



Directors' **R**eport

The Directors herein present their annual report and the audited financial statements of the Group for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The Group is principally engaged in (i) the processing and sale of semi-finished and finished leather; and (ii) the design, manufacture and sale of leather ware products. The activities of the subsidiaries and associates are set out in notes 12 and 13 to the financial statements, respectively.

SUBSIDIARIES AND ASSOCIATES

Details of the Company's subsidiaries and associates and the Group's associates as at 31 December 2000 are set out in notes 12 and 13 to the financial statements, respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2000 are set out in the consolidated profit and loss account on page 26 of the annual report.

The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2000.

FIVE YEAR FINANCIAL SUMMARY

The following tables summarise the Group's proforma comparative combined results for the year ended 31 December 1996; the consolidated results for the four years ended 31 December 1997, 1998, 1999 and 2000; and the audited statements of the Group's assets and liabilities as at 31 December 1997, 1998, 1999 and 2000, together with the proforma statements of the Group's assets and liabilities as at 31 December 1996. The proforma statements of the Group's combined comparative results and assets and liabilities have been prepared as if the current corporate structure of the Group had been in existence since 1 January 1996 or since the respective dates of incorporation or acquisition where these are shorter periods and include all notional adjustments.

Directors' Report *(Cont'd)*

FIVE YEAR FINANCIAL SUMMARY (Cont'd)

Statement of the Group's results

	Year ended 31 December				
	Consolidated			Proforma comparative combined results	
	2000	1999	1998	1997	1996
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>721,141</u>	<u>594,994</u>	<u>845,980</u>	<u>830,149</u>	<u>678,703</u>
Operating (loss)/profit:					
(Loss)/profit from operating activities	(92,196)	(43,753)	6,949	72,437	96,564
Finance costs	(21,555)	(22,108)	(21,419)	(21,119)	(25,759)
	<u>(113,751)</u>	<u>(65,861)</u>	<u>(14,470)</u>	<u>51,318</u>	<u>70,805</u>
Share of results of associates	(965)	(1,015)	(466)	(110)	–
(Loss)/profit before tax	<u>(114,716)</u>	<u>(66,876)</u>	<u>(14,936)</u>	<u>51,208</u>	<u>70,805</u>
Tax	971	257	(1,467)	(422)	(6,417)
(Loss)/profit before minority interests	<u>(113,745)</u>	<u>(66,619)</u>	<u>(16,403)</u>	<u>50,786</u>	<u>64,388</u>
Minority interests	29,195	1,502	(931)	(2,469)	–
Net (loss)/profit from ordinary activities attributable to shareholders	<u>(84,550)</u>	<u>(65,117)</u>	<u>(17,334)</u>	<u>48,317</u>	<u>64,388</u>

Directors' Report (Cont'd)

FIVE YEAR FINANCIAL SUMMARY (Cont'd)

Statement of the Group's assets and liabilities

	As at 31 December				
	Consolidated			Proforma comparative combined results	
	2000	1999	1998	1997	1996
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets					
Fixed assets	257,801	269,117	284,503	289,804	177,841
Trademarks	7,000	35,000	37,000	39,000	–
Interest in associates	8,305	29,718	41,450	25,565	–
Other long term assets	–	–	2,276	1,174	2,076
Current assets	452,866	565,634	591,177	619,854	422,133
Total assets	725,972	899,469	956,406	975,397	602,050
Liabilities					
Current liabilities	191,988	365,783	216,132	327,383	226,438
Long term loans	113,818	–	133,941	21,268	90,027
Total liabilities	305,806	365,783	350,073	348,651	316,465
Minority interests	9,716	51,658	52,949	52,012	–
Net assets	410,450	482,028	553,384	574,734	285,585



Directors' Report *(Cont'd)*

FIXED ASSETS

Movements in fixed assets of the Group and the Company during the year are set out in note 10 to the financial statements.

BANK AND OTHER INTEREST-BEARING BORROWINGS AND INTEREST CAPITALIZED

Particulars of all bank and other interest-bearing borrowings of the Group as at 31 December 2000 are set out in note 24 to the financial statements.

No interest was capitalised during the year.

SHARE CAPITAL AND OPTIONS

Details of the Company's share capital and options for the year are set out in note 25 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2000, no reserves, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, is available for cash distribution.

CHARITABLE DONATIONS

The Group made charitable donations during the year totaling HK\$75,603.



Directors' Report *(Cont'd)*

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Yu Ziquan	(appointed on 5 July 2000)
Yu Fang	(resigned on 5 July 2000)
Zhang Muhan	
Chong Chi Wah	
Ko Chun-hsiung	(resigned on 5 July 2000)
Sun Desong	(resigned on 14 January 2000)
Wang Hao Ming	(resigned on 5 July 2000)
Wu Xuhui	(resigned on 14 January 2000)

Non-executive Directors

Cheung Sing Tai	(appointed on 8 February 2001)
Ho Lam Lai Ping Theresa	(appointed on 5 July 2000)
Lau Chi Sing	(appointed on 5 July 2000)
Cai Jinghua	(resigned on 13 April 2000)
Hou Bojian	(resigned on 5 July 2000)
Tang Zhen	(resigned on 5 July 2000)
Wat Kam Hang	(appointed on 5 July 2000 and resigned on 8 February 2001)

Independent Non-executive Directors

Cheng Hok Lai James
Poon Kin

Mr. Yu Ziquan, Mr. Cheung Sing Tai, Mrs. Ho Lam Lai Ping Theresa and Mr. Lau Chi Sing, who were appointed Directors of the Company after the last Annual General Meeting of the Company are due to retire pursuant to Article 77 of the Company's Article of Association at the forthcoming Annual General Meeting. Being eligible, they offer themselves for re-election.

Mr. Cheng Hok Lai James is due to retire by rotation from the Board in accordance with Article 82 of the Company's Article of Association at the forthcoming Annual General Meeting. Being eligible, he offers himself for re-election.



Directors' Report *(Cont'd)*

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID DIRECTORS/EMPLOYEES

Details of the Directors' remuneration and of the five highest paid employees in the Group are set out in note 7 to the financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

(A) Executive Directors

Mr. Yu Ziquan, Chairman (Age: 46)

Mr. Yu was appointed a Director of the Company in July 2000. He is a senior engineer and holder of master's degree in business administration. From 1982 to 1998, Mr. Yu was with Shaoguan Iron & Steel Group Co. Ltd. in a number of positions including director and department-in-charge. He also actively participated in the initial public offer of SGIS Songshan Co. Ltd. and its managerial work upon its listing. In 1998, Mr. Yu was appointed general manager of the administration, property and corporate affairs department of Nam Yue (Group) Co., Ltd. in Macau. Mr. Yu is mainly responsible for the strategic development and corporate management of the Group and is the chairman of Nanhai Tannery.

Mr. Zhang Muhan, Managing Director (Age: 45)

Mr. Zhang was appointed a Director of the Company in April 1996. He completed education in Sichuan University specializing in tanning technology. He joined Nanhai Tannery when it was first established in 1986 and is the managing director of Nanhai Tannery. Mr. Zhang is mainly responsible for the overall management of the Group, in particular, the purchasing and marketing functions within the Group.

Mr. Chong Chi Wah (Age: 39)

Mr. Chong was appointed a Director of the Company in August 1997 and is also the Financial Controller of the Group. Mr. Chong has over fifteen years' experience in auditing, costing and financial management. He holds a master's degree in business administration from the University of San Francisco and is an Associate Member of Hong Kong Society of Accountants and the Institute of Chartered Secretaries and Administrators.



Directors' **R**eport *(Cont'd)*

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Cont'd)

(B) Non-executive Directors

Mr. Cheng Hok Lai James (Age: 53)

Mr. Cheng was appointed an independent non-executive Director of the Company in November 1996. He is also a director of the Chinese Manufacturing Association and has over 20 years of experience in the commercial and industrial sectors of Hong Kong.

Mr. Cheung Sing Tai (Age: 39)

Mr. Cheung was appointed a Director of the Company in February 2001. He is the deputy manager of the Strategic Development Department of Guangdong Investment Limited. Mr. Cheung holds a bachelor degree in engineering from Qinghua University and a master degree in business administration from Zhongshan University. He is also a holder of the Options Trading Certificate issued by the Hong Kong Stock Exchange. Mr. Cheung has ten years' experience in China industrial, infrastructures and trading businesses and is pursuing his doctorate in the European University of Ireland.

Mrs. Ho Lam Lai Ping Theresa (Age: 45)

Mrs. Ho was appointed a Director of the Company in July 2000. She has been the Company Secretary of Guangdong Investment Limited since 1992. Mrs. Ho graduated from the Hong Kong Polytechnic University and is an associate of both the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. She is also a member of the HKICS Company Secretaries Panel.

Mr. Lau Chi Sing (Age: 36)

Mr. Lau was appointed a Director of the Company in July 2000. He is the assistant financial controller of Guangdong Investment Limited. Mr. Lau graduated from the City University of Hong Kong with a bachelor degree in Accountancy. He is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Prior to joining Guangdong Investment, Mr. Lau worked for an international CPA firm in Hong Kong for ten years.



Directors' **R**eport *(Cont'd)*

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Cont'd)

(B) Non-executive Directors (Cont'd)

Mr. Poon Kin (Age: 70)

Mr. Poon was appointed an independent non-executive Director of the Company in October 1996. He was the managing director of Wah Nam Development Company Limited prior to his retirement in September 1996. Mr. Poon has extensive experience in the China trading business.

(C) Senior Management

The senior management of the Group comprises the executive Directors above, namely Messrs. Yu Ziquan, Zhang Muhan and Chong Chi Wah.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than the two loan agreements with the Director and officer, details of which are set out in note 20 to the financial statements, no contracts of significance to which the Company or the Company's subsidiaries or holding company or a subsidiary of the Company's holding company was a party and in which a Director of the Company had a material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SECURITIES

At 31 December 2000, the interests of the Directors of the Company in the equity or debt securities of the Company and its associated corporations recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules were as follows:



Directors' Report *(Cont'd)*

DIRECTORS' INTERESTS IN SECURITIES (Cont'd)

(A) Guangdong Tannery Limited

Names	Number of Ordinary Shares (Personal Interest)
Cheng Hok Lai James	500,000
Chong Chi Wah	394,000

(B) Guangdong Investment Limited

Names	Number of Ordinary Shares (Personal Interest)
Yu Ziquan	112,000
Zhang Muhan	150,000
Chong Chi Wah	20,000
Ho Lam Lai Ping Theresa	250,000

(C) Guangdong Brewery Holdings Limited

Names	Number of Ordinary Shares (Personal Interest)
Yu Ziquan	80,000
Zhang Muhan	20,000
Ho Lam Lai Ping Theresa	80,000

As at 31 December 2000, the following Directors had interests recorded in the register kept under Section 29 of the SDI Ordinance being options granted under the existing share option schemes of the Company and Guangdong Investment Limited, to subscribe for shares in the Company and Guangdong Investment Limited.

Directors' Report *(Cont'd)*

DIRECTORS' INTERESTS IN SECURITIES (Cont'd)

(A) Guangdong Tannery Limited

	No. of options held on 01/01/2000	Options granted during the year Date granted	Number granted	Period during which rights are exercisable (dd/mm/yyyy) (Note (1))	Price to be paid per share on exercise of options (HK\$)	No. of options exercised during the year	No. of options held on 31/12/2000
Zhang Muhan	1,600,000	-	-	15/07/1997 - 14/01/2002	1.3936	-	1,600,000
Chong Chi Wah	900,000	-	-	15/07/1997 - 14/01/2002	1.3936	-	900,000
Poon Kin	500,000	-	-	15/07/1997 - 14/01/2002	1.3936	-	500,000

Notes:

- (1) If 14/01/2002 is not a business day in Hong Kong, the option period shall expires at 5:01 p.m. on the business day preceding that day.
- (2) No consideration has been paid by any of the Directors for the options granted by the Company.

Directors' Report (Cont'd)

DIRECTORS' INTERESTS IN SECURITIES (Cont'd)

(B) Guangdong Investment Limited

	No. of options held on 01/01/2000	Options granted during the year Date granted	Number granted	Period during which rights are exercisable (dd/mm/yyyy) (Note (1))	Price to be paid per share on exercise of options (HK\$)	No. of options exercised during the year	No. of options held on 31/12/2000
Zhang Muhan	150,000	-	-	17/09/1998 - 16/09/2003	3.024	-	150,000
Chong Chi Wah	150,000	-	-	17/09/1998 - 16/09/2003	3.024	-	150,000
Ho Lam Lai	350,000	-	-	10/06/1997 - 09/06/2002	4.536	-	350,000
Ping Theresa	500,000	-	-	19/08/1998 - 18/08/2003	2.892	-	500,000

Notes:

- (1) If the last day of any option period is not a business day in Hong Kong, the option period expires at 5:01 p.m. on the business day preceding that day.
- (2) No consideration has been paid by any of the Directors for the options granted by Guangdong Investment Limited.

Save as disclosed above, as at 31 December 2000, none of the Directors of the Company or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Section 28 of the SDI Ordinance, including interests which they were deemed or taken to have under Section 31 or Part I of the Schedule to that Ordinance, or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein.



Directors' Report *(Cont'd)*

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Set out below are the names of all parties which were, directly or indirectly, interested in 10% or more of the nominal value of the share capital of the Company and the respective relevant numbers of shares in which they were and/or were deemed to be, interested as at 31 December 2000 as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

Names	No. of Ordinary Shares
(i) Guangdong Yue Gang Investment Holdings Company Limited	375,100,000
(ii) GDH Limited	375,100,000
(iii) Guangdong Investment Limited	375,100,000

Note: For the avoidance of doubt and double counting, it should be noted that duplication occurs in respect of the above-stated shareholdings to the extent that the shareholdings stated against parties (iii) above are entirely duplicated and included in the shareholdings stated against party (ii) above; the shareholdings stated against parties (ii) above are entirely duplicated and included in the shareholdings stated against party (i) above. The abovenamed parties were deemed to be interested in the relevant shareholdings under the SDI Ordinance as at 31 December 2000.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, any subsidiary or holding company of the Company or any subsidiary of the Company's holding company, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, with the exception of the share option schemes of the Company and Guangdong Investment Limited.

(A) Pursuant to the share option scheme of the Company, adopted on 26 November 1996 and which will expire on 25 November 2006, options were granted to certain Directors of the Company to subscribe for shares of the Company at a price not less than the higher of (i) the nominal value of the shares of the Company; and (ii) 80 percent of the average of the closing prices of the shares of the Company recorded on the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer of the options.

Details of the options of the Company held by the Directors of the Company are set out in the section headed "Directors' Interests in Securities" of this report.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES (Cont'd)

(B) Pursuant to the share option scheme of Guangdong Investment Limited, adopted on 2 February 1994 and amended on 29 December 1997, which will expire on 1 February 2004, options were granted to certain Directors of the Company to subscribe for shares of Guangdong Investment Limited at a price equal to the higher of (i) the nominal value of the share of Guangdong Investment Limited ; and (ii) not less than 80% of the average of the closing prices of the share of Guangdong Investment Limited as recorded on the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the options.

Details of the options of Guangdong Investment Limited held by the Directors of the Company are set out in the section headed "Directors' Interests in Securities" of this report.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year under review.

PENSION SCHEMES

Details of the pension scheme of the Group and the employer's pension costs charged to the profit and loss account for the year are set out in notes 4 and 7 to the financial statements, respectively.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the year except that the Non-Executive Directors are not appointed for a specific term as they are subject to retirement by rotation in accordance with the Company's Articles of Association.



Directors' Report *(Cont'd)*

COMPLIANCE WITH CODE OF BEST PRACTICE (Cont'd)

The Board of Directors of the Company has established an Audit Committee in accordance with the Code of Best Practice. The Audit Committee meets regularly to consider the nature and scope of audit reviews, the effectiveness of the internal control systems and compliance with the relevant rules and regulations.

AUDITORS

At the Annual General Meeting of the Company held on 28 May 1999, Messrs. Deloitte Touche Tohmatsu, the former auditors of the Company were not re-appointed and the Directors of the Company then appointed Messrs. Ernst & Young as the new auditors of the Company to fill the said casual vacancy. Accordingly, the financial statements for the financial years ended 31 December 1999 and 2000 were audited by Messrs. Ernst & Young.

A resolution will be proposed at the forthcoming Annual General Meeting for the re-appointment of Messrs. Ernst & Young as the auditors of the Company.

By Order of the Board
Chan Miu Ting
Secretary

Hong Kong, 20 April 2001