



Report of the **D**irectors

The Directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

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 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 2003 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 32 to 100.

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 2003.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate. The summary does not form part of the audited financial statements.



Report of the Directors (Cont'd)

SUMMARY FINANCIAL INFORMATION (Cont'd)

Results

	Year ended 31 December				
	2003	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER					
Continuing operations	381,601	503,088	711,572	644,111	491,948
Discontinued operations	—	25,967	53,357	77,030	103,046
	<u>381,601</u>	<u>529,055</u>	<u>764,929</u>	<u>721,141</u>	<u>594,994</u>
Loss from operating activities	(95,632)	(198,991)	(62,571)	(92,196)	(43,753)
Finance costs	(5,948)	(6,387)	(15,221)	(21,555)	(22,108)
Share of results of associates	—	—	(154)	(965)	(1,015)
LOSS BEFORE TAX					
Continuing operations	(101,580)	(205,002)	(19,837)	(23,565)	(61,733)
Discontinued operations	—	(376)	(58,109)	(91,151)	(5,143)
	<u>(101,580)</u>	<u>(205,378)</u>	<u>(77,946)</u>	<u>(114,716)</u>	<u>(66,876)</u>
Tax					
Continuing operations	286	—	88	971	257
Discontinued operations	—	—	—	—	—
	<u>286</u>	<u>—</u>	<u>88</u>	<u>971</u>	<u>257</u>
Loss before minority interests	(101,294)	(205,378)	(77,858)	(113,745)	(66,619)
Minority interests	—	177	5,575	29,195	1,502
Net loss from ordinary activities attributable to shareholders	<u>(101,294)</u>	<u>(205,201)</u>	<u>(72,283)</u>	<u>(84,550)</u>	<u>(65,117)</u>



Report of the Directors (Cont'd)

SUMMARY FINANCIAL INFORMATION (Cont'd)

Assets and liabilities

	As at 31 December				
	2003	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(restated)	(restated)	(restated)	(restated)
Assets					
Fixed assets	118,406	180,994	204,436	257,801	269,117
Trademarks	—	—	1,500	7,000	35,000
Interest in associates	—	—	—	8,305	29,718
Other long term assets	—	1,268	—	—	—
Current assets	361,411	301,387	368,195	452,866	565,634
Total assets	479,817	483,649	574,131	725,972	899,469
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Liabilities					
Current liabilities	300,824	181,546	149,567	191,988	365,783
Long term loans	8,833	26,460	73,566	123,827	9,676
Total liabilities	309,657	208,006	223,133	315,815	375,459
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Minority interests	—	—	4,171	9,716	51,658
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Net assets	170,160	275,643	346,827	400,441	472,352
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Certain comparative figures in the prior years have been restated for the retrospective changes in accounting policy affecting income taxes. Details are further disclosed in notes 2 and 27 to the financial statements and have been reclassified to conform with the current year's presentation.

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.



Report of the Directors *(Cont'd)*

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorized or issued share capital during the year. Details of the Company's movements in the share options during the year, together with the reasons therefore, are set out in note 29 to the financial statements.

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 and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2003, 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.



Report of the Directors (Cont'd)

DIRECTORS

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

Wu Jiesi (<i>Honorary President</i>)	(appointed on 19 February 2004)
Zhang Chunting (<i>Chairman</i>)	(appointed on 19 February 2004)
Chen Hong (<i>Managing Director</i>)	(appointed on 19 February 2004)
Hui Wai Man Lawrence (<i>Director & Chief Financial Officer</i>)	
Cheng Hok Lai James*	
Fung Lak*	
Xiong Guangyang	
Ho Lam Lai Ping Theresa	
Chan Hee Kwan	(appointed on 22 November 2003)
Li Wai Keung	(appointed on 22 November 2003 and resigned on 19 February 2004)
Luo Fanyu	(appointed on 22 November 2003 and resigned on 19 February 2004)
Wang Man Kwan Paul	(resigned on 22 November 2003)
Tam Chiu Pang Jaffe	(resigned on 22 November 2003)
Yuen Lam Fai Antony	(resigned on 22 November 2003)
Zeng Haipeng	(resigned on 10 July 2003)

* *Independent Non-Executive Director*

Mr. Wu Jiesi, Mr. Zhang Chunting, Mr. Chen Hong and Mr. Chan Hee Kwan, 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' 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.



Report of the Directors (Cont'd)

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.

DIRECTORS' INTEREST IN SECURITIES

Directors' interest and short position in the securities

As at 31 December 2003, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(1) Interests and short positions in the Company

a. Interest in ordinary shares

Name of director	Nature of interests	Number of shares	% of issued share capital	Long/short positions
Cheng Hok Lai James	Personal	500,000	0.0954	Long position
Luo Fanyu	Personal	70,000	0.0134	Long position



Report of the Directors (Cont'd)

DIRECTORS' INTEREST IN SECURITIES (Cont'd)

(1) Interests and short positions in the Company (Cont'd)

b. Interest in options relating to ordinary shares

Name of director	Number of options held on 01/01/2003	Options granted during the year Date (dd/mm/yyyy)	Number	Period during which option is exercisable (dd/mm/yyyy) (Note (3))	Total consideration paid for options (HK\$)	Price per	Number of options exercised during the year	No. of options held on 31/12/2003
						Ordinary Share payable on exercise of option (HK\$)		
Xiong Guangyang	—	09/06/2003	3,000,000	10/09/2003 – 09/09/2008	1.00	0.22	—	3,000,000
Cheng Hok Lai James	—	09/06/2003	300,000	10/09/2003 – 09/09/2008	1.00	0.22	—	300,000
Fung Lak	—	09/06/2003	300,000	10/09/2003 – 09/09/2008	1.00	0.22	—	300,000
Zeng Haipeng (Note 1)	—	09/06/2003	3,000,000	10/09/2003 – 09/09/2008	1.00	0.22	—	—

Notes:

- (1) The options totaling 3,000,000 granted to Mr. Zeng Haipeng were cancelled on 2 September 2003.
- (2) The total consideration paid by each Director for the options granted by the Company was HK\$1.00.
- (3) If 09/09/2008 is not a business day in Hong Kong, the option period expires at 5:01 p.m. on the business day preceding that day (Hong Kong time).
- (4) The above options, being unlisted physically settled equity derivatives, to subscribe for the ordinary shares of the Company were granted to the above Directors pursuant to the approved share option scheme of the Company.

(2) Interests and short positions in Guangdong Investment Limited ("GDI")

a. Interest in ordinary shares of GDI

Name of director	Nature of interests	Number of shares	% of issued share capital of GDI	Long/short positions
Ho Lam Lai Ping Theresa	Personal	200,000	0.0038	Long position



Report of the Directors (Cont'd)

DIRECTORS' INTEREST IN SECURITIES (Cont'd)

(2) Interests and short positions in Guangdong Investment Limited ("GDI") (Cont'd)

b. Interest in options relating to ordinary shares of GDI

Name of director	Number of options held on 01/01/2003	Options granted during the year Date (dd/mm/yyyy)	Number	Period during which option is exercisable (dd/mm/yyyy) (Note (3))	Total consideration paid for options (HK\$)	Price per	Number of options exercised during the year	No. of options held on 31/12/2003
						Ordinary Share payable on exercise of option (HK\$)		
Li Wai Keung	1,500,000	01/11/2001	—	02/05/2002 – 01/05/2007	—	0.74	800,000	700,000
	1,500,000	07/05/2002	—	08/11/2002 – 07/11/2007	—	0.814	—	1,500,000
	1,500,000	04/12/2002	—	05/03/2003 – 04/03/2008	1.00	0.96	—	1,500,000
	—	07/05/2003	1,500,000	08/08/2003 – 07/08/2008	1.00	1.22	—	1,500,000
	—	—	—	—	—	—	—	—
Ho Lam Lai Ping Theresa	500,000	18/02/1998	—	19/08/1998 – 18/08/2003	—	2.892	—	—
	1,200,000	10/08/2001	—	11/02/2002 – 10/02/2007	—	0.5312	1,200,000	—
	1,200,000	07/05/2002	—	08/11/2002 – 07/11/2007	—	0.814	200,000	1,000,000
	1,200,000	04/12/2002	—	05/03/2003 – 04/03/2008	1.00	0.96	—	1,200,000
	—	07/05/2003	1,500,000	08/08/2003 – 07/08/2008	1.00	1.22	—	1,500,000

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) The above options, being unlisted physically settled equity derivatives, to subscribe for the ordinary shares of GDI were granted to the above Directors pursuant to the approved share option scheme of GDI.



Report of the Directors (Cont'd)

DIRECTORS' INTEREST IN SECURITIES (Cont'd)

(3) Interests and short positions in Guangdong Brewery Holdings Limited ("GDB") — Interest in ordinary shares

Name of director	Nature of interests	Number of shares	% of issued share capital of GDB	Long/short positions
Ho Lam Lai Ping Theresa	Personal	80,000	0.0064	Long position
Luo Fanyu	Personal	70,000	0.0056	Long position

Save as disclosed above, as at 31 December 2003, to the knowledge of the Company, none of the Directors or chief executives of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and the chief executives were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

Save as disclosed above, at no time during the year has the Company, its holding companies or any of its subsidiaries or associated corporation a party to any arrangements to enable the Directors of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company on any other body corporate.

SHARE OPTIONS OF THE COMPANY

In assessing the theoretical aggregate value of the share options granted during the year, the Black-Scholes option pricing model has been used.



Report of the Directors *(Cont'd)*

SHARE OPTIONS OF THE COMPANY (Cont'd)

Share options granted during the year ended 31 December 2003:

Date of Grant : 09/06/2003
 Vesting Period : 09/06/2003 – 09/09/2003
 Exercise Period : 10/09/2003 – 09/09/2008
 Exercise Price : HK\$0.22

	Number of Options at 09/06/03	Options Value at 09/06/03 (Note (2)) HK\$	Number of Options at 31/12/03	Options Value at 31/12/03 (Note (3)) HK\$
Grantee:				
Zhang Chunting	2,500,000	450,000	2,500,000	425,000
Xiong Guangyang	3,000,000	540,000	3,000,000	510,000
Cheng Hok Lai James	300,000	54,000	300,000	51,000
Fung Lak	300,000	54,000	300,000	51,000
Zeng Haipeng	3,000,000	540,000	—	—
Other employees	550,000	99,000	550,000	93,500
	<u>9,650,000</u>	<u>1,737,000</u>	<u>6,650,000</u>	<u>1,130,500</u>
Total	<u>9,650,000</u>	<u>1,737,000</u>	<u>6,650,000</u>	<u>1,130,500</u>



Report of the Directors (Cont'd)

SHARE OPTIONS OF THE COMPANY (Cont'd)

Share options granted during the year ended 31 December 2003: (Cont'd)

Notes:

- (1) The closing price of the Ordinary Shares of the Company immediately before the date on which the options were granted was HK\$0.204.

- (2) According to the Black-Scholes model¹, the total value of the options was estimated at HK\$1,737,000 as at 9 June 2003 (when the options were granted) with the following variables and assumptions:

Risk Free Rate : 2.41%, being the approximate yield of 5-year Exchange Fund Note traded on 09/06/2003.

Expected Volatility : 112.4%, being the annualised volatility of the closing price of the Ordinary Shares of the Company from 09/06/2002 – 09/06/2003.

Expected Dividend Yield : Nil

Expected Life of the Options : 5.25 years

Assumptions : There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the Ordinary Shares of the Company over the period of 09/06/2002 – 09/06/2003.

- (3) According to the Black-Scholes model¹, the total value of the options was estimated at HK\$1,130,500 as at 31 December 2003 with the following variables and assumptions:

Risk Free Rate : 3.16%, being the approximate yield of 5-year Exchange Fund Note traded on 31/12/2003.

Expected Volatility : 111.6%, being the annualised volatility of the closing price of the Ordinary Shares of the Company from 01/01/2003 – 31/12/2003.

Expected Dividend Yield : Nil

Expected Life of the Options : 4.75 years

Assumptions : There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the Ordinary Shares of the Company over the period of 01/01/2003 – 31/12/2003.

- (4) Options forfeited, if any, before expiry of the options will be treated as lapsed options which will be added back to the number of Ordinary Shares available to be issued under the relevant share option scheme.

¹ The Black-Scholes model (the "Model") is developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

* According to Listing Rules Chapter 17.08, the risk-free rate should be the rate prevailing on debt securities issued by the state, such as the Exchange Fund Notes in case of Hong Kong based entities.



Report of the Directors (Cont'd)

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

So far as is known to any Director or chief executive of the Company, as at 31 December 2003, the persons or companies (not being a Director or chief executive of the Company) who have interests or short positions in the Ordinary Shares or underlying Ordinary Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholders	Number of Ordinary Shares of the Company held			Percentage of issued capital
	Direct Interests	Deemed Interests	Long/short position	
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) (Note)	—	375,100,000	Long position	71.56
GDH Limited	375,100,000	—	Long position	71.56

Note: The attributable interest which 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) has in the Company is held through its 100 per cent. direct interest in GDH.

Save as disclosed above, as at 31 December 2003, the Directors are not aware of any other person who had an interest or short position in the shares, underlying Shares or debentures which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Share Options of the Company" and "Directors' Interests in Securities" of this report, and in note 29 to the financial statements, 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 or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.



Report of the Directors *(Cont'd)*

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 37 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 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 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

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
Zhang Chunting
Chairman

Hong Kong, 14 April 2004