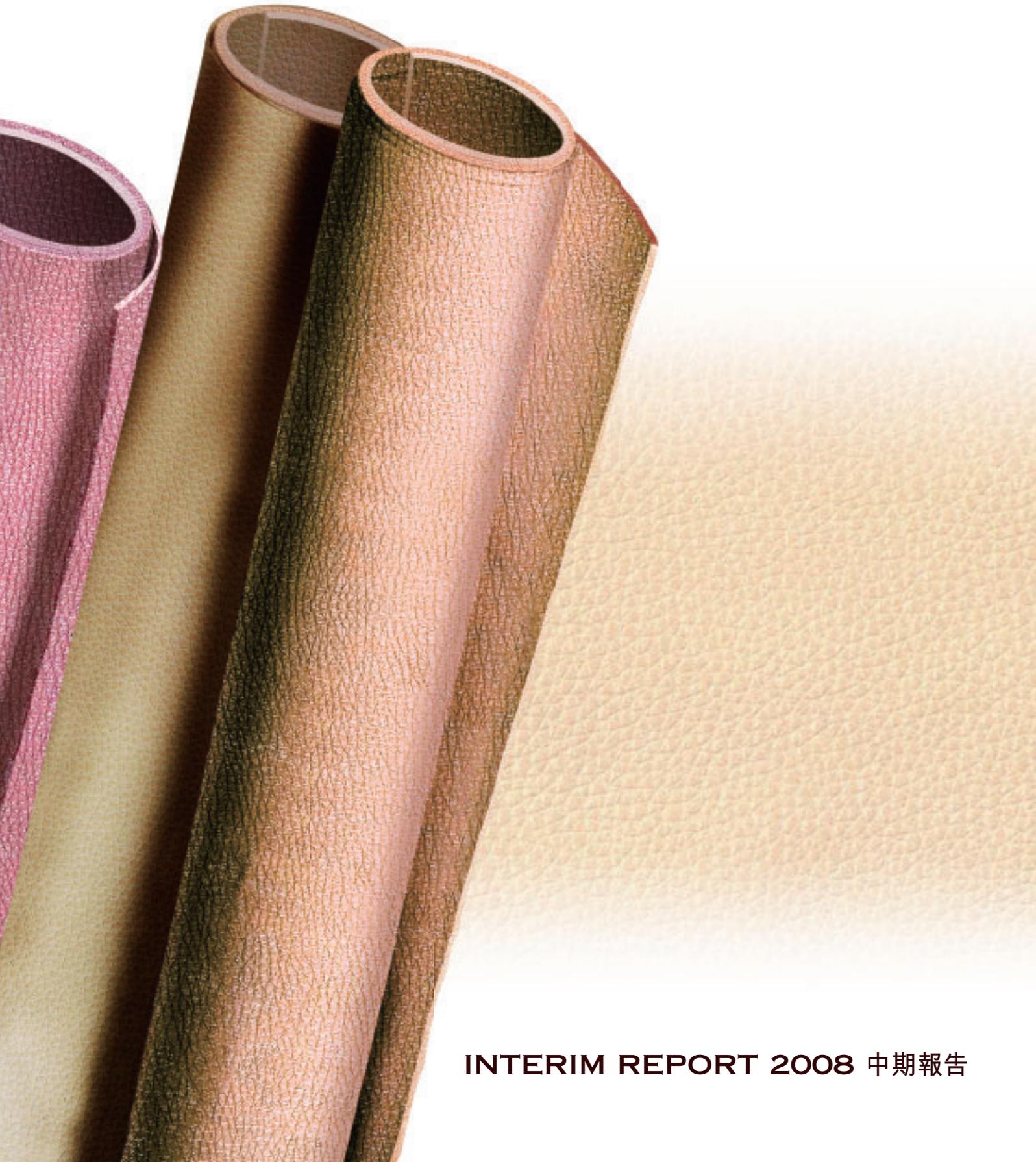




粵海制革有限公司

GUANGDONG TANNERY LIMITED

(股份代號 Stock Code: 1058)



INTERIM REPORT 2008 中期報告

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Business and Financial Review

Results

The unaudited consolidated profit attributable to shareholders for the six months ended 30 June 2008 of Guangdong Tannery Limited (the “Company”) and its subsidiaries (the “Group”) was HK\$4,687,000, representing a decrease of HK\$2,262,000 or 32.6% as compared to the profit of HK\$6,949,000 for the same period last year.

The unaudited net asset value of the Group as at 30 June 2008 was HK\$271,874,000, representing an increase of HK\$52,556,000 and HK\$28,692,000 as compared to the net asset value as at 30 June 2007 and 31 December 2007 respectively.

The board of directors of the Company (the “Board”) resolved not to declare the payment of an interim dividend for the six months ended 30 June 2008 (2007: Nil).

Business Review

The tannery market was dampened by a series of macroeconomic regulation and control policies promulgated by the State and the high anti-dumping tax imposed by the European Union on footwear products originating from China. Nevertheless, through product technology developments and structural optimization adjustment, effective controls of quantity purchased and intensified recovery of receivables during the period, the Group had solidified its existing operational scale and implemented its sound corporate development strategies that successfully relieved operational difficulties of the industry. With its “Operating Budgetary Control Systems”, the Group had also achieved desirable results in operational management, financial management and cost control. In respect of strategic development, the smooth initiation of the relocation and technical renovation project of Xuzhou Nanhai Leather Factory Co., Ltd. (“Xuzhou Tannery”) had laid a solid foundation for its future completion and commencement of production. Up to now, the Company had injected a registered capital of US\$9,000,000 into the new project in the Xuzhou Economic Development Zone, which is now undergoing land examination and approval procedures. In addition, the Group entered into a project agreement with Xuzhou Jiawang People’s Government on 19 March 2008, pursuant to which the Group undertook to construct a production plant in Jiawang Chemical Industrial Development Zone in Xuzhou City for the upstream processing of leather products. The anticipated construction contract amount is approximately HK\$60,320,000, which is expected to be funded by the Company’s internal sources and/or borrowings.

The Group’s cowhides production volume for the period was 13,450,000 sq. ft., a decrease of 3,393,000 sq. ft. or 20.1 % compared to 16,843,000 sq. ft. for the same period last year, whereas the grey hides production volume for the period was 2,555 tons, a decrease of 4,913 tons or 65.8% as compared to 7,468 tons for the same period last year.

During the period, the consolidated turnover of the Group was HK\$276,361,000, representing a decrease of HK\$28,154,000 or 9.2% from HK\$304,515,000 of the same period of last year. The turnover of cowhides amounted to HK\$261,063,000 (2007: HK\$263,496,000), a decrease of 0.9%; the turnover of grey hides and other products amounted to HK\$15,298,000 (2007: HK\$41,019,000), a decrease of 62.7%. Confronted with the unfavorable conditions such as decrease in sales volume of cowhides and the substantial drop in sales volume and price of grey hides, the Group had adopted the following measures to stabilize its clientele: (1) market segmentizing, targeted selling and selling with accountability; (2) fostering an effective marketing network characterized by “establishing a high-end client base and a regional-balanced market”, to ensure production orders and timely recovery of account receivables, and avoid market risk of over-concentration of sales; (3) probing into the market by visiting the customers to strengthen a strategic supply-and-sale relationship on basis of mutual benefits.

Business and Financial Review *(Cont'd)*

Business Review *(Cont'd)*

In respect of product development and composition, the Group had worked actively in promoting technology renovation, craftsmanship innovation, and enhancement of new and existing products. These efforts, coupled with market development and re-optimization the ranking of chromed hides, had achieved desirable results with a surge of leather yield in newly developed product lines such as "Sunshine", "Goddess" and "Snowflake", securing markets and profits for the Group.

During the period, on the premise that ensures the normal production requirement, the Group had cut down its purchasing plan and quantity purchased, and focused on market research and investigation to provide a more accurate criteria for adjustments in the Group's supply strategies and its future purchases. In respect of costs control, the Group had adopted multi-measures for effective control of purchasing costs, such as decreasing intermediate agent, substitution of some products, deferring and adjusting payment for goods and a combination of them. During the period, total amount of purchases decreased 55.3% to HK\$132,551,000.

As at 30 June 2008, the consolidated inventories of the Group amounted to HK\$253,470,000, which decreased by HK\$26,557,000 and HK\$84,658,000 as compared to 30 June 2007 and 31 December 2007 respectively. The decrease in inventories was mainly due to the decrease of raw material purchases and the effort in maintaining a good inventory system to improve the cash flow of the Group.

Financial Review

As at 30 June 2008, the Group's cash and cash equivalents amounted to HK\$83,106,000 (as at 31 December 2007: HK\$60,995,000), representing an increase of HK\$22,111,000 or 36.3% when compared with the same as at 31 December 2007, which were denominated in Hong Kong dollars (3.6%), Renminbi (94.7%) and US dollars (1.7%) respectively. During the period, net cash inflow from operating activities was HK\$39,442,000, which mainly represented the modified purchase strategy with control of quantity purchased that decreased cash paid for raw materials. The net cash outflow from financing activities was HK\$25,110,000, which was mainly used to repay bank loans.

As at 30 June 2008, the Group's interest-bearing borrowings amounted to HK\$194,581,000 (as at 31 December 2007: HK\$261,951,000). Of which, interest-bearing borrowings in Hong Kong dollars amounted to HK\$79,796,000, interest-bearing borrowings in Renminbi amounted to HK\$56,870,000, and interest-bearing borrowings in US dollars amounted to HK\$57,915,000. The Group's borrowings are consisting of: (1) balances of short-term bank borrowings of HK\$14,689,000; (2) balances of long-term and short-term intra-group borrowings of HK\$121,584,000; and (3) balances of convertible notes held by the Group's immediate holding company of HK\$58,308,000. Other than the convertible notes, which was charged at 1% per annum, all of these interest-bearing borrowings were charged at floating interest rate.

As at 30 June 2008, after deduction of the cash and bank balances, the Group's gearing ratio of the net value of interest-bearing borrowings to adjusted capital (including shareholders' equity and convertible notes) plus net value of interest-bearing borrowings was 13.9% (as at 31 December 2007: 32.5%). The annual interest rate of the borrowings was approximately 3.0% to 7.8%. Of the Group's total borrowings, all are repayable within one year except for the amount due to immediate holding company and convertible notes with an aggregate amount of HK\$121,584,000 and HK\$58,308,000 respectively. During the period, the Group's interest expenses amounted to HK\$7,891,000, an increase of 98.4% from the same period of last year.

Business and Financial Review *(Cont'd)*

Capital Expenditure

As at 30 June 2008, the net value of non-current assets including land, property, plant and equipments and investment property amounted to HK\$53,247,000, an increase of HK\$6,035,000 over the net value as at 31 December 2007 of HK\$47,212,000. The capital expenditure for the period amounted to HK\$5,447,000 (2007: HK\$6,472,000), which was mainly due to the renewal and purchase of leather manufacturing machines and equipments, and the deposits for the land and construction works of relocation and technical renovation project of Xuzhou Tannery, to cope with the production and development requirements of the Group.

Pledge of Assets

As at 30 June 2008, certain of the Group's bank deposits, inventories, plant and equipments with a total net book value of HK\$39,272,000 (as at 31 December 2007: HK\$91,844,000) were pledged to secure general banking facilities granted to the Group.

Risk of Exchange Rate

The assets, liabilities and transactions of the Group are basically 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 rate; 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 have material exposure to foreign exchange.

Remuneration Policy for Employees

As at 30 June 2008, a total of 975 employees (30 June 2007: 994) were employed by the Group. The remuneration policy is based on the Group's operating results and the employees' 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

The macroeconomic regulation and control policies promulgated by the State in 2008 had made plenty of tannery enterprises and downstream footwear enterprises shut down and go bankrupt. It becomes a deteriorating phenomenon of industrial agitation instead of simply individual matters. Besides, the soaring prices of primary raw materials such as grains, feeds, crude oil and fuels, had resulted in surging prices in cowhides and chemical materials for producing leather products, and thus an extreme operational misery. Facing such difficulties, the Group will continue enhancing its capacity in resisting risks and sustaining growth under adverse circumstances through the aforesaid measures. Under the objective of "rushing through schedule, concentrating on quality, ensuring safety, controlling costs, as well as delivering high quality products", the relocation and technical renovation project of Xuzhou Tannery had worked smoothly, and had laid a solid foundation for its completion and commencement of production by the end of the year.

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 22 which comprises the condensed consolidated balance sheet of the Company as at 30 June 2008 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

9 September 2008

Unaudited Interim Financial Statements

Condensed Consolidated Income Statement

Six months ended 30 June 2008

	Notes	Six months ended 30 June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
REVENUE			
Processing and sale of leather	3	276,361	304,515
Cost of sales		(256,852)	(283,536)
Gross profit		19,509	20,979
Other income and gains	3	5,747	3,291
Selling and distribution costs		(1,036)	(883)
Administrative expenses		(8,845)	(9,075)
Other operating expenses, net		(10)	(49)
Finance costs	4	(7,891)	(3,977)
PROFIT BEFORE TAX	4	7,474	10,286
Tax	5	(2,787)	(3,337)
PROFIT FOR THE PERIOD		4,687	6,949
EARNINGS PER SHARE	6		
– Basic		HK0.87 cents	HK1.30 cents
– Diluted		N/A	HK1.29 cents

Unaudited Interim Financial Statements (Cont'd)

Condensed Consolidated Balance Sheet

30 June 2008

	Notes	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		44,913	39,239
Investment property		2,270	2,280
Prepaid land lease payments		6,064	5,693
		<u>53,247</u>	<u>47,212</u>
Total non-current assets			47,212
CURRENT ASSETS			
Inventories		253,470	338,128
Receivables, prepayments and deposits	8	154,996	125,817
Pledged bank deposits		9,650	19,213
Cash and cash equivalents		83,106	60,995
		<u>501,222</u>	<u>544,153</u>
Total current assets			544,153
CURRENT LIABILITIES			
Trade and bills payables	9	53,896	57,711
Other payables and accruals		26,706	22,376
Interest-bearing bank and other borrowings	10	14,689	97,544
Due to a PRC joint venture partner	11	1,131	1,131
Loans from the immediate holding company	12	45,496	21,358
Provision	13	3,628	3,406
Tax payable		1,661	651
		<u>147,207</u>	<u>204,177</u>
Total current liabilities			204,177
NET CURRENT ASSETS		<u>354,015</u>	<u>339,976</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>407,262</u>	<u>387,188</u>
NON-CURRENT LIABILITIES			
Loans from the immediate holding company	12	21,488	31,708
Loan from a fellow subsidiary	14	54,600	54,600
Convertible notes	15	58,308	56,741
Deferred tax liabilities		992	957
		<u>135,388</u>	<u>144,006</u>
Total non-current liabilities			144,006
Net assets		<u>271,874</u>	<u>243,182</u>
EQUITY			
Issued capital	16	53,750	53,750
Reserves	17	218,124	189,432
		<u>271,874</u>	<u>243,182</u>
Total equity			243,182

Unaudited Interim Financial Statements (Cont'd)

Condensed Consolidated Statement of Changes in Equity

Six months ended 30 June 2008

	Equity component										
	Issued capital	Share premium account	Equity of convertible notes	General reserve fund	Reserve funds	Share option reserve	Capital redemption reserve	Exchange translation reserve	Property revaluation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007 (Audited)	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 (Unaudited)	<u>53,690</u>	<u>413,888*</u>	<u>-*</u>	<u>167,746*</u>	<u>3,867*</u>	<u>-*</u>	<u>445*</u>	<u>24,605*</u>	<u>1,540*</u>	<u>(446,463)*</u>	<u>219,318</u>
At 1 January 2008 (Audited)	53,750	413,968	5,545	167,746	6,887	-	445	38,135	1,562	(444,856)	243,182
Surplus on revaluation of buildings	-	-	-	-	-	-	-	-	96	-	96
Deferred tax credited to the property revaluation reserve	-	-	-	-	-	-	-	-	(24)	-	(24)
Exchange realignment	-	-	-	-	-	-	-	23,933	-	-	23,933
Profit for the period	-	-	-	-	-	-	-	-	-	4,687	4,687
At 30 June 2008 (Unaudited)	<u>53,750</u>	<u>413,968*</u>	<u>5,545*</u>	<u>167,746*</u>	<u>6,887*</u>	<u>-*</u>	<u>445*</u>	<u>62,068*</u>	<u>1,634*</u>	<u>(440,169)*</u>	<u>271,874</u>

* These reserve accounts comprise the consolidated reserves of HK\$218,124,000 (2007: HK\$165,628,000) in the condensed consolidated balance sheet as at 30 June 2008.

Unaudited Interim Financial Statements *(Cont'd)*

Condensed Consolidated Cash Flow Statement

Six months ended 30 June 2008

	Six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	39,442	(54,110)
CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	5,053	(7,534)
CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES	(25,110)	37,617
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	19,385	(24,027)
Cash and cash equivalents at beginning of period	60,995	41,536
Effect of foreign exchange rate changes, net	2,726	665
CASH AND CASH EQUIVALENTS AT END OF PERIOD	83,106	18,174
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	83,106	18,174

Unaudited Interim Financial Statements *(Cont'd)*

Notes to Condensed Consolidated Interim Financial Statements

30 June 2008

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 2007.

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:

HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new interpretations 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. Among the new and revised HKFRSs, only HKFRS 8 and HKAS 1 (Revised) are relevant to the Group’s financial statements upon them become effective:

HKFRS 2 Amendment	Share-based Payment - Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 & HKAS 1 Amendments	Puttable Financial Instruments ¹
HK(IFRIC)-Int 13	Customer Loyalty Programmes ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 July 2008

Unaudited Interim Financial Statements *(Cont'd)*

Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)*

30 June 2008

1.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

HKFRS 8 will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocation resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 (Revised) separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

The Group has not early adopted these new HKFRSs in the financial statements for the period ended 30 June 2008. The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

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 related to the processing and sale of leather activities in Mainland China.

Unaudited Interim Financial Statements (Cont'd)

Notes to Condensed Consolidated Interim Financial Statements (Cont'd) 30 June 2008

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	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Revenue		
Processing and sale of leather	<u>276,361</u>	<u>304,515</u>
Other income and gains		
Gross rental income	364	367
Interest income	546	489
Exchange gains	3,553	–
Others	<u>1,284</u>	<u>2,435</u>
	<u>5,747</u>	<u>3,291</u>

4. PROFIT BEFORE TAX

This is arrived at after charging/(crediting):

	Six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Cost of inventories sold	260,436	279,480
Depreciation	3,000	3,075
Interest on:		
Bank loans and discounted bills	2,468	1,453
Convertible notes	1,874	–
Loans from the immediate holding company	2,248	780
Loan from a fellow subsidiary	<u>1,301</u>	<u>1,744</u>
	<u>7,891</u>	<u>3,977</u>
(Write back of provision)/provision of inventories	<u>(3,584)</u>	<u>4,056</u>

Unaudited Interim Financial Statements (Cont'd)

Notes to Condensed Consolidated Interim Financial Statements (Cont'd)

30 June 2008

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 (2007: 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.

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%.

Xuzhou Tannery, a wholly-owned PRC subsidiary of the Company, was exempt from the PRC corporate income tax for the first two profit-making years, and is eligible for a 50%-relief from the PRC corporate income tax for the following three years under the PRC tax laws. For the period ended 30 June 2008, which is the fifth profitable year of Xuzhou Tannery, the applicable tax rate of Xuzhou Tannery, after the 50% reduction, was 12.5% (2007: 15%).

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Group:		
Current – Mainland China	2,776	3,468
Deferred	11	(131)
	<hr/>	<hr/>
Total tax charge for the period	2,787	3,337
	<hr/> <hr/>	<hr/> <hr/>

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the profit for the period, adjusted to reflect the interest on the convertible notes, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average number of 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.

Unaudited Interim Financial Statements (Cont'd)

Notes to Condensed Consolidated Interim Financial Statements (Cont'd) 30 June 2008

6. EARNINGS PER SHARE (Cont'd)

The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Earnings		
Profit for the period, used in the basic earnings per share calculation	4,687	6,949
Interest on convertible notes	1,874*	–
Profit for the period, before interest on convertible notes	<u>6,561</u>	<u>6,949</u>
Number of shares		
	30 June 2008 (Unaudited)	30 June 2007 (Unaudited)
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	537,504,000	534,917,536
Effect of dilution – weighted average number of ordinary shares:		
Share options	–	1,747,405
Convertible notes	32,368,421*	–
	<u>569,872,421</u>	<u>536,664,941</u>

* A diluted earnings per share for the period ended 30 June 2008 has not been disclosed as the convertible notes outstanding during the period had an anti-dilutive effect on the basic earnings per share.

7. DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2008 (2007: Nil).

Unaudited Interim Financial Statements *(Cont'd)*

Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)*

30 June 2008

8. RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 30 June 2008, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK\$148,616,000 (31 December 2007: HK\$107,130,000) 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 2 to 3 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.

As at 30 June 2008, the aged analysis of the Group's trade and bills receivables, based on the payment due date, is as follows:

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Current	140,534	103,144
Less than 3 months	3,732	2,200
3 to 6 months	3,758	1,504
Over 6 months	2,334	1,985
	150,358	108,833
Less: Impairment	(1,742)	(1,703)
	148,616	107,130

Unaudited Interim Financial Statements (Cont'd)

Notes to Condensed Consolidated Interim Financial Statements (Cont'd) 30 June 2008

9. TRADE AND BILLS PAYABLES

As at 30 June 2008, the aged analysis of the Group's trade and bills payables, based on the payment due date, is as follows:

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Within 3 months	17,938	27,313
3 to 6 months	27,377	24,718
6 to 12 months	3,950	1,253
Over 12 months	4,631	4,427
	53,896	57,711

10. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2008 (Unaudited)			31 December 2007 (Audited)		
	Effective interest rate (%)	Maturity	Amount HK\$'000	Effective interest rate (%)	Maturity	Amount HK\$'000
Current						
Trust receipt loans, secured	N/A	N/A	–	LIBOR+1.0	2008	49,127
Bank loan, secured	7.23 – 7.56	2008	14,689	5.83 – 7.45	2008	48,417
			14,689			97,544
Non-current						
Convertible notes, unsecured (note 15)	6.63	2010	58,308	6.63	2010	56,741
			72,997			154,285

As at 30 June 2008, the Group's bank loan is secured by certain of the Group's plant and machinery, inventories and the pledged bank deposits (note 20).

The carrying amounts of the Group's bank borrowings approximate to their fair values.

Unaudited Interim Financial Statements (Cont'd)

Notes to Condensed Consolidated Interim Financial Statements (Cont'd)

30 June 2008

11. DUETO 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. LOANS FROM THE IMMEDIATE HOLDING COMPANY

The following table illustrates the loans from GDH Limited ("GDH"), the Company's immediate holding company:

	Notes	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Current	(a)	22,748	21,358
	(b)	22,748	–
		45,496	21,358
Non-current	(b)	–	21,358
	(c)	10,350	10,350
	(d)	11,138	–
		21,488	31,708

Notes:

- (a) The loan represents an unsecured loan of RMB20,000,000 (31 December 2007: RMB20,000,000), which bears interest at an annual rate of one-year benchmark lending rate announced by the People's Bank of China (31 December 2007: 5.48%) and is repayable on demand (31 December 2007: repayable on demand).
- (b) The loan represents an unsecured loan of RMB20,000,000 (31 December 2007: RMB20,000,000), which bears interest at an annual rate of 7.83% (31 December 2007: 5.12%), and is repayable on demand (31 December 2007: not repayable within one year from 31 December 2007).
- (c) The loan is unsecured, bears interest at 3-month HIBOR + 1% (2007: 3-month HIBOR + 1%) per annum and is repayable on 31 December 2009 (31 December 2007: not repayable within one year from 31 December 2007).
- (d) The loan is unsecured, bears interest at 3-month HIBOR + 1.5% per annum and is repayable on 31 December 2013.

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

Unaudited Interim Financial Statements (Cont'd)

Notes to Condensed Consolidated Interim Financial Statements (Cont'd) 30 June 2008

13. PROVISION

	Early termination of a joint venture agreement <i>HK\$'000</i>
At 1 January 2008 (Audited)	3,406
Exchange realignment	<u>222</u>
At 30 June 2008 (Unaudited)	<u><u>3,628</u></u>

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 were made as at 31 December 2001 for (a) staff redundancy payments of HK\$2,000,000; and (b) 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 (a) the joint venture agreement of Qingdao Tannery was terminated with effect from 23 August 2001; (b) Qingdao Tannery should be liquidated in accordance with the joint venture agreement and with the relevant laws and regulations in the PRC; and (c) 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. LOAN FROM A FELLOW SUBSIDIARY

The loan represents an unsecured loan of US\$7,000,000 (31 December 2007: US\$7,000,000) (equivalent to approximately HK\$54,600,000 (31 December 2007: HK\$54,600,000)) advanced from Guangdong Assets Management Limited, a fellow subsidiary of the Company. The loan bears interest at 3-month LIBOR + 1% (31 December 2007: 3-month LIBOR + 1%) per annum and is repayable on 31 December 2009 (31 December 2007: not repayable within one year from 31 December 2007). The carrying value of the loan approximates to its fair value.

Unaudited Interim Financial Statements *(Cont'd)*

Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)*

30 June 2008

15. CONVERTIBLE NOTES

On 13 August 2007, the Company issued 61,500,000 1% convertible notes with a nominal value of HK\$61,500,000 to GDH, with maturity date on the third anniversary of the date of issue of the convertible notes (the "Maturity Date"). GDH has the right to convert the whole or part of the principal amount of the convertible notes into shares at any time and from time to time, from the 7th day after the date of the issue of the convertible notes up to the day which is 7 days prior to the Maturity Date, on the basis of one ordinary share for every 1.9 HK\$1 notes held. There was no movement in the number of these convertible notes during the period. Any convertible notes not converted will be redeemed on the Maturity Date at a price of HK\$1.0623 per HK\$1 note. The notes carry interest at a rate of 1% per annum, which is payable semi-annually in arrears on 13 February and 13 August.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar note without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible notes issued have been split as to the liability and equity components, as follows:

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Nominal value of convertible notes issued	61,500	61,500
Equity component	(5,599)	(5,599)
Direct transaction costs attributable to the liability component	(537)	(537)
	<hr/>	<hr/>
Liability component at the issuance date	55,364	55,364
Interest expense charged since date of issuance	3,251	1,377
Interest paid since date of issuance	(307)	–
	<hr/>	<hr/>
Liability component at end of the period/year <i>(note 10)</i>	58,308	56,741

Unaudited Interim Financial Statements (Cont'd)

Notes to Condensed Consolidated Interim Financial Statements (Cont'd)

30 June 2008

16. SHARE CAPITAL

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Authorised: 700,000,000 ordinary shares of HK\$0.10 each	<u>70,000</u>	<u>70,000</u>
Issued and fully paid: 537,504,000 ordinary shares of HK\$0.10 each	<u>53,750</u>	<u>53,750</u>

As at 30 June 2008 and the date of these financial statements, no share options were outstanding under the Company's share option scheme.

17. RESERVES

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

18. COMMITMENTS

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Contracted, but not provided for:		
Land and buildings	23,310	8,372
Leasehold improvements	–	762
Plant and machinery	725	1,207
	<u>24,035</u>	<u>10,341</u>
Authorised, but not contracted for:		
Land and buildings	88,878	66,191
Plant and machinery	99,874	80,355
	<u>188,752</u>	<u>146,546</u>
	<u>212,787</u>	<u>156,887</u>

Unaudited Interim Financial Statements *(Cont'd)*

Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)* 30 June 2008

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	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Office rental paid to the immediate holding company	–	39
Office rental paid to the fellow subsidiary	138	111
Computer system maintenance service fees paid to the immediate holding company	85	85
Interest expense to the immediate holding company attributable to:		
Loans	2,248	780
Convertible notes	1,874	–
	4,122	780
Interest expense to a fellow subsidiary	1,301	1,744

(b) Outstanding balances with related parties

- (i) Details of an amount due to a PRC joint venture partner, and loans from the immediate holding company and a fellow subsidiary as at the balance sheet date are included in notes 11, 12 and 14 to the unaudited condensed consolidated interim financial statements, respectively.
- (ii) Details of the Group's convertible notes to GDH as at the balance sheet date are included in note 15 to the financial statements.

Unaudited Interim Financial Statements (Cont'd)

Notes to Condensed Consolidated Interim Financial Statements (Cont'd) 30 June 2008

19. RELATED PARTY TRANSACTIONS (Cont'd)

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Short term employee benefits	591	469
Post-employment benefits	175	172
	<hr/>	<hr/>
Total compensation paid to key management personnel	766	641

20. PLEDGE OF ASSETS

As at 30 June 2008, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

	30 June	31 December
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Audited)
Buildings	–	7,520
Plant and machinery	6,874	2,560
Inventories	22,748	21,358
Bills receivable	–	41,193
Bank balances and deposit	9,650	19,213
	<hr/>	<hr/>
	39,272	91,844

21. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board on 9 September 2008.

Directors' Interests and Short Positions in Securities

As at 30 June 2008, 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 (the "Listing Rules"), were as follows:

(1) Interests and Short Positions in the Company

Interests in ordinary shares

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held
Fung Lak	Personal	600,000	Long position	0.11%
Choi Kam Fai, Thomas	Personal	60,000	Long position	0.01%

Note: The approximate percentage of interests held was calculated on the basis of 537,504,000 ordinary shares of the Company in issue as at 30 June 2008.

(2) Interests and Short Positions in Guangnan (Holdings) Limited ("Guangnan")

Interests in ordinary shares

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held
Xiong Guangyang	Personal	600,000	Long position	0.07%

Note: The approximate percentage of interests held was calculated on the basis of 905,603,285 ordinary shares of Guangnan in issue as at 30 June 2008.

Directors' Interests and Short Positions in Securities (Cont'd)

(3) Interests and Short Positions in Guangdong Investment Limited ("GDI")

Interests in ordinary shares

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held
Ho Lam Lai Ping, Theresa	Personal	800,000	Long position	0.01%

Note: The approximate percentage of interests held was calculated on the basis of 6,152,388,071 ordinary shares of GDI in issue as at 30 June 2008.

(4) Interests and Short Positions in Kingway Brewery Holdings Limited ("Kingway")

Interests in ordinary shares

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

Note: The approximate percentage of interests held was calculated on the basis of 1,707,306,546 ordinary shares of Kingway in issue as at 30 June 2008.

Save as disclosed above, as at 30 June 2008, to the knowledge of the Company, 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 2008, 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 notes issued by the Company)	Approximate percentage of the Company's issued ordinary share capital (including derivative interests)
廣東粵海控股有限公司 (Guangdong Holdings Limited) (Note)	Interests of controlled corporation	375,100,000	Long position	32,368,421	75.81%
GDH Limited	Beneficial owner	375,100,000	Long position	32,368,421	75.81%

Note: The attributable interest which 廣東粵海控股有限公司 (Guangdong Holdings Limited) has in the Company is held through its 100% direct interest in GDH Limited.

Save as disclosed above, as at 30 June 2008, so far as is known to the directors or the chief executive of the Company, 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, exercised, cancelled or lapsed under the share option scheme (the "Share Option Scheme") adopted by the Company on 31 May 2002. As at 30 June 2008, there were no outstanding options. There were no changes in any terms of the Share Option Scheme during the period. Details of the terms of the Share Option Scheme were disclosed in the annual report 2007 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 (the “CG Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2008.

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 2008.

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 *(Cont'd)*

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 2008. In addition, the Company's auditors, Messrs. 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 2008.

By order of the Board
Zhang Chunting
Chairman

Hong Kong
9 September 2008

Corporate Information

Board of Directors

Zhang Chunting (*Chairman*)
Ren Yingguo (*Managing Director*)
Zhang Yaping[#]
Xiong Guangyang[#]
Fung Lak^{*}
Choi Kam Fai, Thomas^{*}
Chan Cheong Tat^{*}
Ho Lam Lai Ping, Theresa[#]

* *Independent Non-Executive Director*

Non-Executive Director

Company Secretary

Lo Sze Sze

Auditors

Ernst & Young

Registered Office

29th Floor
Guangdong Investment Tower
148 Connaught Road Central
Hong Kong

Telephone: (852) 2308 1013
Facsimile: (852) 2789 0451

Share Registrar and Share Transfer Office

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

Listing Information

Stock Code: 1058

Website

<http://www.gdtann.com.hk>

