Yu Ziquan

Results

The Group's net loss attributable to shareholders for the year ended 31 December 2000 was HK$84,550,000 (1999: HK$65,117,000). No final dividend is recommended for year 2000 by the Board of Directors. As at 31 December 2000, the Group had total assets of HK$725,972,000 and total net assets of HK$410,450,000.

Debt Restructuring

The debt restructuring of Guangdong Enterprises group plaguing the Group since 1998 has been implemented. On 22 December 2000, the Tannery Override Agreement (the ''Override Agreement'') was entered into between the Group and its financial creditors, whereby the Group was required to repay a total of HK$197,000,000 by the end of 2003. The Override Agreement will operate by way of a formal standstill, but override provisions will permit creditors to terminate the restructuring schemes and revert to the terms of the existing loan agreements upon the occurrence of events of default. As at the date of this report, the Group has repaid an amount of HK$54,500,000. We believe that the Group is able to repay the debts on schedule, as its operating results will be improved under a more rationalized structure of its overall assets.

Group Restructuring

Following the implementation of the debt restructuring, the Group is embarking on various reorganization plans devised to enhance its overall and long-term operational efficiency.

The Group's operations will be to a certain extent affected by the severe liquidity problem, which is expected to linger in the next three years given the tightened banking credit policies. Adhering to its traditional financial prudence, the Group will ensure more cautious and effective applications of its limited fund so that the overall returns can be maximized. A thorough analysis of the Group's assets has been made, under which the Group's businesses were analyzed and evaluated based on their profitability and growth prospects. Businesses with good capacity for earnings growth were better managed and further developed, while those suffering from losses and with poor prospects were terminated to avoid further losses.

In the coming years, the Group will focus on leather processing and the Hong Kong leather ware business. As part of its efforts to improve further its operational efficiency and competitiveness, the Group has readjusted and rationalized the management of its production plants in Nanhai, Xuzhou and Qingdao in China. These production plants are standardized in the areas of merchandizing, marketing, capital allocation, research and development as well as product distribution. The Group is also active in developing the black nappa cow leather, a new product which displays good sales potential and is well received by the market. To benefit from the economies of scale, the Group's commitment to the mass production of high quality and low cost products remains intact. A turnaround was witnessed in 2000 for the Group's leather business which recorded a gross margin of 8%, compared to the gross loss of 3% in 1999. In October 2000, the Group successfully bid for the machinery and equipment of the Guangzhou People's Tannery, a move that will provide a solid platform for the future expansion of the Group's existing core businesses.

Despite the continuing sluggish retail market in Hong Kong, the performance of Saint Jack leather ware was satisfactory, recorded a gross margin of 66%. Further improvement is expected when a full economic recovery is staged in Hong Kong. To expand the market share of Saint Jack's products in the medium and high-end markets, three additional specialty shops are planned to open in 2001, one of which was opened in Shatin in late March this year.

The retail market in Mainland China is expected to face more intense competition following China's impending entry to the World Trade Organization. The performance of the Group's leather ware business in the Mainland China's market was less satisfactory, as it was primarily hit by the flood of fake products and the resulted trademark litigation. To avert further losses, the Group decided to shift from direct sales to franchise for the marketing of its leather ware products in Mainland China. An agreement on the trademark franchise has been entered into between the Group and an agent, whereby the franchise would be granted to the agent for a term of two years at a fee of Hong Kong dollar two million per year. At the same time, another agreement has been reached for the sale of a 25% interest in the trademarks to the agent at a consideration of HK$8.25 million. The Group has made provisions against receivables, trademarks and inventories of approximately HK$85,163,000 as a result of the Group's termination of its direct sales, and the impairment of trademarks for its leather ware products in the Mainland China market.

The Group decided to close the businesses of leather and fur garments in North America given their tight liquidity and continuing losses. A provision of approximately HK$25,380,000 has been made against these investments and the receivables due from debtors. Actions were brought by the Group against an associate and one of the joint venture parties for a loan from the Group to them.

Conclusions

The Group's restructuring of its assets and management is beneficial to its long-term development. They allow the Group to strengthen further the more promising core businesses, and at the same time cast off those businesses with poorer prospects. We are confident that the Group has ample capacity to fulfill the repayment terms under the debt restructuring arrangement, and is able to create a new horizon of development by building more solid fundamentals.

Yu Ziquan
Chairman

Hong Kong, 20 April 2001