粵海制革有限公司
GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2007

The Board of Directors (the "Board") of Guangdong Tannery Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007 together with comparative figures. The interim financial statements have not been audited, but have been reviewed by the Company's audit committee ("Audit Committee") and the auditors, Messrs. Ernst & Young.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Notes	Six months ended 30 June **2007** **HK$'000** **(Unaudited)**	 2006 HK$'000 (Unaudited)
REVENUE			
Processing and sale of leather	3	**304,515**	160,015
Cost of sales		**(283,536)**	(144,142)
Gross profit		**20,979**	15,873
Other income and gains		**3,291**	2,670
Selling and distribution costs		**(883)**	(520)
Administrative expenses		**(9,075)**	(10,892)
Other operating expenses, net		**(49)**	(2,060)
Finance costs		**(3,977)**	(1,933)
PROFIT BEFORE TAX	4	**10,286**	3,138
Tax	5	**(3,337)**	(2,214)
PROFIT FOR THE PERIOD		**6,949**	924
EARNINGS PER SHARE	6		
- Basic		**HK1.30 cent**	HK0.18 cent
- Diluted		**HK1.29 cent**	HK0.18 cent

CONDENSED CONSOLIDATED BALANCE SHEET
30 JUNE 2007

	Notes	**30 June 2007 HK$'000 (Unaudited)**	31 December 2006 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**37,396**	32,600
Investment property		**2,300**	2,185
Interest in an associate		**-**	1,219
Total non-current assets		**39,696**	36,004
CURRENT ASSETS			
Inventories		**280,027**	210,076
Receivables, prepayments and deposits	8	**99,563**	81,358
Pledged bank balances		**14,408**	12,888
Cash and bank balances		**18,174**	41,536
Total current assets		**412,172**	345,858
CURRENT LIABILITIES			
Trade and bills payables	9	**67,450**	51,403
Other payables and accruals		**23,023**	23,736
Interest-bearing bank borrowings		**49,690**	15,451
Due to a PRC joint venture partner		**1,131**	1,131
Loan from a fellow subsidiary		**-**	54,600
Provision		**3,260**	3,162
Tax payable		**1,597**	1,212
Total current liabilities		**146,151**	150,695
NET CURRENT ASSETS		**266,021**	195,163
TOTAL ASSETS LESS CURRENT LIABILITIES		**305,717**	231,167
NON-CURRENT LIABILITIES			
Loan from a fellow subsidiary		**54,600**	-
Loans from the immediate holding company		**30,876**	30,258
Deferred tax liabilities		**923**	1,188
Total non-current liabilities		**86,399**	31,446
Net assets		**219,318**	199,721
EQUITY			
Issued capital		**53,690**	52,415
Reserves		**165,628**	147,306
Total equity		**219,318**	199,721

Notes:

(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 2006.

The Group has adopted the following new and revised HKFRSs for the first time for the current period's condensed consolidated interim financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of these new and revised standards and interpretation 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.

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:

HKFRS 8	Operating Segments
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HKAS 23 (Revised)	Borrowing Costs

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 "Segment Reporting".

The HK(IFRIC)-Int 11, 12 and HKAS 23 (Revised) shall be applied for annual periods beginning on or after 1 March 2007, 1 January 2008 and 1 January 2009, respectively.

The Group has not early adopted these new HKFRSs in the financial statements for the period ended 30 June 2007. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its 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 relate to the leather processing activities in Mainland China.

(3) REVENUE

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.

	Six months ended 30 June	
	2007	2006
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Revenue		
Processing and sale of leather	**304,515**	160,015

(4) PROFIT BEFORE TAX

This is arrived at after charging:

	Six months ended 30 June	
	2007	2006
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Depreciation	**3,075**	4,197
Interest on:		
Bank loans and discounted bills	**1,453**	292
Loans from the immediate holding company	**780**	598
Loan from a fellow subsidiary	**1,744**	1,043
	3,977	1,933
Provision for inventories	**4,056**	-
Impairment of items of property, plant and equipment	**-**	2,123

(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 (2006: 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.

Xuzhou Nanhai Leather Factory Co., Ltd. ("Xuzhou Tannery"), a wholly-owned PRC subsidiary of the Company, was exempt from PRC corporate income tax for the first two profit-making years, and is eligible for a 50%-relief from PRC corporate income tax for the following three years under the PRC tax laws. Starting from the year ended 31 December 2006, which is the third profitable year of Xuzhou Tannery, the applicable tax rate of Xuzhou Tannery, after the 50% reduction, was 15%.

The other subsidiary of the Company established in the PRC, was exempt from PRC corporate income tax for two years commencing from its first profit-making year of operations, and is 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 this PRC subsidiary is 33% for the periods ended 30 June 2006 and 2007.

	Six months ended 30 June	
	2007	2006
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Group:		
Current – PRC corporate income tax	**3,468**	2,264
Deferred	**(131)**	(50)
Total tax charge for the period	**3,337**	2,214

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%. This reduction in the income tax rate will directly reduce the Group's effective tax rate prospectively from 2008. According to HKAS 12 "Income Taxes", deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled.

At the date of approval of these financial statements, detailed implementation and administrative requirements relating to the New CIT Law have yet to be announced. These detailed requirements include regulations concerning the computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions. The Group will further evaluate the impact on its operating results and financial positions of future periods as more detailed requirements are issued.

(6) EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on the profit for the period of HK$6,949,000 (2006: HK$924,000), and the weighted average number of 534,917,536 (2006: 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$6,949,000. The weighted average number of ordinary shares used in the calculation is 534,917,536 ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average number of 1,747,405 ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares during the period.

(7) DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2007 (2006:Nil).

(8) RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 30 June 2007, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK$88,697,000 (31 December 2006: HK$65,880,000) 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 2007, the aged analysis of the Group's trade and bills receivables, based on the payment due date, is as follows:

	30 June 2007 HK$'000 (Unaudited)	31 December 2006 HK$'000 (Audited)
Within 1 month	**87,332**	62,097
1 to 3 months	**1,064**	2,401
3 to 6 months	**128**	553
Over 6 months	**1,605**	2,251
	90,129	67,302
Less: Impairment	**(1,432)**	(1,422)
	88,697	65,880

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.

(9) TRADE AND BILLS PAYABLES

As at 30 June 2007, the aged analysis of the Group's trade and bills payables, based on the payment due date, is as follows:

	30 June 2007 HK$'000 (Unaudited)	31 December 2006 HK$'000 (Audited)
Within 3 months	**53,075**	25,420
3 to 6 months	**8,852**	21,776
6 to 12 months	**1,594**	796
Over 12 months	**3,929**	3,411
	67,450	51,403

(10) PLEDGE OF ASSETS

As at 30 June 2007, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

	30 June 2007 HK$'000 (Unaudited)	31 December 2006 HK$'000 (Audited)
Buildings	**7,390**	-
Plant and machinery	**3,118**	3,680
Inventories	**31,058**	-
Bank balances	**14,408**	12,888
	55,974	16,568

(11) SUBSEQUENT EVENT

On 11 July 2007, the Group entered into the subscription agreement with GDH Limited ("GDH") in relation to the subscription of the convertible note with an aggregate principal amount of HK$61,500,000.

Under the subscription agreement, the convertible note may be converted at the option of GDH into 32,368,421 fully paid ordinary shares of the Company, representing approximately 6.03% of the existing issued share capital of the Company and approximately 5.69% of the issued share capital of the Company as enlarged by the conversion of the convertible note, with a par value of HK$0.10 each at a conversion price of HK$1.90 per share.

BUSINESS AND FINANCIAL REVIEW

Results

The unaudited consolidated profit attributable to shareholders for the six months ended 30 June 2007 of the Group was HK$6,949,000, representing an increase of HK$6,025,000 or 652.1% as compared to the profit of HK$924,000 for the same period last year. The increase in profit was mainly due to the continuous improvement in the operating results of the production base in Xuzhou.

The unaudited net asset value of the Group as at 30 June 2007 was HK$219,318,000, representing an increase of HK$44,941,000 and HK$19,597,000 as compared to the net asset value as at 30 June 2006 and 31 December 2006 respectively.

The Board of the Company resolved not to declare the payment of an interim dividend for the six months ended 30 June 2007 (2006: Nil).

Business Review

Upon the completion of disposal of idle assets by the Group last year, the Group’s operations were centralized in the production base in Xuzhou. The Group’s productivity continues to be enhanced. By increasing the outsourcing of chromed hide processing activities, problems originated from lack of synergy between the upstream and downstream production capacities and the pressure from environmental issues have been solved.

In addition, the Group developed an appropriate production strategy and plans and acquired crucial equipments in time, which effectively eased the bottleneck in production while utilized the potential production capacity of the production base in Xuzhou. As a result, the Group is able to ensure large-scale of production with a fully utilisation of production capacity. During the period under review, the total production of cowhides of the Group was 16,843,000 sq.ft., representing an increase of 7,339,000 sq.ft. or 77.2% as compared to 9,504,000 sq.ft. for the same period last year. The increase in production marked the Group's success in large-scale operation.

The results of the Group's effort in product development last year have been initially seen fruitful to a certain extent. The Group has currently established two major leather series - domestic leather and imported leather - comprising a comprehensive product line with 6 major kinds of products, i.e. nappa leather, casual leather, natural dry milled leather, smooth leather, corrected upper leather and emboss leather. Consequently, the market recognition, the capability to adjust to ever-changing market styles and the product competitiveness of the Group have been strengthened, which greatly enhances the sales and marketing achievement. The Group continued to adopt "Regional balance and High-end Customers" as the objective in terms of its marketing strategies. In order to achieve such goal, the Group explored new markets to balance the market distribution as a whole, as well as solicited potential and valued customers to further extend its market coverage. In addition, the Group continued to invest in market survey and product development through the analysis of the results of market survey and the feedback from the prevailing market trend, whereby the Group modified the style of its products and developed new products in order to align with the market trend. As a result, a product-development and sales-driven model was basically realized.

Consolidated turnover for the period under review was HK$304,515,000, which increased by HK$144,500,000 or 90.3% as compared to HK$160,015,000 for the same period of 2006. Despite certain adverse factors, including the material changes in taxation policies and production constraints due to environmental protection issues, the Group had the foresight to launch the mechanism of strategic partnership with suppliers to offer more favorable terms than those in the market. The Group fully utilized various resources and adopted appropriate operational strategies by which the Group succeeded in finding a way to operate scale production business with high efficiency. Turnover of cowhides during the period under review increased by 84.5% to HK$263,496,000 (2006: HK$142,817,000), while turnover of grey hide and other products increased by 138.5% to HK$41,019,000 (2006: HK$17,198,000). As at 30 June 2007, the consolidated inventories of the Group amounted to HK$280,027,000, which increased by HK$112,453,000 and HK$69,951,000 as compared to 30 June 2006 and 31 December 2006 respectively. The increase in inventories was mainly due to the implementation of an extensive forward-looking and large-scale procurement strategy of hides and imported chemicals, which ensure smooth production by stocking up sufficient raw materials and minimizing the impact of rising raw materials prices.

As at 30 June 2007, the trade receivables of the Group was HK$49,705,000. After deducting the impairment of trade receivables of HK$1,432,000, the balance net of impairment amounted to HK$48,273,000, representing an increase of HK$16,306,000 and HK$24,242,000 as compared to 30 June 2006 and 31 December 2006 respectively. Trade receivables turnover was 17 times, and the average collection period was 22 days, representing a decrease of 9 days as compared to 31 days for the same period in 2006.

Financial Review

As at 30 June 2007, the Group's interest-bearing borrowings amounted to HK$135,166,000 (as at 31 December 2006: HK$100,309,000), of which HK$10,350,000 was denominated in Hong Kong dollars, HK$30,686,000 in Renminbi and HK$94,130,000 in US dollars. All of these interest-bearing borrowings are charged at floating rates.

As at 30 June 2007, the Group's cash and bank balances amounted to HK$32,582,000 (as at 31 December 2006: HK$54,424,000), which were denominated in Hong Kong dollars (HK$6,163,000), Renminbi (equivalent to HK$25,817,000) and US dollars (equivalent to HK$602,000).

As at 30 June 2007, after deduction of the cash and bank balances, the Group's ratio of net interest-bearing borrowings to shareholders' equity was 46.77% (as at 31 December 2006: 22.97%). The annual interest rate of the borrowings was approximately 4.9% to 6.7%. All of the Group's total borrowings were due and repayable beyond one year. Interest expense incurred by the Group during the period was HK$3,977,000, representing an increase of 105.7% as compared with the same period last year.

During the period, net cash outflow from operating activities was HK$54,110,000, which mainly represented the Group's implementation of large-scale forward-looking procurement strategy during the period to stock up sufficient raw materials to ensure smooth production and to minimize the impact of rising raw materials prices. Our net cash inflow from financing activities was HK$37,617,000, and the net decrease in cash and cash equivalents during the period was HK$24,027,000.

As at 30 June 2007, the net value of non-current assets, including property, plant and equipment and investment property, were HK$39,696,000, representing an increase of HK$4,911,000 as compared with the net value of HK$34,785,000 as at 31 December 2006. During the period, the Group's capital expenditure amounted to HK$6,472,000 (2006: HK$983,000), which was incurred mainly for the renewal and purchase of leather manufacturing machines and equipments to cope with the production requirements of the production base in Xuzhou.

As at 30 June 2007, certain of the Group's bank deposits, inventories, machinery and equipments and buildings with a total net book value of HK$55,974,000 (as at 31 December 2006: HK$16,568,000) were pledged to secure general banking facilities granted to the Group.

The assets, liabilities and transactions of the Group are primarily 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 rates to the Group. 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 expose to any material foreign exchange risks.

Employees

As at 30 June 2007, a total of 994 employees (as at 30 June 2006: 731 employees) were employed by the Group. The remuneration policy of the Group is based on 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

In 2007, the tannery industry continues to encounter operational difficulties caused by a number of unfavourable factors, such as the sharp drop in the supply of domestic hides and significant growth in the prices of hides resulted from the surging prices of foodstuff, including fodder; major reductions and cancellation of preferential policies in relation to tax refund for export of leather and leather products, announced by the State, leading to great fluctuations in the prices of imported hides and thus increasing the costs of the downstream footwear manufacturers; and due to the occurrence of some material environmental incidences, triggered the immediate introduction by the State of more stringent policies on environmental protection, which bring about intense pressure on tannery enterprises. To confront with these operational difficulties, the Group continues to, based on the core enterprise culture of "faith, integrity and efficiency", further implement the strategy of large-scale operation, and to maintain and expand growth in the supply and sales markets by launching the business model of strategic partnership with customers. With the increase in outsourcing activities, the Group is able to realize large-scale production under normal circumstances. In addition, in a bid of create more business opportunities and bring higher profit contribution for the Group in the future, the Group has been actively seeking investment opportunities in the tannery business and satisfactory progress has been achieved.

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 ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the six months ended 30 June 2007.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 2007.

Audit Committee

The Company established 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.

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 2007. In addition, the Company's auditors, Ernst & Young, have also reviewed the foresaid 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 2007.

Publication of Interim results and Interim Report

This interim results announcement is published on the websites of the Company (www.gdtann.com.hk) and Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk). The interim report of the Company for 2007 containing all the information required by the Listing Rules will be dispatched to shareholders and made available on the above websites in due course.

By order of the Board
Zhang Chunting
Chairman

Hong Kong, 12 September 2007

As at the date of this announcement, the Board comprises two executive directors, namely Mr. Zhang Chunting and Mr. Deng Rongjun; three non-executive directors, namely Mr. Zhang Yaping, Mr. Xiong Guangyang and Mrs. Ho Lam Lai Ping, Theresa; and three independent non-executive directors, Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat.

Please also refer to the published version of this announcement in China Daily.