粵海制革有限公司

GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

SUMMARISED INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2002

MANAGEMENT DISCUSSION AND ANALYSIS

Results

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

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

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

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

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

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

Corporate Restructuring

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

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

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

Debt Restructuring

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

Market

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

Cost

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

Production

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

Financial Position

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

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

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

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

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

Litigations

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

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

Nanhai Tannery Incident

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

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

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

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

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

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

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

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

Employees

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

Auditors – Services provided other than audit

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

Prospects

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

SUMMARY OF INDEPENDENT AUDITORS' REVIEW REPORT

An extract from the independent auditors' review report of the Company for the six months ended 30 June 2002 is as follows:

Fundamental uncertainty – contingent liabilities

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

Review conclusion

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

INTERIM RESULTS

The unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2002 together with the comparative figures are as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	For the six months ended 30 June 2002 HK$'000 (Unaudited)	2001 HK$'000 (Unaudited)
TURNOVER	2	314,168	363,855
Cost of sales		(286,890)	(318,224)
Gross profit		27,278	45,631
Other revenue and gains	2	2,872	3,310
Selling and distribution costs		(9,040)	(8,889)
Administrative expenses		(20,327)	(22,772)
Other operating expenses, net		(179,286)	(3,649)
Staff compensation payments in respect of a discontinued operation	4(b)	(552)	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	2, 3	(179,055)	13,631
Finance costs	5	(3,353)	(9,133)
Share of loss of an associate		–	(66)
PROFIT/(LOSS) BEFORE TAX		(182,408)	4,432
Tax	6	–	93
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(182,408)	4,525
Minority interests		77	493
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS AND LOSS ACCUMULATED AT END OF PERIOD		(182,331)	5,018
EARNINGS/(LOSS) PER SHARE	7		
– Basic		(34.79 cents)	0.96 cent
– Diluted		N/A	N/A

Notes:

(1) ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the audited financial statements for the year ended 31 December 2001, except the following new/revised SSAPs have been adopted for the first time in the preparation of the current period's condensed consolidated financial statements:

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

(2) SEGMENT INFORMATION

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

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

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

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

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

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

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

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

There were no intersegment sales and transfers during the period.

(a) Business segments

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

Group

	Leather processing		Merchandise trading		Property investment		Corporate and Other		Packaging materials manufacture and distribution (Discontinued)		Leather ware products manufacture and distribution (Discontinuing)		Consolidated	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:														
Sales to external customers	199,240	211,615	89,838	125,922	–	–	–	–	8,324	11,113	16,766	15,205	314,168	363,855
Other revenue (excluding exchange gains/(losses), net)	548	428	47	163	980	817	113	11	8	1	579	169	2,275	1,589
Exchange gains/(losses), net	(9)	556	(28)	(177)	–	–	–	(54)	–	–	(42)	(139)	(79)	186
Total	199,779	212,599	89,857	125,908	980	817	113	(43)	8,332	11,114	17,303	15,235	316,364	365,630
Segment results	(14,552)	11,487	(28,677)	6,379	344	633	(3,185)	(4,643)	(89)	(539)	(144)	(1,221)	(46,303)	12,096
Interest income													597	1,535
Unallocated expense													(133,349)	–
Profit/(loss) from operating activities													(179,055)	13,631
Finance costs													(3,353)	(9,133)
Share of loss of an associate													–	(66)
Profit/(loss) before tax													(182,408)	4,432
Tax													–	93
Minority interests													77	493
Net profit/(loss) from ordinary activities attributable to shareholders													(182,331)	5,018

(b) Geographical segments

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

Group

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

(3) PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

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

and after crediting:

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

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

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

(4) DISCONTINUING/DISCONTINUED OPERATIONS

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

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

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

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

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

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

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

(5) FINANCE COSTS

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

(6) TAX

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

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

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

(7) EARNINGS/(LOSS) PER SHARE

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

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

(8) CONTINGENT LIABILITIES

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

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

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

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

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

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

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

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 2002 has not been audited, but has been reviewed by the Company's auditor Messrs. Ernst & Young.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

PUBLICATION OF UNAUDITED INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

A detailed unaudited interim results announcement for the six months ended 30 June 2002 containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be published on the website of the Stock Exchange in due course.

By Order of the Board
Xiong Guangyang
Chairman

Hong Kong, 5 August 2002

(The above results announcement may be downloaded from the Company's website at www.gdtann.com.)

"Please also refer to the published version of this announcement in The Standard".