



粵海制革有限公司

GUANGDONG TANNERY LIMITED

(股份代號 Stock Code: 1058)

2006

中期報告Interim Report

CONTENTS

Business and Financial Review	2
Independent Auditors' Review Report	5
Condensed Consolidated Income Statement	6
Condensed Consolidated Balance Sheet	7
Condensed Consolidated Summary Statement of Changes in Equity	9
Condensed Consolidated Cash Flow Statement	10
Notes to Condensed Consolidated Interim Financial Statements	11
Directors' Interests and Short Positions in Securities	26
Substantial Shareholders' Interests	29
Share Option Scheme	30
Corporate Governance and Other Information	32
Corporate Information	34

BUSINESS AND FINANCIAL REVIEW

RESULTS

The unaudited profit attributable to shareholders for the six months ended 30 June 2006 of Guangdong Tannery Limited (the "Company") and its subsidiaries (the "Group") was HK\$924,000 compared with the loss of HK\$515,000 for the same period last year.

The unaudited net asset value of the Group as at 30 June 2006 was HK\$174,377,000, an increase of HK\$14,288,000 and HK\$1,943,000 as compared to the net asset value as at 30 June 2005 and 31 December 2005 respectively.

The board of directors (the "Board") of the Company resolved not to declare the payment of interim dividend for the six months ended 30 June 2006 (2005: Nil).

OPERATIONS REVIEW

With the successful realization of the Group's strategic shift of operation to the northern part of China in 2005, the turnover of the Group rapidly recovered and our production base in Xuzhou began to benefit from economies of scales. Since the outsourcing of upstream production processes, our productivity of downstream production processes was released, the productivity of Xuzhou Gangwei Leather Co. Ltd. ("Xuzhou Gangwei Tannery") can be utilized more efficiently, and thus the overall production of Xuzhou production base has increased significantly as compared with the same period last year. During the period under review, total leather production of the Group amounted to 9,504,000 sq.ft. which increased by 4,072,000 sq.ft. as compared to 5,432,000 sq.ft. for the same period last year. Production of cowhides increased by 94% to 9,504,000 sq.ft. (2005: 4,897,000 sq.ft.), whereas the production of cow split, coated cow split and other products decreased by 100% to zero sq.ft. (2005: 535,000 sq.ft.). The increase of production indicated that the Group's strategic shift of operations to the northern part of China has been successfully realized.

Product development will continuously be as one of our priority tasks. Apart from enhancing our production and marketing of nappa series which has been our main products, we further strived for product innovation and promotion. A range of innovative products such as wax-resemble nappa leather series had been successfully introduced into the market with a favourable market response. All these efforts hugely enriched the product mix and forged strong capability of the Group to adjust to ever-changing market demands.

Consolidated turnover for the period under review was HK\$160,015,000, which increased by 68.30% as compared to HK\$95,077,000 for the same period of 2005. Turnover of cowhides for the first half of this year increased by 66.59% to HK\$142,817,000 (2005: HK\$85,730,000). Meanwhile, turnover of cow split, coated cow split and other products increased by 83.99% to HK\$17,198,000 (2005: HK\$9,347,000). Due to the increase in sales of the first half of 2006, the consolidated inventories of the Group increased correspondingly. As at 30 June 2006, consolidated inventories amounted to HK\$167,574,000, which increased by HK\$35,909,000 and HK\$45,106,000 as compared with 30 June 2005 and 31 December 2005 respectively.

BUSINESS AND FINANCIAL REVIEW

Balance of trade receivables as at 30 June 2006 was HK\$34,972,000. After deducting the provisions for doubtful debts of HK\$3,005,000, trade receivables amounted to HK\$31,967,000, a decrease of HK\$3,177,000 as compared to 30 June 2005 and an increase of HK\$10,102,000 as compared to 31 December 2005 respectively. Trade receivables turnover was 11.9 times and average collection period was 31 days, a decrease of 28 days as compared to 59 days for the same period in 2005.

FINANCIAL REVIEW

As at 30 June 2006, the Group's interest-bearing borrowings amounted to HK\$84,378,000 (as at 31 December 2005: HK\$84,176,000). Of the total interest-bearing borrowings, HK\$10,350,000 was denominated in Hong Kong dollars, HK\$19,428,000 in Renminbi and HK\$54,600,000 in US dollars. All of these interest-bearing borrowings are charged at fixed rates.

As at 30 June 2006, the Group's cash and bank balances amounted to HK\$58,063,000 (as at 31 December 2005: HK\$69,832,000), which are denominated in Hong Kong dollars (HK\$2,280,000), Renminbi (equivalent to HK\$54,884,000) and US dollars (equivalent to HK\$899,000) respectively.

As at 30 June 2006, after deduction of cash and bank deposits, the Group's ratio of net interest-bearing borrowings to shareholders' equity was 15.09% (as at 31 December 2005: 8.32%). Loan facilities bear interest at approximately 3% to 6% per annum. All of the Group's total borrowings are repayable beyond one year. Interest expense incurred by the Group during the period was HK\$1,933,000, representing an increase of 8.1% as compared with the same period last year.

During the period, net cash outflow from operating activities was HK\$20,366,000 and net cash inflow from financing was HK\$3,117,000. Net decrease in cash and cash equivalents amounted to HK\$16,990,000.

As at 30 June 2006, net non-current assets including properties, plant and equipment, investment properties and prepaid land lease payments were HK\$74,031,000, a reduction of HK\$12,294,000 as compared with the figure as at 31 December 2005. During the period, the Group's capital expenditure amounted to HK\$983,000 (2005: HK\$578,000). 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 2006, certain of the Group's buildings, bank deposits and machinery and equipment with a total net book value of HK\$21,225,000 (31 December 2005: HK\$40,220,000) were pledged to secure general banking facilities granted to the Group.

FREEZING OF TONGYUAN TANNERY'S BANK ACCOUNTS

Details of the freezing of bank accounts of Foshan City Nanhai Tong Yuan Tanning Co., Ltd ("Tongyuan Tannery") by the Guangzhou Customs in the People's Republic of China were set out in note 20 to the unaudited condensed consolidated interim financial statements.

BUSINESS AND FINANCIAL REVIEW

EMPLOYEES

As at 30 June 2006, a total of 731 employees (31 December 2005: 622 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. 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 Group will face a difficult operating environment in coming years; such as the increasing of costs of raw materials, fuels consumption and salaries combined with keen competition. To strive against such harsh environment, the Group will continue its efforts to face the challenges ahead by consolidating the foundation of Group's production, supply, sales, marketing as well as operation efficiency. In addition, it is the Group's intention to operate the merchandise trading business as well as actively explore effective ways to deal with the idle assets of Tongyuan Tannery.

INDEPENDENT AUDITORS' REVIEW REPORT



To the Board of Directors
Guangdong Tannery Limited
(Incorporated in Hong Kong with limited liability)

We have been instructed by the Company to review the interim financial report set out on pages 6 to 25.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion 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.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

FUNDAMENTAL UNCERTAINTY – CONTINGENT LIABILITIES

In arriving at our review conclusion, we have considered the adequacy of the disclosures made in note 20 to the condensed consolidated interim financial statements concerning the irregularities involving certain former executives of a former subsidiary of the Company in a previous year and the related provisions of RMB73,978,000 (equivalent to approximately HK\$71,768,000) for the tax claim and tax penalty made by the Group as detailed in note 16(a) to the condensed consolidated interim financial statements. As the actions taken by the authorities of the People's Republic of China (the "PRC") 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 arising as a result of the aforesaid irregularities. As of the date of this report, no further provision other than that disclosed in notes 16(a) and 20 to the condensed consolidated interim financial statements has been made in the interim financial report for such contingencies. We consider that appropriate disclosures 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 2006.

Ernst & Young
Certified Public Accountants

Hong Kong
8 September 2006

CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2006

	Notes	Six months ended 30 June	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
REVENUE			
Processing and sale of leather	3	160,015	95,077
Cost of sales		(144,142)	(82,922)
Gross profit		15,873	12,155
Other income and gains	4	2,670	2,208
Selling and distribution costs		(520)	(776)
Administrative expenses		(10,892)	(12,143)
Other operating expenses, net		(2,060)	(116)
Finance costs	5	(1,933)	(1,788)
PROFIT/(LOSS) BEFORE TAX	6	3,138	(460)
Tax	7	(2,214)	(55)
PROFIT/(LOSS) FOR THE PERIOD		924	(515)
EARNINGS/(LOSS) PER SHARE			
– Basic	8	HK0.18 cent	HK(0.10) cent
– Diluted		HK0.18 cent	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2006

	<i>Notes</i>	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		68,122	80,313
Investment properties		2,185	2,280
Prepaid land lease payments		3,724	3,732
Interest in an associate		1,219	4,336
		75,250	90,661
CURRENT ASSETS			
Inventories		167,574	122,468
Receivables, prepayments and deposits	10	81,274	91,257
Tax recoverable		7,282	7,206
Loan to an officer		–	873
Pledged and frozen bank balances	11	18,694	13,918
Cash and cash equivalents	11	39,369	55,914
		314,193	291,636
CURRENT LIABILITIES			
Trade and bills payables	12	(31,152)	(26,123)
Other payables and accruals		(18,646)	(19,601)
Tax payable		(1,040)	–
Due to a PRC joint venture partner	13	(1,131)	(1,131)
Loans from the immediate holding company	14	–	(29,576)
Loan from a fellow subsidiary	15	–	(54,600)
Provisions	16	(74,862)	(74,115)
		(126,831)	(205,146)
NET CURRENT ASSETS			
		187,362	86,490
TOTAL ASSETS LESS CURRENT LIABILITIES			
		262,612	177,151
NON-CURRENT LIABILITIES			
Deferred tax liabilities		(3,857)	(4,717)
Loans from the immediate holding company	14	(29,778)	–
Loan from a fellow subsidiary	15	(54,600)	–
		(88,235)	(4,717)
Total non-current liabilities			
		(88,235)	(4,717)
Net assets			
		174,377	172,434

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

30 June 2006

	<i>Notes</i>	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
EQUITY			
Issued capital		52,415	52,415
Reserves	18	121,962	120,019
Total equity		174,377	172,434

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2006

		Six months ended 30 June	
	<i>Notes</i>	2006	2005
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Total equity at 1 January		172,434	159,147
Changes in equity during the period:			
Surplus/(deficit) on revaluation of buildings	18	(2,979)	2,021
Deferred tax credited/(charged) to the property revaluation reserve	18	810	(530)
Exchange differences on translation of the financial statements of subsidiaries in the Mainland China	18	3,078	(34)
Total income and expense for the period recognised directly in equity		909	1,457
Profit/(loss) for the period		924	(515)
Total income and expense for the period		1,833	942
Employee share option scheme	18	110	–
Total equity at 30 June		174,377	160,089

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Six months ended 30 June 2006

	<i>Note</i>	Six months ended 30 June	
		2006 <i>HK\$'000</i> (Unaudited)	2005 <i>HK\$'000</i> (Unaudited)
CASH OUTFLOW FROM OPERATING ACTIVITIES		(20,366)	(24,066)
CASH INFLOW FROM INVESTING ACTIVITIES		259	2,391
CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES		3,117	(16,934)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(16,990)	(38,609)
Cash and cash equivalents at beginning of period		55,914	83,246
Effect of foreign exchange rate changes, net		445	(42)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		39,369	44,595
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	11	39,369	44,595

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

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 2005.

2.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards ("HKFRSs") (which also included HKASs and Interpretations), which are generally effective for accounting periods beginning on or after 1 January 2006. The Group has adopted the following HKFRS issued up to 30 June 2006 which is pertinent to its operations and relevant to these unaudited condensed consolidated interim financial statements.

HK(IRFIC)-Int 4	Determining whether an Arrangement contains a Lease
-----------------	---

The Group considered that the adoption of the above accounting standard has had no material impact on the Group's unaudited condensed consolidated interim financial statements.

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

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

HKAS 1 Amendment	Capital Disclosure
HKFRS 7	Financial Instruments: Disclosures

HKAS 1 Amendment will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital, quantitative data about what the Group regards as capital; and compliance with any capital requirements and consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments.

These HKFRSs are effective for annual periods beginning on or after 1 January 2007. The Group expects that the adoption of the other pronouncements will not have any significant impact on the Group's financial statements in the period of initial application.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

3. 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 the other business segments.

The following table presents revenue and results for the Group's primary segments.

	Leather processing		Property investment		Corporate and other		Consolidated	
	Six months		Six months		Six months		Six months	
	ended 30 June		ended 30 June		ended 30 June		ended 30 June	
	2006	2005	2006	2005	2006	2005	2006	2005
	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	160,015	95,077	-	-	-	-	160,015	95,077
Other income and gains	2,109	1,359	168	345	-	-	2,277	1,704
Total	162,124	96,436	168	345	-	-	162,292	96,781
Segment results	8,762	7,198	121	74	(4,205)	(6,448)	4,678	824
Unallocated interest income							393	504
Finance costs							(1,933)	(1,788)
Profit/(loss) before tax							3,138	(460)
Tax							(2,214)	(55)
Profit/(loss) for the period							924	(515)

4. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Gross rental income	448	529
Interest income	393	504
Others	1,829	1,175
Total	2,670	2,208

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

5. FINANCE COSTS

	Six months ended 30 June	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest on:		
Bank loans and discounted bills	292	104
Loans from the immediate holding company	598	641
Loan from a fellow subsidiary	1,043	1,043
	1,933	1,788

6. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax is arrived at after charging:

	Six months ended 30 June	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Depreciation	4,197	3,672
Recognition of prepaid land lease payments	47	47
Impairment of items of property, plant and equipment	2,123	–

7. 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 (2005: 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.

	Six months ended 30 June	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Group:		
Current – PRC corporate income tax	2,264	–
Deferred	(50)	55
	2,214	55
Total tax charge for the period	2,214	55

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

7. TAX (Continued)

Certain subsidiaries of the Company established in the People's Republic of China (the "PRC") were exempt from PRC corporate income tax for two years commencing from their first profit-making year of operations, and are eligible for a 50%-relief from PRC corporate income tax for the following three years under the PRC tax laws. The standard PRC corporate income tax rate applicable to those PRC subsidiaries ranged from 24% to 33% for the six months ended 30 June 2005 and 2006.

A subsidiary of the Company established in the PRC was exempt from PRC corporate income tax for two years starting from its first profit-making year of operations, i.e. years ended 31 December 2004 and 2005, and is entitled to a 50%-relief from the PRC corporate income tax for the following three years ended 31 December 2006, 2007 and 2008. Accordingly, a provision for the PRC corporate income tax has been made on the estimated assessable profit of the subsidiary at the above preferential PRC corporate income tax rate for the six months ended 30 June 2006.

In the six months ended 30 June 2005, no provision for Mainland China and overseas profits tax has been made as there were either no assessable profits arising from certain subsidiaries of the Company operating in Mainland China and overseas during that period or certain subsidiaries of the Company operating in Mainland China and overseas with available tax losses brought forward from prior years to offset the assessable profit during that period.

8. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share for the period is based on the profit for the period of HK\$924,000 (2005: loss of HK\$515,000), and the weighted average number of 524,154,000 (2005: 524,154,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the period is based on the profit for the period of HK\$924,000. The weighted average number of ordinary shares used in the calculation is 524,154,000 ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average number of 45,281 ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares during the period.

A diluted loss per share amount for the six months ended 30 June 2005 has not been disclosed as the share options outstanding during that period had an anti-dilutive effect on the basic loss per share for that period.

9. DIVIDEND

At a meeting of the board of directors held on 8 September 2006, the directors resolved not to declare an interim dividend to shareholders (2005: Nil).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

10. RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 30 June 2006, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK\$68,622,000 (31 December 2005: HK\$86,414,000) due from the Group's customers.

The Group's trading terms with customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well-established customers, where the terms are extended for two to three months. Each customer has a maximum credit limit. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

As at 30 June 2006, the aged analysis of the Group's trade and bills receivables, based on the payment due date, is as follows:

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Current to 1 month	63,462	82,376
1 to 3 months	2,053	2,486
3 to 6 months	1,246	170
Over 6 months	4,866	4,373
	71,627	89,405
Provisions for doubtful debts	(3,005)	(2,991)
	68,622	86,414

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

At 31 December 2005, bills receivables of approximately HK\$22,485,000 were pledged to secure the general banking facilities granted to the Group (note 22).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

11. CASH AND CASH EQUIVALENTS AND PLEDGED AND FROZEN BANK BALANCES

	30 June 2006	31 December 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Cash and bank balances	58,063	69,832
Less: Pledged bank balances*	(9,516)	(4,900)
Frozen bank balances **	(9,178)	(9,018)
	(18,694)	(13,918)
Cash and cash equivalents	39,369	55,914

* These bank balances were pledged to banks for banking facilities granted (note 22).

** These bank balances were frozen by the PRC authorities, details of which are set out in note 20 to the unaudited condensed consolidated interim financial statements.

12. TRADE AND BILLS PAYABLES

As at 30 June 2006, the aged analysis of the Group's trade and bills payables, based on the payment due date, is as follows:

	30 June 2006	31 December 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within 3 months	23,671	21,130
3 to 6 months	3,038	1,229
6 to 12 months	511	292
over 12 months	3,932	3,472
	31,152	26,123

13. DUE TO A PRC JOINT VENTURE PARTNER

The amount due to a PRC joint venture partner is unsecured, interest-free and has no fixed terms of repayment. The carrying value of this amount approximates to its fair value.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

14. LOANS FROM THE IMMEDIATE HOLDING COMPANY

The loans represented unsecured loans of RMB20,000,000 (31 December 2005: RMB20,000,000) (equivalent to approximately HK\$19,428,000 (31 December 2005: HK\$19,226,000)) and HK\$10,350,000 (31 December 2005: HK\$10,350,000) advanced from GDH Limited ("GDH"), the Company's immediate holding company. The loans bore interest at a rate of 4.15% (31 December 2005: 4.15%) and 3.8% (31 December 2005: 3.8%) per annum, respectively, and are repayable on 31 December 2007 (31 December 2005: repayable on 31 December 2006).

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

15. LOAN FROM A FELLOW SUBSIDIARY

The loan represented an unsecured loan of US\$7,000,000 (31 December 2005: US\$7,000,000) (equivalent to approximately HK\$54,600,000 (31 December 2005: HK\$54,600,000)) advanced from Guangdong Assets Management Limited ("Guangdong Assets Management"), a fellow subsidiary of the Company. The loan bore interest at a rate of 3.8% (31 December 2005: 3.8%) per annum and is repayable on 31 December 2007 (31 December 2005: repayable on 31 December 2006).

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

16. PROVISIONS

	Tax claim and tax penalty by the PRC authorities <i>HK\$'000</i> (Note a)	Early termination of a joint venture agreement <i>HK\$'000</i> (Note b)	Total <i>HK\$'000</i>
At 31 December 2005 and 1 January 2006 (Audited)	71,052	3,063	74,115
Exchange realignment	716	31	747
At 30 June 2006 (Unaudited)	<u>71,768</u>	<u>3,094</u>	<u>74,862</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

16. PROVISIONS (Continued)

(a) Provisions for tax claim and tax penalty by the PRC authorities

With respect to the tax claim of RMB36,989,000 (equivalent to approximately HK\$35,884,000 as at 30 June 2006 (31 December 2005: HK\$35,526,000)) made by the Anti-Smuggling Bureau of Guangzhou Customs (廣州海關緝私局) (the "Guangzhou Customs") to Foshan City Nanhai Tong Yuan Tanning Co., Ltd. ("Tongyuan Tannery"), a wholly-owned subsidiary of the Company established in Mainland China, provisions of RMB73,978,000 (equivalent to approximately HK\$71,768,000 (31 December 2005: HK\$71,052,000)), in aggregate were made as at 30 June 2006 for (i) the tax claim of RMB36,989,000 (equivalent to approximately HK\$35,884,000 (31 December 2005: HK\$35,526,000)) made by the Guangzhou Customs; and (ii) the tax penalty of RMB36,989,000 (equivalent to approximately HK\$35,884,000 (31 December 2005: HK\$35,526,000)), that may be imposed by the relevant PRC authorities, which were provided for by the directors with reference to a PRC legal opinion obtained by them. Details of the tax claim and tax penalty by the Guangzhou Customs are set out in note 20 to the unaudited condensed consolidated interim financial statements.

(b) Provisions for early termination of a joint venture agreement

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

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

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

17. SHARE OPTION SCHEME

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

Name or category of participant	Number of share options			At 30 June 2006	Date of grant of share options* (dd/mm/yyyy)	Exercise period of share options (dd/mm/yyyy)	Exercise price of share options** HK\$	Price of the Company's shares at grant date of options*** HK\$
	At 1 January 2006	Granted during the six months ended 30 June 2006	Lapsed during the six months ended 30 June 2006					
Directors								
Zhang Chunting	2,500,000	-	-	2,500,000	09/06/2003	10/09/2003 – 09/09/2008	0.220	0.204
	2,000,000	-	-	2,000,000	11/02/2004	12/05/2004 – 11/05/2009	0.246	0.240
	<u>4,500,000</u>	<u>-</u>	<u>-</u>	<u>4,500,000</u>				
Deng Rongjun	1,500,000	-	-	1,500,000	11/02/2004	12/05/2004 – 11/05/2009	0.246	0.240
Xiong Guangyang	3,000,000	-	-	3,000,000	09/06/2003	10/09/2003 – 09/09/2008	0.220	0.204
	2,200,000	-	-	2,200,000	11/02/2004	12/05/2004 – 11/05/2009	0.246	0.240
	<u>5,200,000</u>	<u>-</u>	<u>-</u>	<u>5,200,000</u>				
Fung Lak	300,000	-	-	300,000	09/06/2003	10/09/2003 – 09/09/2008	0.220	0.204
	300,000	-	-	300,000	11/02/2004	12/05/2004 – 11/05/2009	0.246	0.240
	<u>600,000</u>	<u>-</u>	<u>-</u>	<u>600,000</u>				
Sub-total	<u>11,800,000</u>	<u>-</u>	<u>-</u>	<u>11,800,000</u>				
Former directors								
In aggregate	300,000	-	(300,000)	-	09/06/2003	10/09/2003 – 09/09/2008	0.220	0.204
	2,100,000	-	(2,100,000)	-	11/02/2004	12/05/2004 – 11/05/2009	0.246	0.240
	<u>2,400,000</u>	<u>-</u>	<u>(2,400,000)</u>	<u>-</u>				
Sub-total	<u>2,400,000</u>	<u>-</u>	<u>(2,400,000)</u>	<u>-</u>				
Other employees								
In aggregate	550,000	-	(300,000)	250,000	09/06/2003	10/09/2003 – 09/09/2008	0.220	0.204
	600,000	-	(300,000)	300,000	11/02/2004	12/05/2004 – 11/05/2009	0.246	0.240
	-	1,000,000	-	1,000,000	03/04/2006	04/07/2006 – 03/07/2011	0.196	0.191
	<u>1,150,000</u>	<u>1,000,000</u>	<u>(600,000)</u>	<u>1,550,000</u>				
Sub-total	<u>1,150,000</u>	<u>1,000,000</u>	<u>(600,000)</u>	<u>1,550,000</u>				
Total	<u>15,350,000</u>	<u>1,000,000</u>	<u>(3,000,000)</u>	<u>13,350,000</u>				

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

17. SHARE OPTION SCHEME (Continued)

- * The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- *** The price of the Company's shares disclosed as at the date of the grant of the share options is The Stock Exchange of Hong Kong Limited's closing price on the trading day immediately prior to the date of the grant of the options.

The expense recognised in the unaudited condensed consolidated income statement for employee services received during the period is HK\$110,000 (six months ended 30 June 2005: Nil).

18. RESERVES

	Share premium account HK\$'000 (Unaudited)	General reserve fund HK\$'000 (Unaudited)	Reserve funds HK\$'000 (Unaudited)	Share option reserve HK\$'000 (Unaudited)	Capital redemption reserve HK\$'000 (Unaudited)	Exchange translation reserve HK\$'000 (Unaudited)	Property revaluation reserve HK\$'000 (Unaudited)	Accumulated losses HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1 January 2005	412,116	167,746	-	-	445	37	3,519	(477,131)	106,732
Surplus on revaluation of buildings	-	-	-	-	-	-	2,021	-	2,021
Deferred tax charged to the property revaluation reserve	-	-	-	-	-	-	(530)	-	(530)
Exchange realignment	-	-	-	-	-	(34)	-	-	(34)
Net loss for the period	-	-	-	-	-	-	-	(515)	(515)
At 30 June 2005 and 1 July 2005	412,116	167,746	-	-	445	3	5,010	(477,646)	107,674
Deficit on revaluation of buildings	-	-	-	-	-	-	(145)	-	(145)
Deferred tax credited to the property revaluation reserve	-	-	-	-	-	-	45	-	45
Exchange realignment	-	-	-	-	-	6,527	-	-	6,527
Transfer from retained profits of a subsidiary established in the PRC	-	-	1,378	-	-	-	-	(1,378)	-
Net profit for the period	-	-	-	-	-	-	-	5,918	5,918
At 31 December 2005	412,116	167,746	1,378	-	445	6,530	4,910	(473,106)	120,019
At 1 January 2006	412,116	167,746	1,378	-	445	6,530	4,910	(473,106)	120,019
Deficit on revaluation of buildings	-	-	-	-	-	-	(2,979)	-	(2,979)
Deferred tax credited to the property revaluation reserve	-	-	-	-	-	-	810	-	810
Exchange realignment	-	-	-	-	-	3,078	-	-	3,078
Equity-settled share option arrangement (note 17)	-	-	-	110	-	-	-	-	110
Net profit for the period	-	-	-	-	-	-	-	924	924
At 30 June 2006	412,116	167,746	1,378	110	445	9,608	2,741	(472,182)	121,962

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

19. COMMITMENTS

As at 30 June 2006, the Group has contracted but not provided for capital commitments in respect of purchases of plant and machinery of approximately HK\$2,582,000 (31 December 2005: Nil).

20. 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 until 31 December 2003 a wholly-owned subsidiary of the Company established in Nanhai, 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 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 were of the opinion that the Parallel Operation should not be (and it had not been) incorporated in the financial statements of the Group and that the Parallel Operation appeared 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, Tongyuan Tannery was established to operate the Group's tannery operations and businesses in the Guangdong province in January 2003. Tongyuan Tannery is a wholly-owned subsidiary of the Company which owns and operates a factory and distribution operations in Nanhai, the PRC. Tongyuan Tannery had purchased from Nanhai Tannery most of its items of property, plant and equipment and inventories in 2003.

On 31 December 2003, the Company entered into a conditional sale and purchase agreement with Yong Sheng Limited, a former subsidiary of GDH and a former 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 Yong Sheng Limited and ceased to be a subsidiary of the Company.

In 2004, certain bank accounts of Tongyuan Tannery in the PRC containing in total of approximately RMB9 million (equivalent to approximately HK\$8.7 million) were frozen by the Guangzhou Customs as at 31 December 2004. Taking into account the bank interest earned from the frozen bank balances and exchange realignment of HK\$0.5 million in aggregate up to 30 June 2006 (31 December 2005: HK\$0.3 million), the aggregate frozen bank balances amounted to approximately HK\$9.2 million as at 30 June 2006 (31 December 2005: HK\$9 million) (note 11).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

20. CONTINGENT LIABILITIES (Continued)

The directors and management of the Company are satisfied that all the business and operations of Tongyuan Tannery have been conducted strictly in accordance with all the applicable PRC laws and regulations since its establishment, and that there has been no wrongdoing on the part of Tongyuan Tannery or any of its management or staff.

On 22 March 2004, the Guangzhou Customs issued a demand letter to Tongyuan Tannery and Nanhai Tannery (i) claiming tax of RMB36,989,000 (the "Potential Tax Claim") 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 Tannery and Nanhai Tannery failed to notify the Guangzhou Customs of the change from Nanhai Tannery to Tongyuan Tannery.

Although the Group had disposed of its entire interest in Nanhai Tannery to Yong Sheng Limited and the tax evasion was related to the Parallel Operation of Nanhai Tannery, the PRC legal advice obtained by the Company in April 2004 indicated that if, which is denied by the Company, Tongyuan Tannery and Nanhai Tannery are considered to be one and the same entity due to the transfer of most of Nanhai Tannery's items of property, plant and equipment and inventories to Tongyuan Tannery, then it may be possible for the Guangzhou Customs to impose the Potential Tax Claim on Tongyuan Tannery. Accordingly, the Group carried a provision of RMB36,989,000 (equivalent to approximately HK\$35,884,000 as at 30 June 2006 (31 December 2005: HK\$35,526,000)) (note 16(a)) for the Potential Tax Claim which was made during the year ended 31 December 2003.

In addition, the PRC legal advice indicated that, under the existing PRC laws and regulations, the relevant PRC authorities may also impose a tax penalty on Tongyuan Tannery of an amount equal to 1 to 5 times the Potential Tax Claim, i.e. RMB36,989,000 to RMB184,945,000 (equivalent to approximately HK\$35,884,000 to HK\$179,420,000 as at 30 June 2006 (31 December 2005: HK\$35,526,000 to HK\$177,630,000)) (the "Potential Penalty"). In light of the PRC legal advice, the directors of the Company considered it appropriate to carry a provision of RMB36,989,000 (equivalent to approximately HK\$35,884,000 as at 30 June 2006 (31 December 2005: HK\$35,526,000)) (note 16(a)) for the Potential Penalty which was made during the year ended 31 December 2003.

In April 2005, a prosecution was initiated in the Guangzhou Intermediate People's Court (the "Guangzhou Court") against, amongst others, Nanhai Tannery, in relation to alleged tax evasion activities on the part of Nanhai Tannery and others between January 2000 and May 2002 (the "Guangzhou Proceedings"). Although Tongyuan Tannery was not made a party to the Guangzhou Proceedings, allegations were made in these proceedings that Tongyuan Tannery was set up as a vehicle to take over the assets of Nanhai Tannery, and to place obstacles on the Guangzhou Customs' attempt to recover the evaded tax. Tongyuan Tannery filed its objections to these allegations with the Guangzhou Court in June 2005 to explain that (i) Tongyuan Tannery and Nanhai Tannery were separate legal entities; (ii) the acquisition of Nanhai Tannery's assets (including factory premises, machinery and raw materials) by Tongyuan Tannery were legitimate and genuine transactions at fair market prices; and (iii) the balances in the bank accounts of Tongyuan Tannery which were frozen by Guangzhou Customs were the proceeds of the normal operations of Tongyuan Tannery, and were not related to the operations of Nanhai Tannery.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

20. CONTINGENT LIABILITIES (Continued)

Judgement in the Guangzhou Proceedings (the "Judgement") was rendered on 2 September 2005. Nanhai Tannery, amongst others, was found liable for tax evasion and it was ordered that all illegal gains from the tax evasion activities be recovered and confiscated by the State (such order is to be executed by the Guangzhou Customs). Further, a fine of RMB8,000,000 was imposed on Nanhai Tannery.

On 30 August 2006, the Company obtained a PRC legal advice on the potential effects of the Judgement on Tongyuan Tannery. As there is no appeal lodged within the required appeal period, i.e. 10 days after the Judgement, the Judgement took effect and the PRC legal advice indicated that:

- (i) The Judgement made no finding to the effect that Tongyuan Tannery is in fact the same entity as Nanhai Tannery. Therefore, Tongyuan Tannery has not been held liable for any of the penalties which is imposed on Nanhai Tannery;
- (ii) The Judgement made no finding to the effect that the balances in the bank accounts of Tongyuan Tannery which were frozen by the Guangzhou Customs are the proceeds of Nanhai Tannery's illegal activities. This gives Tongyuan Tannery grounds to apply to the Guangzhou Customs for release of such frozen bank accounts;
- (iii) The Judgement made no finding to the effect that the acquisition of Nanhai Tannery's assets by Tongyuan Tannery was an attempt to dispose of Nanhai Tannery's assets in order to place obstacles on the Guangzhou Customs' attempt to recover the evaded tax. It is arguable that the Guangzhou Customs should not therefore seek to recover Nanhai Tannery's illegal gains from its illegal activities from Tongyuan Tannery; and
- (iv) The possibility that, notwithstanding the apparent absence in the Judgement of any findings directly incriminating Tongyuan Tannery, the Guangzhou Customs may nevertheless still seek to apply the balances in Tongyuan Tannery's bank accounts towards (or otherwise resort to the other assets of Tongyuan Tannery for) discharging Nanhai Tannery's liabilities, cannot be excluded.

In light of the PRC legal advice as detailed above, it remains unclear whether the Guangzhou Customs will seek to enforce the Judgement against Tongyuan Tannery, and if so, what the amount of penalty which may finally be imposed against it is going to be, and the other possible 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 so arising as a result of the aforesaid irregularities. Accordingly, the directors are of the opinion that the provisions for the Potential Tax Claim and Potential Penalty made during the year ended 31 December 2003 should continue to be carried in the Group's unaudited condensed consolidated interim balance sheet as at 30 June 2006. Should additional penalties in excess of the amount of the provision be imposed against Tongyuan Tannery, the directors are of the opinion that the Group would have adequate net assets and resources to continue its operations.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

21. 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	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Office rental paid to the immediate holding company	46	56
Computer system maintenance service fees paid to the immediate holding company	72	63
Interest expense to the immediate holding company	598	641
Interest expense to a fellow subsidiary	1,043	1,043

(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 13, 14 and 15 to the unaudited condensed consolidated interim financial statements, respectively.
- (ii) As at 30 June 2006, the Group's gross amount due from its associate amounted to HK\$2,348,000 (31 December 2005: HK\$5,465,000). As at 31 December 2005, the Group's loan to an officer amounted to HK\$873,000.

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short term employee benefits	846	1,726
Post-employment benefits	192	213
Total compensation paid to key management personnel	1,038	1,939

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

22. PLEDGE OF ASSETS

As at 30 June 2006, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

	<i>Notes</i>	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Buildings		7,240	7,590
Plant and machinery		4,469	5,245
Bills receivables	10	–	22,485
Bank balances	11	9,516	4,900
		21,225	40,220

23. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 8 September 2006.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30 June 2006, 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 are 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 a director is taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange ("Listing Rules"), were as follows:

(1) INTERESTS AND SHORT POSITIONS IN THE COMPANY

Interests in options relating to ordinary shares

Name of director	Number of options held as at 1 January 2006	Options granted during the six months ended 30 June 2006		Exercise period of share options (dd/mm/yyyy) (Note)	Total consideration paid for share options (HK\$)	Price per ordinary share payable on exercise of options (HK\$)	Number of options exercised during the six months ended 30 June 2006	Number of options held as at 30 June 2006	Long/Short position
		Date (dd/mm/yyyy)	Number						
Zhang Chunting	2,500,000	—	—	10/09/2003-09/09/2008	1.00	0.220	—	2,500,000	Long position
	2,000,000	—	—	12/05/2004-11/05/2009	1.00	0.246	—	2,000,000	Long position
Deng Rongjun	1,500,000	—	—	12/05/2004-11/05/2009	1.00	0.246	—	1,500,000	Long position
Xiong Guangyang	3,000,000	—	—	10/09/2003-09/09/2008	1.00	0.220	—	3,000,000	Long position
	2,200,000	—	—	12/05/2004-11/05/2009	1.00	0.246	—	2,200,000	Long position
Fung Lak	300,000	—	—	10/09/2003-09/09/2008	1.00	0.220	—	300,000	Long position
	300,000	—	—	12/05/2004-11/05/2009	1.00	0.246	—	300,000	Long position

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

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

(a) Interests in ordinary shares of GDI

Name of director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of holding
Ho Lam Lai Ping Theresa	Personal	1,500,000	Long position	0.025%

Note: The number of ordinary shares of GDI in issue as at 30 June 2006 was 6,022,248,071.

(b) Interest in options relating to ordinary shares of GDI

Name of director	Number of options held as at 1 January 2006	Options granted during the six months ended 30 June 2006		Exercise period of share options (dd/mm/yyyy) (Note)	Total consideration paid for share options (HK\$)	Price per ordinary share payable on exercise of options (HK\$)	Number of options exercised during the six months ended 30 June 2006	Number of options held as at 30 June 2006	Long/Short Position
		Date (dd/mm/yyyy)	Number						
Ho Lam Lai Ping Theresa	900,000	—	—	05/03/2003- 04/03/2008	1.00	0.96	900,000	—	Long position
	1,500,000	—	—	08/08/2003- 07/08/2008	1.00	1.22	—	1,500,000	Long position
	1,500,000	—	—	07/05/2004- 06/05/2009	1.00	1.59	—	1,500,000	Long position
	1,000,000	—	—	25/08/2004- 24/08/2009	1.00	1.25	—	1,000,000	Long position

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

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

Interests in ordinary shares of Kingway

Name of director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of holding
Ho Lam Lai Ping Theresa	Personal	80,000	Long position	0.0057%

Note: The number of ordinary shares of Kingway in issue as at 30 June 2006 was 1,395,568,000.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

Save as disclosed above, as at 30 June 2006, none of the directors or chief executive of the Company had registered any interests or short positions in the shares, underlying shares or debentures of the Company or any 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 a director is 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, its holding companies or any of its subsidiaries or associated corporation 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 2006, so far as is known to any director or chief executive of the Company, the following persons (other than a director or chief executive of the Company) have an interest or short position in the ordinary shares or underlying ordinary 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 are 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	Approximate percentage of the Company's issued ordinary share capital
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) (Note)	Beneficial owner/ interest of controlled corporation	375,100,000	Long position	71.56%
GDH Limited	Beneficial owner/ interest of controlled corporation	375,100,000	Long position	71.56%

Note: The attributable interest which 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) has in the Company is held through its 100 per cent. direct interest in GDH Limited.

Save as disclosed above, no other person (other than a director or chief executive of the Company) known to any director or chief executive of the Company as at 30 June 2006 had an interest or short position in the ordinary shares or underlying ordinary 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 are recorded in the register kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

In assessing the theoretical aggregate value of the share options granted during the six months ended 30 June 2006, the Black-Scholes option pricing model (the "Model")# has been used.

Share options granted during the six months ended 30 June 2006:

Date of Grant	:	3 April 2006
Vesting Period	:	3 April 2006 – 3 July 2006
Exercise Period	:	4 July 2006 – 3 July 2011
Exercise Price	:	HK\$0.196 per share

	Number of options as at 3 April 2006	Options value as at 3 April 2006 (Note (2)) HK\$	Number of options as at 30 June 2006	Options value as at 30 June 2006 (Note (3)) HK\$
Grantee:				
Employee	1,000,000	110,000	1,000,000	139,800
Total	<u>1,000,000</u>	<u>110,000</u>	<u>1,000,000</u>	<u>139,800</u>

Notes:

- (1) The closing price of the ordinary shares of the Company immediately before the date on which the options were granted was HK\$0.191.
- (2) According to the Model, the theoretical aggregate value of the options was estimated at HK\$110,000 as at 3 April 2006 (when the options were granted) with the following variables and assumptions:

Risk Free Rate	:	4.4298%, being the approximate yield of the 5-year Exchange Fund Note traded on 3 April 2006
Expected Volatility	:	61.73%, being the annualised volatility of the closing price of the ordinary shares of the Company from 4 April 2005 to 3 April 2006
Expected Dividend Yield	:	Nil
Expected Life of the Options	:	5.25 years
Assumptions	:	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the Ordinary Shares of the Company over the period from 4 April 2005 to 3 April 2006.

SHARE OPTION SCHEME

Notes (continued):

- (3) According to the Model, the theoretical aggregate value of the outstanding options was estimated at HK\$139,800 as at 30 June 2006 with the following variables and assumptions:

Risk Free Rate	:	4.6457%, being the approximate yield of the 5-year Exchange Fund Note traded on 30 June 2006
Expected Volatility	:	57.4%, being the annualised volatility of the closing price of the ordinary shares of the Company from 1 July 2005 to 30 June 2006
Expected Dividend Yield	:	Nil
Expected Life of the Options	:	5 years
Assumptions	:	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the Ordinary Shares of the Company over the period from 1 July 2005 to 30 June 2006.

- (4) Options forfeited, if any, before the expiry of the options will be treated as lapsed options which will be added back to the number of ordinary shares available to be issued under the relevant share option scheme.

The Model is developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

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 ("Code on CG Practices") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2006.

AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") in September 1998 and its terms of reference are in line with the Code on CG Practices. 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 control systems.

REMUNERATION COMMITTEE

The Company established a remuneration committee ("Remuneration Committee") in June 2005 and its terms of reference are in line with the Code on CG Practices. 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 Code on CG Practices. 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.

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 2006.

REVIEW OF INTERIM RESULTS

The Group's interim financial report for the six months ended 30 June 2006 has not been audited, but has been reviewed by the Audit Committee and the Company's auditors, Messrs. Ernst & Young.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 2006.

By Order of the Board
Zhang Chunting
Chairman

Hong Kong
8 September 2006

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

* *Independent non-executive director*

COMPANY SECRETARY

Lee Wai Mei

AUDITORS

Ernst & Young

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

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

LISTING INFORMATION

Stock Code: 1058

WEBSITE

www.gdtann.com.hk