



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 2002.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The Group is principally engaged in the processing and sale of semi-finished and finished leather. The activities of the subsidiaries and associates are set out in notes 16 and 17 to the financial statements, respectively. The Group ceased to engage in (i) the design, manufacture and sale of leather ware products; and (ii) packaging materials manufacture and distribution business during the year. Other than that, there were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 87.

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 2002.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results and assets and liabilities of the Group for each of the five years ended 31 December 2002, as extracted from the audited financial statements and reclassified as appropriate.



Report of the Directors (Cont'd)

SUMMARY FINANCIAL INFORMATION (Cont'd)

Results

	Year ended 31 December				
	2002	2001	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER					
Continuing operations	503,088	711,572	644,111	491,948	715,358
Discontinued operations	25,967	53,357	77,030	103,046	130,622
	<u>529,055</u>	<u>764,929</u>	<u>721,141</u>	<u>594,994</u>	<u>845,980</u>
Profit/(loss) from operating activities	(198,991)	(62,571)	(92,196)	(43,753)	6,949
Finance costs	(6,387)	(15,221)	(21,555)	(22,108)	(21,419)
Share of results of associates	–	(154)	(965)	(1,015)	(466)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
LOSS BEFORE TAX					
Continuing operations	(205,002)	(19,837)	(23,565)	(61,733)	(18,999)
Discontinued operations	(376)	(58,109)	(91,151)	(5,143)	4,063
	<u>(205,378)</u>	<u>(77,946)</u>	<u>(114,716)</u>	<u>(66,876)</u>	<u>(14,936)</u>
Tax					
Continuing operations	–	88	971	257	(1,467)
Discontinued operations	–	–	–	–	–
	<u>–</u>	<u>88</u>	<u>971</u>	<u>257</u>	<u>(1,467)</u>
Loss before minority interests	(205,378)	(77,858)	(113,745)	(66,619)	(16,403)
Minority interests	177	5,575	29,195	1,502	(931)
	<u>177</u>	<u>5,575</u>	<u>29,195</u>	<u>1,502</u>	<u>(931)</u>
Net loss from ordinary activities attributable to shareholder	<u>(205,201)</u>	<u>(72,283)</u>	<u>(84,550)</u>	<u>(65,117)</u>	<u>(17,334)</u>



Report of the Directors (Cont'd)

SUMMARY FINANCIAL INFORMATION (Cont'd)

Assets and liabilities

	As at 31 December				
	2002	2001	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets					
Fixed assets	180,994	204,436	257,801	269,117	284,503
Trademarks	–	1,500	7,000	35,000	37,000
Interest in associates	–	–	8,305	29,718	41,450
Other long term assets	1,268	–	–	–	2,276
Current assets	301,387	368,195	452,866	565,634	591,177
Total assets	483,649	574,131	725,972	899,469	956,406
Liabilities					
Current liabilities	181,546	149,567	191,988	365,783	216,132
Long term loans	16,667	64,017	113,818	–	133,941
Total liabilities	198,213	213,584	305,806	365,783	350,073
Minority interests	–	4,171	9,716	51,658	52,949
Net assets	285,436	356,376	410,450	482,028	553,384



Report of the Directors *(Cont'd)*

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 13 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 therefore, are set out in notes 29 and 30 to the financial statements, respectively.

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 31 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2002, no reserves, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, is available for cash distribution.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling HK\$47,000.

DIRECTORS

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

Executive Directors

Xiong Guangyang	(appointed on 1 June 2002)
Zeng Haipeng	(appointed on 3 June 2002)
Hui Wai Man Lawrence	(appointed on 3 June 2002)
Yu Ziquan	(resigned on 3 June 2002)
Zhang Muhan	(resigned on 13 May 2002)



Report of the Directors (Cont'd)

DIRECTORS (Cont'd)

Non-executive Directors

Ho Lam Lai Ping Theresa

Tam Chiu Pang Jaffe

(appointed on 30 September 2002)

Wang Man Kwan Paul

(appointed on 16 November 2002)

Yuen Lam Fai Antony

(appointed on 30 September 2002)

Cheung Sing Tai

(resigned on 30 September 2002)

Lau Chi Sing

(resigned on 1 August 2002)

Independent Non-executive Directors

Cheng Hok Lai James

Fung Lak

(appointed on 16 November 2002)

Poon Kin

(resigned on 7 September 2002)

Mr. Xiong Guangyang, Mr. Zeng Haipeng, Mr. Hui Wai Man Lawrence, Mr. Fung Lak, Mr. Tam Chiu Pang Jaffe, Mr. Wang Man Kwan Paul and Mr. Yuen Lam Fai Antony were appointed as Directors of the Company after the last Annual General Meeting of the Company and 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.

Mrs. Ho Lam Lai Ping Theresa 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, she offers herself for re-election.

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

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.



Report of the Directors *(Cont'd)*

DIRECTORS' INTERESTS IN SECURITIES

At 31 December 2002, 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 Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") were as follows:

(A) Guangdong Tannery Limited

Names	Number of Ordinary Shares (Personal Interest)
Cheng Hok Lai James	500,000
Tam Chiu Pang Jaffe	100,000

(B) Guangdong Investment Limited

Names	Number of Ordinary Shares (Personal Interest)
Ho Lam Lai Ping Theresa	250,000
Wang Man Kwan Paul	500,000
Zeng Haipeng	594,000

(C) Guangdong Brewery Holdings Limited

Names	Number of Ordinary Shares (Personal Interest)
Ho Lam Lai Ping Theresa	180,000
Tam Chiu Pang Jaffe	20,000

As at 31 December 2002, the following Directors had interest recorded in the register kept under Section 29 of the SDI Ordinance being options granted under the existing share option scheme of Guangdong Investment Limited, to subscribe for shares in Guangdong Investment Limited.



Report of the Directors (Cont'd)

DIRECTORS' INTERESTS IN SECURITIES (Cont'd)

Guangdong Investment Limited – share option

	No. of options held on 01/01/2002	Options granted during the year Date granted	Options 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 31/12/2002
Ho Lam Lai Ping Theresa	200,000	–	–	10/06/1997 – 09/06/2002	4.536	–	–
	500,000	–	–	19/08/1998 – 18/08/2003	2.892	–	(Note (3)) 500,000
	1,200,000	–	–	11/02/2002 – 10/02/2007	0.5312	–	1,200,000
		07/05/2002	1,200,000	08/11/2002 – 07/11/2007	0.814	–	1,200,000
		04/12/2002	1,200,000	05/03/2003 – 04/03/2008	0.96	–	1,200,000
Tam Chiu Pang Jaffe	400,000	–	–	11/02/2002 – 10/02/2007	0.5312	–	400,000
		07/05/2002	400,000	08/11/2002 – 07/11/2007	0.814	–	400,000
		04/12/2002	400,000	05/03/2003 – 04/03/2008	0.96	–	400,000
Wang Man Kwan Paul	1,500,000	–	–	11/02/2002 – 10/02/2007	0.5312	500,000	1,000,000
		07/05/2002	1,500,000	08/11/2002 – 07/11/2007	0.814	–	1,500,000
		04/12/2002	1,500,000	05/03/2003 – 04/03/2008	0.96	–	1,500,000
Yuen Lam Fai Antony	400,000	–	–	11/02/2002 – 10/02/2007	0.5312	–	400,000
		07/05/2002	500,000	08/11/2002 – 07/11/2007	0.814	–	500,000
		04/12/2002	600,000	05/03/2003 – 04/03/2008	0.96	–	600,000



Report of the Directors *(Cont'd)*

DIRECTORS' INTERESTS IN SECURITIES (Cont'd)

Guangdong Investment Limited – share option (Cont'd)

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.
- (3) The options were lapsed upon expiration on 7 June 2002.

Save as disclosed above, as at 31 December 2002, 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.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, any subsidiaries or holding company of the Company or any subsidiaries 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, Guangdong Investment Limited, Guangdong Brewery Holdings Limited and Guangnan Holdings Limited.



Report of the Directors (Cont'd)

SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 31 December 2002, 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:

Names	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 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 2002.

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.

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.

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.



Report of the Directors *(Cont'd)*

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 one non-executive Director and two independent non-executive Directors of the Company.

AUDITORS

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
Xiong Guangyang
Chairman

Hong Kong, 11 April 2003