



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 2004.

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 13 and 14 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 2004 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 83.

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 2004.



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FINANCIAL SUMMARY

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.

Results

	Year ended 31 December				
	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover					
Continuing operations	281,951	381,601	503,088	711,572	644,111
Discontinued operations	–	–	25,967	53,357	77,030
	<u>281,951</u>	<u>381,601</u>	<u>529,055</u>	<u>764,929</u>	<u>721,141</u>
Profit/(Loss) from operating activities	11,605	(95,632)	(198,991)	(62,571)	(92,196)
Finance costs	(5,734)	(5,948)	(6,387)	(15,221)	(21,555)
Share of results of associates	–	–	–	(154)	(965)
Profit/(Loss) before tax					
Continuing operations	5,871	(101,580)	(205,002)	(19,837)	(23,565)
Discontinued operations	–	–	(376)	(58,109)	(91,151)
	<u>5,871</u>	<u>(101,580)</u>	<u>(205,378)</u>	<u>(77,946)</u>	<u>(114,716)</u>
Tax					
Continuing operations	(1,203)	286	–	88	971
Discontinued operations	–	–	–	–	–
	<u>(1,203)</u>	<u>286</u>	<u>–</u>	<u>88</u>	<u>971</u>
Profit/(Loss) before minority interests	4,668	(101,294)	(205,378)	(77,858)	(113,745)
Minority interests	–	–	177	5,575	29,195
Net Profit /(loss) from ordinary activities attributable to shareholders	<u>4,668</u>	<u>(101,294)</u>	<u>(205,201)</u>	<u>(72,283)</u>	<u>(84,550)</u>



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Assets and liabilities

	As at 31 December				
	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets					
Fixed assets	111,296	118,406	180,994	204,436	257,801
Trademarks	–	–	–	1,500	7,000
Interest in associates	–	–	–	–	8,305
Other long term assets	–	–	1,268	–	–
Current assets	301,790	361,411	301,387	368,195	452,866
Total assets	413,086	479,817	483,649	574,131	725,972
Liabilities					
Current liabilities	233,002	300,824	181,546	149,567	191,988
Long term liabilities	9,012	8,833	26,460	73,566	123,827
Total liabilities	242,014	309,657	208,006	223,133	315,815
Minority interests	–	–	–	4,171	9,716
Net assets	171,072	170,160	275,643	346,827	400,441

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

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 27 to the financial statements.



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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 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2004, no reserves, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, is available for cash distribution.

CHARITABLE CONTRIBUTIONS

The Group did not make any charitable contributions during the year (2003: HK\$47,000).

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>)	
Xiong Guangyang	
Cheng Hok Lai James *	
Fung Lak *	
Choi Kam Fai Thomas *	(appointed on 15 October 2004)
Ho Lam Lai Ping Theresa	
Li Wai Keung	(resigned on 19 February 2004)
Luo Fanyu	(resigned on 19 February 2004)
Chan Hee Kwan	(resigned on 11 September 2004)

* Independent Non-Executive Director



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The Company has received independence confirmation from the Independent Non-Executive Directors, namely: Messrs. Cheng Hok Lai James, Fung Lak and Choi Kam Fai Thomas, and considers them to be independent.

RE-ELECTION OF DIRECTORS AT ANNUAL GENERAL MEETING

Mr. Choi Kam Fai Thomas who was appointed a Director of the Company after the last Annual General Meeting of the Company is due to retire pursuant to Article 77 of the Company's Article of Association at the forthcoming Annual General Meeting. Being eligible, he offers himself for re-election.

After his re-election at the forthcoming annual general meeting, Mr. Choi Kam Fai Thomas will continue to serve on the board of Directors for a period of approximately three years until he becomes due to retire by rotation in accordance with the Articles of Association of the Company. Mr. Choi is not related to any director, senior management or substantial or controlling shareholder of the Company. As at the date of this report, Mr. Choi was not interested or deemed to be interested in any ordinary shares and derivative interest of the Company and other associated companies with the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"). There is no service contract between the Company and Mr. Choi. In accordance with the Articles of Association of the Company, Mr. Choi as a Non-executive Director, is entitled to such director's fee as may be approved by the Board of Directors of the Company. The total current emoluments of Mr. Choi as an Independent Non-Executive Director amounts to HK\$100,000 annually.

Mr. Fung Lak and Mrs. Ho Lam Lai Ping Theresa are 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, they offer themselves for re-election.

After his re-election at the forthcoming annual general meeting, Mr. Fung Lak will continue to serve on the board of Directors for a period of approximately three years until he becomes due to retire by rotation again in accordance with the Articles of Association of the Company. Mr. Fung is not related to any director, senior management or substantial or controlling shareholder of the Company. As at the date of this report, Mr. Fung had a derivative interest in respect of 600,000 Ordinary Shares in the Company within the meaning of Part XV of the SFO, which represents Mr. Fung's entitlement to subscribe for 600,000 Ordinary Shares in the Company. There is no service contract between the Company and Mr. Fung. In accordance with the Articles of Association of the Company, Mr. Fung as a Non-executive Director, is entitled to such director's fee as may be approved by the Board of Directors of the Company. The total current emoluments of Mr. Fung as an Independent Non-Executive Director amounts to HK\$100,000 annually.



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After her re-election at the forthcoming annual general meeting, Mrs. Ho Lam Lai Ping Theresa will continue to serve on the board of Directors for a period of approximately three years until she becomes due to retire by rotation again in accordance with the Articles of Association of the Company. Other than those particulars as stated in the section titled "Biographical Details of Directors and Senior Management" in this report, Mrs. Ho is not related to any director, senior management or substantial or controlling shareholder of the Company. As at the date of this report, Mrs. Ho was interested in 700,000 Ordinary Shares in Guangdong Investment Limited ("GDI") and 80,000 Ordinary Shares in Kingway Brewery Holdings Limited. Mrs. Ho also had a derivative interest in respect of 4,900,000 Ordinary Shares in GDI within the meaning of Part XV of the SFO, which represents Mrs. Ho's entitlement to subscribe for 4,900,000 Ordinary Shares in GDI. There is no service contract between the Company and Mrs. Ho. In accordance with the Articles of Association of the Company, Mrs. Ho, as a Non-executive Director, is entitled to such director's fee as may be approved by the Board of Directors of the Company. Mrs. Ho is not currently receiving any remuneration from the Company.

DIRECTORS' SERVICE CONTRACTS

No Directors proposed for re-election at the forthcoming Annual General Meeting 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.

DIRECTORS' INTERESTS IN SECURITIES

Directors' interest and short position in the securities

As at 31 December 2004, 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



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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	400,000	0.076	Long position

Note: The number of ordinary shares of the Company in issue as at 31 December 2004 was 524,154,000.

(b) Interest in options relating to ordinary shares

					Total consideration paid for options (HK\$)	Price per Ordinary Share payable on exercise of option (HK\$)	Number of options exercised during the year	No. of options held on 31/12/2004
Name of director	No. of options held on 01/01/2004	Options granted during the year Date (dd/mm/yyyy)	Number	Period during which option is exercisable (dd/mm/yyyy)				
Zhang Chunting	2,500,000	–	–	10/09/2003 – 09/09/2008	1	0.22	–	2,500,000
	–	11/02/2004	2,000,000	12/05/2004 – 11/05/2009	1	0.246	–	2,000,000
Chen Hong	–	11/02/2004	1,800,000	12/05/2004 – 11/05/2009	1	0.246	–	1,800,000
Xiong Guangyang	3,000,000	–	–	10/09/2003 – 09/09/2008	1	0.22	–	3,000,000
	–	11/02/2004	2,200,000	12/05/2004- 11/05/2009	1	0.246	–	2,200,000
Cheng Hok Lai James	300,000	–	–	10/09/2003 – 09/09/2008	1	0.22	–	300,000
	–	11/02/2004	300,000	12/05/2004 – 11/05/2009	1	0.246	–	300,000
Fung Lak	300,000	–	–	10/09/2003 – 09/09/2008	1	0.22	–	300,000
	–	11/02/2004	300,000	12/05/2004 – 11/05/2009	1	0.246	–	300,000

Note: If the last day of any of the option period is not a business day in Hong Kong, the option period shall end at the close of business on the business day preceding that day.



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(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
Wu Jiesi	Personal	16,000,000	0.2877	Long position
Ho Lam Lai Ping Theresa	Personal	900,000	0.0162	Long position

Note: The number of ordinary shares of GDI in issue as at 31 December 2004 was 5,561,612,672.

(b) Interest in options relating to ordinary shares of GDI

Name of director	No. of options held on 01/01/2004	Options granted during the year Date (dd/mm/yyyy)	Number	Period during which option is exercisable (dd/mm/yyyy)	Total consideration paid for options (HK\$)	Price per Ordinary Share payable on exercise of option (HK\$)	Number of options exercised during the year	No. of options held on 31/12/2004
Wu Jiesi	7,000,000	–	–	02/05/2002 – 01/05/2007	–	0.74	7,000,000	–
	9,000,000	–	–	08/11/2002 – 07/11/2007	–	0.814	9,000,000	–
	6,000,000	–	–	05/03/2003 – 04/03/2008	1	0.96	–	6,000,000
	3,000,000	–	–	08/08/2003 – 07/08/2008	1	1.22	–	3,000,000
	–	06/02/2004	3,000,000	07/05/2004 – 06/05/2009	1	1.59	–	3,000,000
	–	24/05/2004	2,500,000	25/08/2004 – 24/08/2009	1	1.25	–	2,500,000
Ho Lam Lai Ping Theresa	1,000,000	–	–	08/11/2002 – 07/11/2007	–	0.814	1,000,000	–
	1,200,000	–	–	05/03/2003 – 04/03/2008	1	0.96	300,000	900,000
	1,500,000	–	–	08/08/2003 – 07/08/2008	1	1.22	–	1,500,000
	–	06/02/2004	1,500,000	07/05/2004 – 06/05/2009	1	1.59	–	1,500,000
	–	24/05/2004	1,000,000	25/08/2004 – 24/08/2009	1	1.25	–	1,000,000

Note: If the last day of any of the option period is not a business day in Hong Kong, the option period shall end at the close of business on the business day preceding that day.



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(3) Interests and short positions in Kingway Brewery Holdings Limited ("Kingway") – Interest in ordinary shares of Kingway

Name of director	Nature of interests	Number of shares	% of issued share capital of Kingway	Long/short positions
Ho Lam Lai Ping Theresa	Personal	80,000	0.0057	Long position

Note: The number of ordinary shares of Kingway in issue as at 31 December 2004 was 1,395,568,000.

(4) Interests and short positions in Guangnan (Holdings) Limited ("Guangnan") – Interest in options relating to ordinary shares of Guangnan

Name of director	No. of options held on 01/01/2004	Options granted during the year Date (dd/mm/yyyy)	Number	Period during which option is exercisable (dd/mm/yyyy)	Total consideration paid for options (HK\$)	Price per Ordinary Share payable on exercise of option (HK\$)	Number of options exercised during the year	No. of options held on 31/12/2004
Hui Wai Man Lawrence	–	06/02/2004	2,500,000	06/05/2004 – 05/05/2009	10	0.1582	–	2,500,000

Note: If the last day of any of the option period is not a business day in Hong Kong, the option period shall end at the close of business on the business day preceding that day.

Save as disclosed above, as at 31 December 2004, 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.



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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.

Share options granted during the year ended 31 December 2004:

Date of Grant	:	11/02/2004
Vesting Period	:	11/02/2004 – 11/05/2004
Exercise Period	:	12/05/2004 – 11/05/2009
Exercise Price	:	HK\$0.246

	Number of Options At 11/02/04	Options Value At 11/02/04 (Note (2)) HK\$	Number of Options At 31/12/04	Options Value At 31/12/04 (Note (3)) HK\$
Grantee:				
Zhang Chunting	2,000,000	380,000	2,000,000	420,000
Chen Hong	1,800,000	342,000	1,800,000	378,000
Xiong Guangyang	2,200,000	418,000	2,200,000	462,000
Cheng Hok Lai James	300,000	57,000	300,000	63,000
Fung Lak	300,000	57,000	300,000	63,000
Other employees	2,100,000	399,000	2,100,000	441,000
Total	<u>8,700,000</u>	<u>1,653,000</u>	<u>8,700,000</u>	<u>1,827,000</u>

Notes:

- (1) The closing price of the Ordinary Shares of the Company immediately before the date on which the options were granted was HK\$0.24.
- (2) According to the Black-Scholes model[#], the total value of the options was estimated at HK\$1,653,000 as at 11 February 2004 (when the options were granted) with the following variables and assumptions:

Risk Free Rate	:	2.72%, being the approximate yield of 5-year Exchange Fund Note traded on 11/02/2004
Expected Volatility	:	112.0%, being the annualized volatility of the closing price of the Ordinary Shares of the Company from 11/02/2003 – 11/02/2004.



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- Expected Dividend Yield : Nil, being the approximate yield of the shares of the Company over the period of 11/02/2003 – 11/02/2004.
- 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 11/02/2003 – 11/02/2004.
- (3) According to the Black-Scholes model[#], the total value of the options was estimated at HK\$1,827,000 as at 31 December 2004 with the following variables and assumptions:
- Risk Free Rate : 2.66%, being the approximate yield of 5-year Exchange Fund Note traded on 31/12/2004.
- Expected Volatility : 108.4%, being the annualized volatility of the closing price of the Ordinary Shares of the Company from 01/01/2004 – 31/12/2004.
- Expected Dividend Yield : Nil, being the approximate yield of the shares of the Company over the period of 01/01/2004 – 31/12/2004.
- Expected Life of the Options : 4.86 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 01/01/2004 – 31/12/2004.
- (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.
- [#] 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.



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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 2004, 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	Capacity/nature of interest	Number of Ordinary Shares of the Company held		Long/short position	Percentage of issued capital
		Direct Interests	Deemed Interests		
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) (Note)	Beneficial owner/ Interest of controlled corporation	–	375,100,000	Long position	71.56
GDH Limited	Beneficial owner/ Interest of controlled corporation	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% direct interest in GDH Limited.

Save as disclosed above, as at 31 December 2004, 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 PURCHASE 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 27 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.



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CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 December 2004 with the Code of Best Practices, as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited of which is effective before 31 December 2004.

The Company has adopted the Model Code set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as the code of conduct regarding Director's securities transactions. All Directors have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code during the year.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited based on the information that is publicly available to the Company and within the knowledge of the Directors.

AUDIT COMMITTEE

The Company has established an Audit Committee comprising all of the Independent Non-Executive Directors of the Company in accordance with the Code of Corporate Governance Practice as set out in Appendix 14 to the Listing Rules. The principal duties of the Audit Committee include the review of the completeness, accuracy and fairness of the Company's financial reports and the effectiveness of the Company's internal control system. The Audit Committee has reviewed the results of the Group for the year ended 31 December 2004.

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, 8 April 2005