



Report of the Directors

The Directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

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; (ii) the design, manufacture and sale of leather ware products; and (iii) merchandise trading. The principal activities of the subsidiaries and associates are set out in notes 15 and 16 to the financial statements, respectively. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 90.

No interim dividend was paid during the year and the Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2001.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results and assets and liabilities of the Group for the five years ended 31 December 2001, as extracted from the audited financial statements and reclassified as appropriate. The amounts as at year ended 31 December 1997 have been adjusted for the effects of the retrospective changes in accounting policy affecting dividends, as detailed in note 2 to the financial statements.



Report of the Directors (Cont'd)

SUMMARY FINANCIAL INFORMATION (Cont'd)

Results

	Year ended 31 December				
	2001	2000	1999	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>764,929</u>	<u>721,141</u>	<u>594,994</u>	<u>845,980</u>	<u>830,149</u>
Operating (loss)/profit:					
(Loss)/profit from operating activities	(62,571)	(92,196)	(43,753)	6,949	72,437
Finance costs	(15,221)	(21,555)	(22,108)	(21,419)	(21,119)
	<u>(77,792)</u>	<u>(113,751)</u>	<u>(65,861)</u>	<u>(14,470)</u>	<u>51,318</u>
Share of results of associates	(154)	(965)	(1,015)	(466)	(110)
	<u>(77,946)</u>	<u>(114,716)</u>	<u>(66,876)</u>	<u>(14,936)</u>	<u>51,208</u>
(Loss)/profit before tax	(77,946)	(114,716)	(66,876)	(14,936)	51,208
Tax	88	971	257	(1,467)	(422)
	<u>(77,858)</u>	<u>(113,745)</u>	<u>(66,619)</u>	<u>(16,403)</u>	<u>50,786</u>
(Loss)/profit before minority interests	(77,858)	(113,745)	(66,619)	(16,403)	50,786
Minority interests	5,575	29,195	1,502	(931)	(2,469)
	<u>(72,283)</u>	<u>(84,550)</u>	<u>(65,117)</u>	<u>(17,334)</u>	<u>48,317</u>
Net (loss)/profit from ordinary activities attributable to shareholders	<u>(72,283)</u>	<u>(84,550)</u>	<u>(65,117)</u>	<u>(17,334)</u>	<u>48,317</u>



Report of the Directors (Cont'd)

SUMMARY FINANCIAL INFORMATION (Cont'd)

Assets and liabilities

	As at 31 December				
	2001	2000	1999	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets:					
Fixed assets	204,436	257,801	269,117	284,503	289,804
Trademarks	1,500	7,000	35,000	37,000	39,000
Interests in associates	–	8,305	29,718	41,450	25,565
Other long term assets	–	–	–	2,276	1,174
Current assets	368,195	452,866	565,634	591,177	619,854
Total assets	574,131	725,972	899,469	956,406	975,397
Liabilities:					
Current liabilities	149,567	191,988	365,783	216,132	317,881
Long term loans	64,017	113,818	–	133,941	21,268
Total liabilities	213,584	305,806	365,783	350,073	339,149
Minority interests	4,171	9,716	51,658	52,949	52,012
Net assets	356,376	410,450	482,028	553,384	584,236

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Company and the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and movements in the share options during the year, together with the reasons therefor, are set out in note 29 to the financial statements.



Report of the Directors *(Cont'd)*

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, no reserves, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, were available for cash distribution.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$61,243.

DIRECTORS

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

Executive Directors

Yu Ziquan

Zhang Muhan

Chong Chi Wah (resigned on 21 May 2001)

Non-executive Directors

Cheung Sing Tai (appointed on 8 February 2001)

Ho Lam Lai Ping Theresa

Lau Chi Sing

Wat Kam Hang (resigned on 8 February 2001)

Independent Non-executive Directors

Cheng Hok Lai James

Poon Kin

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



Report of the Directors (Cont'd)

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 ex-Director and officer, details of which are set out in note 23 to the financial statements, no contracts of significance to which the Company or the Company's subsidiaries or holding company or any 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 2001, 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 (the "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 Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") were as follows:

(A) Guangdong Tannery Limited

Name	Number of ordinary shares (Personal interest)
Cheng Hok Lai James	500,000

(B) Guangdong Investment Limited

Name	Number of ordinary shares (Personal interest)
Yu Ziquan	112,000
Zhang Muhan	150,000
Ho Lam Lai Ping Theresa	250,000



Report of the Directors (Cont'd)

DIRECTORS' INTERESTS IN SECURITIES (Cont'd)

(C) Guangdong Brewery Holdings Limited

Name	Number of ordinary shares (Personal interest)
Zhang Muhan	20,000
Ho Lam Lai Ping Theresa	80,000

As at 31 December 2001, 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.

(A) Guangdong Tannery Limited

	No. of options held on 01/01/2001	Options granted during the year Date granted	Number granted	Period during which rights are exercisable (dd/mm/yy)	Price to be paid per share on exercise of options (HK\$)	No. of options exercised during the year	No. of options held on 31/12/2001
Zhang Muhan	1,600,000	-	-	15/07/1997 – 14/01/2002	1.3936	-	1,600,000
Poon Kin	500,000	-	-	15/07/1997 – 14/01/2002	1.3936	-	500,000

Notes:

- (1) The options were lapsed upon expiration on 14 January 2002.
- (2) No consideration has been paid by any of the Directors for the options granted by the Company.



Report of the Directors (Cont'd)

DIRECTORS' INTERESTS IN SECURITIES (Cont'd)

(B) Guangdong Investment Limited

	No. of options held on 01/01/2001	Options granted during the year Date granted	Options granted	Period during which rights are exercisable (dd/mm/yy) (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 31/12/2001
Zhang Muhan	150,000	–	–	17/09/1998 – 16/09/2003	3.024	–	150,000
Ho Lam Lai Ping	200,000	–	–	10/06/1997 – 09/06/2002	4.536	–	200,000
Theresa	500,000	–	–	19/08/1998 – 18/08/2003	2.892	–	500,000
	–	10/08/2001	1,200,000	11/02/2002 – 10/02/2007	0.5312	–	1,200,000
Lau Chi Sing	–	10/08/2001	400,000	11/02/2002 – 10/02/2007	0.5312	–	400,000

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 2001, 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.



Report of the Directors *(Cont'd)*

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purposes of providing incentives to participants to contribute to the Group, to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis. Pursuant to the Scheme adopted on 26 November 1996 which will expire on 25 November 2006, the Board of Directors may at their discretion offer to any executive and/or employee of the Group options to subscribe for ordinary shares of the Company. The Scheme will remain in force for a period of ten years from 26 November 1996.

The maximum number of shares in respect of which options may be granted (including shares issued pursuant to options exercised and shares in respect of which any option remains outstanding) when aggregated with any shares subject to any other share option schemes under the Scheme may not exceed 10% of the issued shares (excluding any shares issued pursuant to the Scheme) at the time of granting of the option. As at 31 December 2001, the total number of shares issuable for options granted under the Scheme was 6,400,000, which represented approximately 1.22% of the ordinary shares of the Company.

No option may be granted to any one person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25% of the aggregate number of shares of the time being issued and issuable under the Scheme.

The offer of a grant of share options may be accepted within the date specified in the offer with no consideration being payable by the grantee. An option may be exercised in accordance with the terms of the Scheme at any time during the period commencing on the first business day after six months from the date of grant of the option and expiring at the close of business day preceding the fifth anniversary thereof.

The price per ordinary share payable on the exercise of an option under the Scheme as determined by the Directors will be a price being equal to the higher of the nominal value of the ordinary shares and an amount not less than 80% of the average of the closing prices of the ordinary shares as stated in the daily quotation sheets of the Hong Kong Stock Exchange for the five business days immediately preceding the date of offer of the option.

With effect from 1 September 2001, the Hong Kong Stock Exchange requires that the exercise price of options to be at least the higher of the closing price of the shares on the Hong Kong Stock Exchange on the date of grant and the average closing prices of the shares on the Hong Kong Stock Exchange for the five trading days immediately preceding the date of grant. Up to the date of this report, the Company has not granted any options on or after 1 September 2001.



Report of the Directors (Cont'd)

SHARE OPTION SCHEME (Cont'd)

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options			Date of grant of share options (Note 3)	Exercise period of share options	Exercise price of share options (Note 4) HK\$
	At 1 January 2001	Cancelled during the year	At 31 December 2001			
Directors						
Zhang Muhan	1,600,000	–	1,600,000 (Note 1)	15/01/1997	15/07/1997 – 14/01/2002	1.3936
Poon Kin	500,000	–	500,000 (Note 1)	15/01/1997	15/07/1997 – 14/01/2002	1.3936
Chong Chi Wah (Note 2)	900,000	(900,000)	–	15/01/1997	15/07/1997 – 14/01/2002	1.3936
	3,000,000	(900,000)	2,100,000			
Other employees						
In aggregate	4,300,000	(2,000,000)	2,300,000 (Note 1)	15/01/1997	15/07/1997 – 14/01/2002	1.3936
	2,000,000	–	2,000,000	27/05/1997	27/11/1997 – 26/05/2002	2.2240
	4,600,000	(4,600,000)	–	24/07/1997	24/01/1998 – 23/07/2002	2.1440
	10,900,000	(6,600,000)	4,300,000			
	13,900,000	(7,500,000)	6,400,000			

Notes

- (1) The options were lapsed upon expiration on 14 January 2002.
- (2) Mr. Chong Chi Wah resigned on 21 May 2001 and, accordingly the options were cancelled.
- (3) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- (4) 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.
- (5) No options were granted or exercised during the year.

Summary details of the Company's share option scheme are also set out in note 29 to the financial statements.



Report of the Directors *(Cont'd)*

SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 31 December 2001, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	No. of shares held	Percentage of the Company's Share Capital
(i) Guangdong Yue Gang Investment Holdings Company Limited	375,100,000	71.56
(ii) GDH Limited	375,100,000	71.56
(iii) Guangdong Investment Limited	375,100,000	71.56

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 party (iii) above are entirely duplicated and included in the shareholdings stated against party (ii) above; the shareholdings stated against party (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 2001.

Save as discussed above, no person, other than the Directors of the Company, whose interests are set out in the section "Directors' interests in securities" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

Details of the connected transactions during the year are set out in notes 35 and 36 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 38 to the financial statements.



Report of the Directors *(Cont'd)*

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the year except that the Non-Executive Directors are not appointed for a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company’s Articles of Association.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises the two Independent Non-Executive Directors of the Company.

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 casual vacancy so arising. Accordingly, the financial statements for the financial years ended 31 December 1999, 2000 and 2001 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, 12 April 2002