reserve	redemption	reserve	translation	revaluation	Accumulated	
	account	fund	reserve	fund	reserve	reserve	losses	Total
	HK\$'000							
	(Unaudited)							
At 1 January 2001	412,116	12,478	445	553	487	39,626	(107,670)	358,035
Profit for the period	-	-	-	-	-	-	5,018	5,018
Exchange adjustments	-	-	-	-	266	-	-	266
At 30 June 2001	412,116	12,478	445	553	753	39,626	(102,652)	363,319



15. NOTE TO THE CONDENSED CONSOLIDATED CASH FLOW STATEMENT

The Group agreed to assign its receivable from a customer of HK\$40,874,000, of which full provision was made in prior year, by installments to an independent third party as a result of a conditional sale and purchase agreement entered into between the Group and the independent third party dated 9 April 2001 in connection with the Group's disposal of 25% interest in Chapel Hill Developments Limited ("Chapel Hill", a wholly owned subsidiary of the Company). Chapel Hill holds the Group's trademarks and the customer used to be the sole distributor of leather ware products in Mainland China using the Group's trademarks.

During the period, the Group assigned its receivable from the customer to the independent third party amounting to HK\$13,625,000.

16. COMMITMENTS

(a) Capital commitments

As at 30 June 2001, the Group had outstanding contracted capital commitments in respect of property, plant and equipment amounting to HK\$317,000 (as at 31 December 2000: HK\$504,000).

(b) As at 30 June 2001, the Group had minimum commitments payable in the future years under non-cancellable operating leases in respect of land and buildings, as follows:

	(Unaudited)
Not later than one year	4,250
Later than one year and not later than five years	1,870
	6,120

As at 31 December 2000, the Group had annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:

	HK\$'000 (Audited)
Within one year	807
In the second to fifth years, inclusive	1,011
	1,818

(c) As at 30 June 2001, certain subsidiaries of the Group have commitments to make an annual fee payments of approximately HK\$11,002,000 (as at 31 December 2000: approximately HK\$10,869,000) to their joint venture partners in Mainland China in the following year.

HK\$'000



17. CONTINGENT LIABILITIES

In January 2001, Guangdong Enterprises (North America) Fur Holdings Limited ("GDNA") and Harbour Hill International Limited ("HHL"), wholly owned subsidiaries of the Company, filed suit to the United States District Court in the Southern District of New York to recover approximately US\$2.25 million loaned to Hennessy International Group, Inc. ("HIGI"). HIGI is one-third held by GDNA and is an associate of the Group. GDNA and HHL also asserted claims against a corporate shareholder of HIGI and two individuals, who have interests in the corporate shareholder of HIGI (the "Defendants"), based on their guarantees of one-half of HIGI's obligation.

In March 2001, the Defendants answered the complaint denying all liabilities and asserted a counterclaim of approximately US\$2 million against GDNA for alleged failure to continue financing HIGI. The parties involved are engaged in discovery with depositions scheduled to begin around 24 September 2001.

The directors, based on legal advice, do not believe there is a strong reason for any claim brought against the Group and accordingly, no provision was made as at 30 June 2001.

18. RELATED PARTY TRANSACTIONS

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

For the six month			
	ended 30 June		
	2001	2000	
	HK\$'000	HK\$'000	
Notes	(Unaudited)	(Unaudited)	
(a)	5,252	5,082	
(b)	57	161	
(10)	31	101	
(c)	218	-	
	(a) (b)	end 2001 HK\$'000 Notes (Unaudited) (a) 5,252 (b) 57	

Notes:

- (a) The annual fees paid to PRC joint venture partners are in accordance with the respective Sino-foreign co-operative joint venture agreements. Balances with PRC joint venture partners are set out in note 10.
- (b) The interest income from a PRC joint venture partner arose from loans advanced to it. Details of the loans, including the terms, are disclosed in note 10.
- (c) Rental is charged by a fellow subsidiary at approximately HK\$73,000 per month in accordance with the terms of a rental agreement between the Company and a fellow subsidiary.



19. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Group has been negotiating with a PRC joint venture partner to disengage from the operations of a subsidiary which operates a tannery plant in Qingdao, Mainland China (the "Qingdao Tannery Plant").

The Group intends to transfer the majority of the existing assets in the Qingdao Tannery Plant to other tannery plants of the Group and the Group has paid an interim compensation in an amount of HK\$1,601,000 to the staff of the Qingdao Tannery Plant in August 2001.

No provision for staff redundancy payment has been made in these financial statements as the Group had no constructive obligation in respect of staff redundancy payment at the balance sheet date.

20. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved by the board of directors on 21 September 2001.