粵海制革有限公司

GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock code: 1058)

SUMMARISED 2004 INTERIM RESULTS

BUSINESS AND FINANCIAL REVIEWS

Results

The Group's unaudited profit attributable to shareholders for the six months ended 30 June 2004 was HK$2,607,000, compared with a loss of HK$2,382,000 for the same period last year. This encouraging result reflects the Group's success in achieving profitability during the period under review.

The unaudited net asset value of the Group as at 30 June 2004 was HK$172,851,000, a drop of HK$91,312,000 and a rise of HK$2,691,000 as compared to 30 June 2003 and 31 December 2003 respectively.

No interim dividend is recommended by the Board of Directors for the six months ended 30 June 2004.

Development of the Group – Expansion Plans in Xuzhou

In February and March 2004, certain bank accounts of Foshan City Nanhai Tong Yuan Tanning Co., Ltd ("Tongyuan Tannery") were frozen by the Guangzhou Customs in the PRC. A written notification was later sent to Tongyuan Tannery by the Guangzhou Customs demanding payment of an amount of RMB36,989,441.92. As the freezing of bank accounts has severely affected its business, Tongyuan Tannery has suspended all of its operations in March 2004, and laid off more than 600 employees in late June, which represented the entire pool of staff other than certain rear-service personnel. Tongyuan Tannery will continue to follow up with the Guangzhou Customs to resolve the matter and will, if necessary, take all such measures as may be required to safeguard its rights and interest.

To remedy the reduced production and sales volume caused by the suspension of Tongyuan Tannery's operations, we have initiated a northward shift of operations and stepped up efforts to develop Xuzhou Tanneries as a major base of production. Meanwhile, strategies are adopted to increase the proportion of outsourced upstream processing and franchising.

In the period from April to June 2004, Xuzhou Nanhai Leather Factory Co., Ltd ("Xuzhou Tannery"), and Xuzhou Gangwei Colour Packaging Limited ("Gangwei"), another subsidiary of the Group acquired from Tongyuan Tannery part of the latter's assets including inventories, machinery and equipment . We expect the monthly average production capacity of Xuzhou Tannery will increase to 1,300,000 sq.ft. after the machinery is properly installed and adjusted; Gangwei will have a monthly average production capacity of 1,000,000 sq.ft. as it is restructured into a downstream production plant for leather coating processing; and the annual capacity of downstream coating processing will reach 28,000,000 sq.ft. following the respective expansion and restructuring program of the two tanneries in Xuzhou. On the other front part of the Group's upstream leather processing was outsourced in June this year, and plans are underway to seek more other suitable processing plants in areas adjacent to Xuzhou. These strategies aim to expedite the expansion pace of Xuzhou production base at the most reasonable costs.

Operations Review

Following the initiatives to consolidate its business foundation in 2002 and 2003, Xuzhou Tannery is currently in a stronger position as it benefits from steady supply and sales, as well as positive market responses to its products in terms of quality and style. While efforts have been made to stimulate the sales of existing products, new products are launched for production trial by customers, and good potential products with less satisfactory sales are vigorously promoted in order to increase orders from customers in the peak season. In the meantime, we are active in seeking new direct sales customers. As the huge potential of the Guangdong market has not yet been fully exploited, Xuzhou Tannery has intensified its efforts to develop and penetrate further in this market during the past few months.

Turnover for the period was HK$162,836,000, a rise of 14.36% as compared to HK$142,380,000 for the same period last year. Turnover of Xuzhou Tannery for the period was HK$81,934,000 (2003: HK$49,470,000), a significant increase of 66% over the same period in 2003; and turnover of Tongyuan Tannery declined to HK$69,290,000 from HK$92,910,000 in the same period last year. The decrease was due to the fact that Tongyuan Tannery has been focusing on clearing its finished products in stock since its suspension of operations in March 2004. Turnover of cowhides increased by 22.91% to HK$143,446,000 (2003: HK$116,712,000) whereas cow split and others dropped by 24.46% to HK$19,390,000 (2003: HK$25,668,000).

Sourcing cost for raw materials was reduced during the period as our measures to expand the supplier network, introduce competition into the sourcing process, and strengthen our market research and price negotiation efforts are firmly in place.

Given that the sales demand outstripped our production volume in the peak season last year, the Group has increased its product inventories as an earlier measure to position itself for the peak season sales in the second half of 2004. The Group's total leather production for the period was 11,434,000 sq. ft., declined by 3,835,000 sq.ft. from 15,269,000 sq.ft. in 2003. Production of cowhides dropped by 8.23% to 10,225,000 sq.ft. (2003: 11,142,000 sq.ft.) whereas cow split down by 70.71% to 1,209,000 sq.ft. (2003: 4,127,000 sq.ft.). Maintaining a strong momentum for production growth, Xuzhou Tannery produced a total of 7,090,000 sq.ft. in cowhides for the period, an increase of 3,124,000 sq.ft. or 126.95% over the same period in the pervious year.

As at 30 June 2004, the Group's consolidated inventories amounted to HK$205,457,000, reduced by HK$23,740,000 and HK$15,938,000 as compared to 30 June 2003 and 31 December 2003 respectively. The decrease was primarily attributable to the reduced sourcing volume of the Group, and our moves to liquidate the assets and inventories of Tongyuan Tannery following its suspended operations.

Balance of trade receivables as at the end of the period was HK$68,274,000. After deducting the provisions for doubtful debts of HK$33,751,000, trade receivables amounted to HK$34,523,000, an increase of HK$17,361,000 and a drop of HK$5,001,000 as compared to 31 December 2003 and the same period last year. Trade receivables turnover was 12.60 times and average collection period was 29 days, markedly improved from 39 days for the same period last year. The trade receivables of Tongyuan Tannery upon its suspension of operations in March 2004 was approximately RMB39,000,000. As at 30 June 2004, these trade receivables were reduced to RMB11,778,000 as a result of the Group's active attempts to recover the receivables.

Financial Review

As at 30 June 2004, the Group's interest-bearing borrowings amounted to HK$110,012,000 (as at 31 December 2003: HK$133,648,000). Of the total interest-bearing borrowings, HK$18,685,000 was denominated in Hong Kong dollars, HK$35,798,000 in Renminbi and HK$55,529,000 in US dollars. In addition, the interest-bearing borrowings charged at fixed rate and floating rate amounted to HK$100,748,000 and HK$9,264,000 respectively.

As at 30 June 2004, the Group's cash and bank balances amounted to HK$59,677,000 (as at 31 December 2003: HK$84,332,000), denominated in Hong Kong dollars (HK$1,347,000), Renminbi (equivalent to HK$56,520,000) and US dollars (equivalent to HK$1,810,000) respectively.

As at 30 June 2004, after deduction of cash and bank deposits, the Group's ratio of net interest-bearing borrowings to shareholders' equity was 29.12% (as at 31 December 2003: 28.98%). Loan facilities bear interest at approximately 3% to 4% per annum. Of the Group's total borrowings, HK$110,012,000 is repayable within one year. Interest expense incurred by the Group during the period was HK$3,104,000, a rise of 19.89% as compared to the same period last year.

Net cash outflow from operating activities for the period was HK$23,377,000 and cash outflow from financing was HK$8,679,000. Net decrease in cash and cash equivalents for the period amounted to HK$29,579,000.

Fixed assets as at 30 June 2004 were HK$114,375,000, a reduction of HK$4,031,000 as compared to 31 December 2003. The Group's capital expenditure during the period amounted to HK$1,299,000 (2003: HK$2,046,000). It was incurred mainly for the replacement of the leather manufacture machinery and equipment, a move to cope with the operations and development of the leather business.

As at 30 June 2004, certain of the Group's buildings, investment properties, bank deposits and plant and machinery with a total net book value of HK$19,123,000 (31 December 2003: HK$15,295,000) were pledged to secure general banking facilities granted to the Group.

Progress on winding up Qingdao Tannery

As regards the litigation between Qingdao Nanhai Tannery Co., Ltd. ("Qingdao Tannery") and its PRC joint venture partner, a ruling was made by the China International Economic and Trade Arbitration Commission in Shenzhen on 27 May 2004 confirming that: (i) the "Joint Venture Agreement in respect of Qingdao Nanhai Tannery Co., Ltd." ("Qingdao Joint Venture Agreement") was terminated on 23 August 2001; (ii) Qingdao Tannery is required to be wound up in compliance with all applicable laws and regulations of the People's

Republic of China and the terms and conditions under the joint venture agreement; and (iii) proceeds from selling Qingdao Tannery's assets and the remaining assets not yet been realized must be included in the liquidation account. On 22 June 2004, the claims made by the PRC joint venture partner for loss of fixed return under the Qingdao Joint Venture Agreement and damages in an aggregate of RMB15,000,000 were also dismissed by the China International Economic and Trade Arbitration Commission in Beijing. The Company will proceed with the winding-up of the Qingdao Tannery in compliance with the above rulings.

Employees

As at 30 June 2004, a total of 507 employees (2003: 1,018 employees) were employed by the Group. The pay levels of employees are made with reference to the Group's operating results and the employee's performance. Over the past few years, there was a salary freeze for the employees of the headquarters in Hong Kong. The Group offered social and medical insurance and provident fund to all employees in different areas. The Company has adopted a share option scheme ("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. Details of the Share Option Scheme are set out in the Condensed Consolidated Financial Statements.

Prospects

The Group is steadfast to consolidate and strengthen further the operational scale and operating profits of the two tanneries in Xuzhou. To this end, focus is placed on expanding Xuzhou Tannery's production capacity; enhancing its internal management efficiency, product quality and market competitiveness; as well as strengthening its operations in areas of supply and sales. The downstream leather production line at Gangwei is scheduled to commence operations by the end of this year. This will provide a strong platform for our future development as the leather business is poised to enter a new phase of more exciting growth.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended 30 June	
		2004	**2003**
	Notes	*HK$'000*	*HK$'000*
		(Unaudited)	*(Unaudited)*
TURNOVER	*2*	162,836	142,380
Cost of sales		(146,262)	(132,169)
Gross profit		16,574	10,211
Other revenue and gains		1,640	1,707
Selling and distribution costs		(842)	(1,195)
Administrative expenses		(11,952)	(11,511)
Other operating income, net		291	709
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	*3*	5,711	(79)
Finance costs	*4*	(3,104)	(2,589)
PROFIT/(LOSS) BEFORE TAX		2,607	(2,668)
Tax	*5*	–	286
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		2,607	(2,382)
EARNINGS/(LOSS) PER SHARE	*6*		
– Basic		0.5 cents	(0.45 cents)
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	30 June 2004 HK$'000 (Unaudited)	31 December 2003 HK$'000 (Audited)
NON-CURRENT ASSETS		
Fixed assets	114,375	118,406
CURRENT ASSETS		
Inventories	205,457	221,395
Receivables, prepayments and deposits	71,395	47,683
Tax recoverable	7,064	7,031
Loan to an officer	947	970
Cash and bank balances	59,677	84,332
	344,540	361,411
CURRENT LIABILITIES		
Trade and bills payables	(69,677)	(67,725)
Accruals and other liabilities	(23,811)	(25,720)
Due to a PRC joint venture partner	(1,131)	(1,131)
Loans from immediate holding company	(46,148)	(45,957)
Loan from a fellow subsidiary	(54,600)	(54,600)
Bank borrowings	(9,264)	(33,091)
Provisions	(72,600)	(72,600)
	(277,231)	(300,824)
NET CURRENT ASSETS	67,309	60,587
TOTAL ASSETS LESS CURRENT LIABILITIES	181,684	178,993
NON-CURRENT LIABILITIES		
Deferred tax liabilities	(8,833)	(8,833)
	172,851	170,160
CAPITAL AND RESERVES		
Issued capital	52,415	52,415
Reserves	120,436	117,745
	172,851	170,160

Notes:

(1) BASIS OF PREPARATION AND 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 Institute of Certified Public Accountants. The accounting policies and basis of preparation used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the Group's audited annual financial statements for the year ended 31 December 2003.

(2) SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of 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 manufacturing industry mainly in the mainland of the People's Republic of China (the "PRC" or "Mainland China");

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

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

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

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 periods.

(a) Business segments

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

	Leather processing Six months ended 30 June		Merchandise trading Six months ended 30 June		Property investment Six months ended 30 June		Corporate and other Six months ended 30 June		Consolidated Six months ended 30 June	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
	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)*
Segment revenue:										
Sales to external customers	162,836	142,380	–	–	–	–	–	–	162,836	142,380
Other revenue (excluding exchange gains/(losses), net)	596	575	–	–	471	991	31	47	1,098	1,613
Exchange gains/(losses), net	1,526	54	–	–	–	–	87	(4)	1,613	50
Total	164,958	143,009	–	–	471	991	118	43	165,547	144,043
Segment results	9,360	2,107	–	–	396	1,990	(4,587)	(4,270)	5,169	(173)
Interest income									542	94
Profit/(loss) from operating activities									5,711	(79)
Finance costs									(3,104)	(2,589)
Profit/(loss) before tax									2,607	(2,668)
Tax									–	286
Net profit/(loss) for the period from ordinary activities attributable to shareholders									2,607	(2,382)
Other segment information:										
Capital expenditure	1,279	2,037	–	–	–	–	20	9	1,299	2,046
Depreciation	5,716	7,973	–	–	–	–	18	52	5,734	8,025
Revaluation deficit/(surplus) on properties	–	23	–	–	–	(1,300)	–	–	–	(1,277)
Other non-cash expenses	39	9	–	–	–	–	72	974	111	983

(b) Geographical segments

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

	Mainland China Six months ended 30 June		Hong Kong Six months ended 30 June		Consolidated Six months ended 30 June	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
Segment revenue:						
Sales to external customers	162,836	142,380	–	–	162,836	142,380
Other revenue (excluding exchange gains/(losses), net)	1,037	1,168	61	445	1,098	1,613
Exchange gains/(losses), net	1,488	54	125	(4)	1,613	50
Total	165,361	143,602	186	441	165,547	144,043

(3) PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The profit/(loss) from operating activities is arrived at after charging/(crediting):

	Six months ended 30 June 2004	2003
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Cost of inventories sold	146,262	132,169
Depreciation of fixed assets	5,734	8,025
Staff costs (including Directors' remuneration)		
Wages and salaries	7,917	10,602
Redundancy payment	1,211	–
Pension scheme contributions (defined contribution scheme)	485	662
Less: Forfeited contributions	–	–
Net pension scheme contributions	485	662
	9,613	11,264
Minimum operating lease payment in respect of land and buildings	161	182
Other rental income	(188)	(154)
Interest income	(542)	(94)
Gross rental income form investment properties	(471)	(850)
Less: Outgoings from investment properties	71	231
Net rental Income	(400)	(619)
Expenses/(income) included in other operating income, net		
Exchange gains, net	(1,613)	(50)
Loss/(gain) on disposal of fixed assets, net	27	(380)
Surplus arising on revaluation of investment properties	–	(1,300)
Deficit arising on revaluation of leasehold land and buildings	–	23
Loss on disposal of a subsidiary	–	15
Write-off of fixed assets	84	983
Redundancy payment	1,211	–
	(291)	(709)

(4) FINANCE COSTS

This represented interest on bank borrowings and loans from the Company's immediate holding company and a fellow subsidiary of the Company during the period.

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

(5) TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period (2003: Nil). No provision for Mainland China and overseas profits tax has been made (2003: Nil) as there were no assessable profits arising from the subsidiaries of the Company in Mainland China and overseas during the period or the subsidiaries of the Company in Mainland China and overseas have tax losses brought forward from prior years to offset the assessable income during the period.

	Six months ended 30 June 2004	2003
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Group:		
Current – Hong Kong		
Charge for the period	–	–
Overprovision in prior periods	–	286
Total tax credit for the period	–	286

(6) EARNINGS /(LOSS) PER SHARE

The calculation of basic earnings per share is based on the unaudited net profit attributable to shareholders for the period of HK$2,607,000 (2003: net loss of HK$2,382,000) and the 524,154,000 (2003: 524,154,000) ordinary shares in issue during the period.

A diluted earnings per share amount for the six months ended 30 June 2004 has not been disclosed as the share options outstanding during the period had an anti-dilutive effect on the basic earnings per share for the period.

A diluted loss per share amount for the six months ended 30 June 2003 has not been disclosed as no diluting events existed during that period.

(7) CONTINGENT LIABILITIES

Following the change in senior management of the Company in June 2002, it was discovered that certain former executives (the “Former Executives”) of Nanhai Tannery & Leather Products Co., Ltd. (“Nanhai Tannery”) (one of whom was also a former director of the Company) had been involved in certain irregularities. Nanhai Tannery was a former wholly-owned subsidiary of the Company established in Nanhai, the People’s Republic of China.

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

Based on the findings of the special investigations and having regard to the professional advice received, the directors of the Company are of the opinion that the Parallel Operation should not be incorporated in the financial statements of the Group and that the Parallel Operation appears to have involved various irregularities in its transactions under the applicable PRC laws and regulations.

Pursuant to a business restructuring plan implemented by the Group, Foshan City Nanhai Tong Yuan Tanning Co., Ltd (“Tongyuan”) was established to operate the Group’s tannery operations and businesses in the Guangdong province in January 2003. Tongyuan is a wholly-owned subsidiary of the Company which owns and operates a factory and distribution operations in Nanhai, the PRC. Tongyuan had purchased from Nanhai Tannery most of its fixed assets and inventories in 2003.

On 31 December 2003, the Company entered into a conditional sale and purchase agreement with Yong Sheng Limited, a subsidiary of GDH and a fellow subsidiary of the Company, for the disposal of the Company’s entire 100% interest in Nanhai Tannery. The transaction was completed on 31 December 2003 and Nanhai Tannery became a wholly-owned subsidiary of GDH and a fellow subsidiary of the Company.

In February and March 2004, certain bank accounts of Tongyuan in the PRC containing in total approximately RMB7 million were frozen by 廣州海關緝私局 (the Anti-Smuggling Bureau of Guangzhou Customs) (the “Guangzhou Customs”).

The directors and management of the Company are satisfied that all the business and operations of Tongyuan have been conducted strictly in accordance with all the applicable PRC laws and regulations, and that there has been no wrongdoing on the part of Tongyuan or any of its management or staff. Therefore, the Company’s directors and management concluded that the actions taken by the Guangzhou Customs cannot be related to the business or operations of Tongyuan and must be related to the irregularities of Nanhai Tannery in 2002. Further details of the above are set out in the announcement of the Company dated 17 March 2004.

On 22 March 2004, the Guangzhou Customs issued a demand letter to Tongyuan/Nanhai Tannery (i) claiming a tax of RMB36,989,000 (equivalent to approximately HK$34,800,000) payable within 30 days from the date of the demand letter in relation to the tax evaded by Nanhai Tannery during the period from 2000 to 2002; and (ii) asserting that Tongyuan/ Nanhai Tannery failed to notify the Guangzhou Customs of the change from Nanhai Tannery to Tongyuan.

Although the Group has disposed of its entire interest in Nanhai Tannery to GDH and the tax evasion was related to the Parallel Operation of Nanhai Tannery, it cannot be precluded that the Guangzhou Customs may still claim the tax evaded by Nanhai Tannery against Tongyuan on the ground that Nanhai Tannery had transferred its fixed assets and inventories to Tongyuan after the commencement of the investigations taken by the Guangzhou Customs. The directors have sought PRC legal advice on such matters and consider that Tongyuan will be liable for the tax claim of HK$34,800,000 from the Guangzhou Customs if the Guangzhou Customs consider that Tongyuan and Nanhai Tannery are one and the same entity. Accordingly, a provision of HK$34,800,000 has been made as at 31 December 2003.

In addition, based on a PRC legal opinion, under the existing PRC laws and regulations, the relevant PRC authorities may also impose a tax penalty on Tongyuan of an amount equal to 1 to 5 times the tax evaded by the Parallel Operation of Nanhai Tannery, ie. HK$34,800,000 to HK$174,000,000. The directors have sought legal advice on such matters and consider that a provision of HK$34,800,000 for the tax penalty is appropriate.

As the actions taken by the PRC authorities have not yet been concluded, it is not possible to ascertain with any degree of reasonable certainty the amount of tax penalty which may finally be imposed by the PRC authorities against Tongyuan, which may be in the range of HK$34,800,000 to HK$174,000,000, other 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 other penalties and claims as a result of the aforesaid irregularities. Should additional tax penalty in excess of the amount provided of HK$34,800,000 be imposed against Tongyuan, the directors are of the opinion that Tongyuan would have adequate net assets and resources to fulfill such obligation should it arise.

As of the date of this report, no further action has been taken by the Guangzhou Customs or any other PRC authorities against Tongyuan and there have been no further claims made against Tongyuan. Accordingly, based on the current available information, no further provision for the tax penalty and other claims or liabilities has been made in the condensed consolidated financial statements.

SUMMARY OF INDEPENDENT AUDITORS' REVIEW REPORT

An extract from the independent auditors' review report of the Company for the six months ended 30 June 2004 is as follows:

Fundamental uncertainty – Contingent liabilities

In arriving at our review conclusion, we have considered the adequacy of the disclosures made in note 21 to the condensed consolidated financial statements concerning the irregularities involving certain former executives of a former subsidiary of the Company in the previous year and the related provision of HK$69,600,000 for the tax claim and tax penalty made by the Group as at 30 June 2004. As the actions taken by the PRC authorities have not yet been concluded, it is not possible to ascertain with any degree of reasonable certainty the amount of any tax penalty which may finally be imposed by the PRC authorities and the other consequential actions that may be taken by the PRC authorities for the apparent breaches of certain PRC laws and regulations,or the existence or otherwise of any other penalties and claims as a result of the aforesaid irregularities. As of the date of this report, no further provision other than that disclosed in notes 15 and 21 to the condensed consolidated financial statements has been made in the interim financial report for such contingencies. We consider that appropriate disclosures and estimates have been made in the interim financial report 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 2004.

OTHER INFORMATION

Corporate Governance

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 the interim report for the six months ended 30 June 2004, in compliance with Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Company has adopted the Model Code set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as the code of conduct regarding Director's securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the period under review.

The Group's interim financial report for the six months ended 30 June 2004 has not been audited, but has been reviewed by the audit committee of the Company and the auditors Messrs. Ernst & Young.

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the six months ended 30 June 2004. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

By Order of the Board
Zhang Chunting
Chairman

Hong Kong, 10 September 2004

As at the date of this announcement, the Company's Board comprises Mr. Wu Jiesi, Mr. Zhang Chunting, Mr. Chen Hong, Mr. Hui Wai Man Lawrence, Mr. Xiong Guangyang, Mr. Cheng Hok Lai James, Mr. Fung Lak, Mrs. Ho Lam Lai Ping Theresa and Mr. Chan Hee Kwan.

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