粵海制革有限公司
GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

2002 ANNUAL RESULTS ANNOUNCEMENT

CHAIRMAN'S STATEMENT

The Group has taken various initiatives to consolidate its foundation since the second half of 2002. Focus has been placed on a number of areas, such as rationalizing the management structure, strengthening the internal controls and group decision-making process, and optimizing the coordination between production, supply and distribution. In addition, non-cored operations of the Group have been streamlined, while resources were focused on strengthening the core leather business.

The Group has embarked on a series of programs since June 2002. First, the management of Nanhai Tannery was reshuffled. Second, the administrative structure was rationalized. The four workshops at Nanhai Tannery were merged into three and more than 200 employees were laid off following the merger and the reorganisation of positions and duties. Third, efforts were made to closely monitor staff costs, sourcing, production safety, and distribution; to strengthen further the internal coordination and communication; to enhance the corporate transparency; and to rationalize the internal control system. Fourth, the management by objectives program was implemented to bring into full play the initiative and creativity of staff. A management-by-objective letter was entered into between the Company and all major divisions, stipulating the objectives set by the Company. Salary increase and rewards are made with reference to the level of accomplishment of such objectives.

Fifth, competition was introduced into the sourcing process under the ''Yang Guang'' program, as sourcing of various materials such as leather, chemicals, metals, and office equipment was carried out by way of public tender. The whole sourcing process was therefore regulated, including the procedures of screening the suppliers' qualifications, distributing and collecting the tenders, verifying and assessing the tenders, and supervising the whole tender process. Nanhai Tannery is a pioneer in the non-standardised industries to adopt public tender for sourcing. This was topic of a commentary in the ''Chinese Leather'' (vol. 2, 2003), an authoritative journal in the leather industry, and positive feedback from the industry was aroused. Sourcing through public tender not only helps reduce the production costs, but also helps rectify some of the existing problems in supply and distribution. The ''Yang Guang'' program has been implemented in other tanneries of the Group.

Sixth, corporate restructuring was implemented. The Group has closed down loss-ridden businesses, disposed of under-performing assets, and optimized the asset structure. Nanhai Tongyuan Tannery Company Limited (南海市通遠皮革有限公司), a Nanhai-based company wholly owned by foreign investors, was established to acquire certain assets of Nanhai Tannery and take over control of part of its production procedures. Inventories and trade receivables of the leather ware and packaging materials businesses have been sold since July 2002. In addition, the Group is actively resolving the issue surrounding the closure of Qingdao Nanhai Tannery by legal means. To minimise the annual fixed return costs, all Sino-foreign joint ventures in China under the Group have been reorganised into companies wholly owned by foreign investors.

Looking ahead into 2003, the Group will continue to enhance further its competitiveness. Measures will be taken to underpin its core business, strengthen its research and development efforts, and enhance the quality of all products. In addition, emphasis will be placed on improving the product mix, expanding the distribution network, and achieving higher operational efficiency.

I take this opportunity to thank our customers, suppliers and shareholders for their continued support, and our staff for their hard work and dedication.

Xiong Guangyang
Chairman

Hong Kong, 11 April 2003

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Provisions

The Group's loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 was HK$205,201,000 (2001: HK$72,283,000). Turnover was HK$529,055,000, a drop of 30.84% as compared to HK$764,929,000 for the same period last year. The loss was primarily attributable to the major provisions and impairment loss totaling HK$180,626,000 as follows:

– an impairment loss of goodwill of HK$133,349,000 arising from the acquisition of Nanhai Tannery & Leather Products Co. Ltd.;

– a provision of HK$28,531,000 for doubtful trade receivables;

– a provision of HK$11,057,000 for inventories;

– a deficit of HK$3,494,000 on revaluation of properties; and

– loss and provision of HK$4,195,000 for asset disposal, restructuring and other purposes.

Net assets of the Group as at 31 December 2002 were HK$285,436,000, decreased by HK$70,940,000 and HK$24,386,000 respectively as compared to 31 December 2001 and 30 June 2002.

Operations Review

Since the beginning of 2002, the Group has taken a series of initiatives to streamline its operations. It has disengaged its interests in the leather ware and paper box packaging businesses given their limited turnover and development potential, and focused its resources on developing the more competitive leather business. As mentioned in our interim report, the Group disposed of its leather ware business at a total consideration of HK$8.3 million, and the inventories and trade receivables of the packaging materials business to a third party at HK$7,226,000. Certain plant and machinery was also leased to a third party at RMB800,000 per annum. In addition, the Group is actively resolving the issue of closing down Qingdao Nanhai Tannery by legal means, as described under the sub-heading ''Litigations'' below.

The Leather Markets and Products

To stay ahead of increasing competition in China's leather market, the Group remains focused on developing the competitive black nappa cow leather and enhancing its product grading and quality. It also strives to open up the market for fashion leather, and strengthen the development of other new products. A team specialised in production techniques was set up at the Nanhai Tannery during the second half of 2002. It aims to enhance the production efficiency by ensuring quality acceptance level in excess of 60% for black nappa cow leather. At present, black nappa cow leather accounts for more than 90% of the Group's leather production. To avoid the operational risks and obsolescence of existing technologies associated with over emphasis on one single product, the Group has established a research and development center to develop new lines of innovative products in order to mitigate the operational risks and sales pressure. Turnover and production volume of the leather business (by product line) in 2001 and 2002 are as follows:

Product	**Turnover**			**Production Volume**		
	2002	**2001**	**+/(-)**	**2002**	**2001**	**+/(-)**
	HK$'000	*HK$'000*	*(%)*	*('000 sq.ft.)*	*('000 sq.ft.)*	*(%)*
Cow hides	321,232	386,402	(16.87)	24,870	36,635	(32.11)
Cow Split, Coated Cow Split & others	91,527	83,910	9.08	14,028	21,405	(34.46)
Total	412,759	470,312	(12.24)	38,898	58,040	(32.98)

Distribution of the Leather Business

The thrust of the Group's distribution strategies lies in three main areas: maintain good relationship with existing distributors, seek new distributors and place greater emphasis on direct sale. Following its marketing policies based on locality and market responsiveness, the Group is striving to establish a new distribution network that covers various regional markets and distribution bases. Four regional markets are set up in China: Eastern China, Southwest China, Southern China and Northern China, and a total of 18 distribution bases spanning across these four regions are established. This distribution network enables the Group to gain better access to market information, mitigate market risks, and enhance its price negotiation capability. Meanwhile, the Group is actively venturing into the direct sale market given its tremendous potential for growth. Products are increasingly sold to major downstream enterprises by direct sale, instead of being sold via distributors.

Operating Costs

To minimise the production costs, sourcing activities of the Group were carried out by way of public tender under the ''Yang Guang'' program during the second half of 2002. A marked reduction in production costs was recorded following the establishment of a specialised sourcing team and the introduction of competition into the sourcing process through public tender. Sourcing prices for raw cow leather and certain chemicals were reduced since the ''Yang Guang'' program has been in place.

Financial Position

As at 31 December 2002, the Group's interest-bearing borrowings and cash and bank balances are analysed as follows together with their comparative figures as at 31 December 2001:

	2002 *(HK$'000)*	**2001** *(HK$'000)*
Interest bearing borrowings		
Currencies:		
Hong Kong dollar	24,400	24,473
Renminbi	69,694	52,763
United States dollar	28,548	83,544
	122,642	160,780
Interest rates:		
At fixed rate	69,694	52,763
At floating rate	52,948	108,017
	122,642	160,780
Cash and bank balances		
Hong Kong dollar	666	70,420
Renminbi	43,094	15,755
United States dollar	21,066	29,265
	64,826	115,440

At 31 December 2002, after deduction of cash and bank deposits, the Group's ratio of net interest-bearing borrowings to shareholders' equity was 20.25% (2001: 12.7%). Loan facilities bear interest at approximately 3% to 6% per annum. Of the Group's total borrowings, HK$105,975,000 is repayable within one year. Interest expense incurred by the Group during the year was reduced by 58.04% as compared to the same period last year.

In January 2002, a refinance arrangement was made by the Group under which a facility of HK$50,000,000 was advanced from a bank in Mainland China. This facility, together with the Group's internal funding, was applied to repay in full the outstanding loan of approximately HK$108,000,000 as at 31 December 2001 under the Tannery Override Agreement. Net cash outflow for operating activities for the year was HK$14,505,000. Cash inflow from new financing was HK$182,865,000 and cash outflow for repayment of the loan principals and accrued interest was HK$228,063,000. Net cash outflow for the year amounted to HK$46,938,000.

Fixed assets as at the year end of 2002 were HK$180,994,000, a reduction of HK23,442,000 or 11.47% from last year. The Group's capital expenditure during the year amounted to HK$15,476,000 (2001: HK$10,921,000). It was incurred mainly for the purchase of the land & buildings, machinery and equipment from the previous Chinese joint venture partners of two plants in Xuzhou to cope with the long-term development of the leather business. During the year under review, the Group also disposed of certain of its properties, machinery and equipment with a net book value of HK$18,134,000. Subsequent to the year end, the Group has further disposed of properties which generated approximately HK$12,101,000.

As at 31 December 2002, certain of the Group's leasehold land and buildings and bank deposits with a total net book value of HK$48,972,000 (2001: HK$31,162,000) were pledged to secure general banking facilities granted to the Group.

Litigations

1. In September 2002, the Company submitted a claim to China International Economic and Trade Arbitration Commission (the ''Arbitration Commission'') in Shenzhen, Mainland China against a PRC joint venture partner of a subsidiary of the Company at Qingdao seeking, amongst others, termination of the joint venture agreement and compensation of losses and damages of approximately RMB24,000,000. However, the PRC joint venture partner also applied to the Arbitration Commission in Beijing against the Company claiming for loss of fixed return under the said joint venture agreement in question and damages in an aggregate of RMB15,000,000. The two arbitration proceedings are still in progress.

2. In January 2001, Guangdong Enterprises (North America) Fur Holdings Limited (''GDNA'') and Harbour Hill International Limited (''Harbour Hill''), wholly owned subsidiaries of the Company, commenced an action in the Southern District of New York against a company called Hennessy International Group, Inc. (''HIGI'') and its owners/controllers. GDNA and Harbour Hill are attempting to recover from the corporate defendant and the individual defendants approximately US$2.25 million in financing that GDNA and Harbour Hill provided to HIGI. In August 2002, a conciliation agreement was entered into between the plaintiffs and defendants, whereby the defendants agreed to make a payment of US$500,000 to GDNA and Harbour Hill by three installments. The first and second installments have been paid in August and September 2002, and the third installment will be paid in August 2003.

Major Customers and Suppliers

For the year ended 31 December 2002,

(a) the amount of purchases attributable to the Group's largest supplier represented 11.53% of the Group's total purchases;

(b) the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented 38.87% of the Group's total purchases;

(c) the amount of turnover attributable to the Group's largest customer represented 38.15% of the Group's total turnover;

(d) the aggregate amount of the turnover attributable to the Group's five largest customers represented 60.62% of the Group's total turnover; and

(e) none of the Directors of the Company or their associates holds or any shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers or customers.

Employees

As at 31 December 2002, a total of 1,075 employees (2001: 1,757 employees) were employed by the Group. The pay levels of employees are made with reference to the Group's operating results and the employee's performance. Over the past few years, there was a salary freeze for the employees of the headquarters in Hong Kong. The Group offered social and medical insurance and provident fund to all employees in different areas. The Company has adopted a new share option scheme (''Share Option Scheme'') in May 2002, and the purpose of which is to provide incentives to participants to contribute to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis. Details of the Share Option Scheme are set out in the Directors' Report.

Auditors – Services provided other than audit

Messrs. Ernst & Young, the auditors of the Group, have provided to the Group services other than the statutory audit work. Charges of such services are listed below:

	2002 *(HK$'000)*	**2001** *(HK$'000)*
Taxation Service	11	41
Assessment of internal control	–	185
Interim results review	350	125
Other consultantcy service	–	3

AUDITED CONSOLIDATED RESULTS

The Directors of Guangdong Tannery Limited (the ''Company'') announce the audited consolidated results of the Company and its subsidiaries (the ''Group'') for the year ended 31 December 2002 together with the comparative figures for 2001 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	**2002** *HK$'000*	**2001** *HK$'000*
TURNOVER	3		
Continuing operations		503,088	711,572
Discontinued operations		25,967	53,357
		529,055	764,929
Cost of sales		(513,416)	(683,962)
Gross profit		15,639	80,967
Other revenue		9,425	7,863
Selling and distribution costs		(10,958)	(17,520)
Administrative expenses		(32,548)	(49,946)
Other operating expenses, net		(180,633)	(83,935)
Gain on disposal of a discontinued operation	5(a)	636	–
Staff compensation payments in respect of a discontinued operation	5(b)	(552)	–
LOSS FROM OPERATING ACTIVITIES	4	(198,991)	(62,571)
Finance costs	6	(6,387)	(15,221)
Share of losses of associates		–	(154)
LOSS BEFORE TAX			
Continuing operations		(205,002)	(19,837)
Discontinued operations		(376)	(58,109)
		(205,378)	(77,946)
Tax	7		
Continuing operations		–	88
Discontinued operations		–	–
		–	88
LOSS BEFORE MINORITY INTERESTS		(205,378)	(77,858)
Minority interests		177	5,575
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(205,201)	(72,283)
TRANSFER FROM RESERVES		553	1
LOSS PER SHARE	8		
– Basic		(39.15 cents)	(13.79 cents)
– Diluted		N/A	N/A

Notes:

(1) IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (''SSAPs'')

The following recently-issued and revised SSAPs have been adopted for the first time in the preparation of the current year's consolidated financial statements:

– SSAP 1 (Revised): ''Presentation of financial statements''
– SSAP 11 (Revised): ''Foreign currency tralslation''
– SSAP 15 (Revised): ''Cash flow statements''
– SSAP 33: ''Discontinuing operations''
– SSAP 34: ''Employee benefits''

(2) CORPORATE INFORMATION

During the year, the Group was principally engaged in the processing and sale of semi-finished and finished leather, the sale of merchandise and property investment.

During the year, the Group's businesses in the design, manufacture and sale of leather ware products and the manufacture and sale of packaging materials were discontinued as a result of the Group's disposal of its entire 60% interest in Alpha Universal Limited and termination of the operation of Xuzhou Gangwei Colour Package Co., Ltd., respectively.

In the opinion of the Directors, the ultimate holding company of the Company is 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited), a company established in the mainland of the People's Republic of China.

(3) SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

Continuing operations

(a) the leather processing segment processes raw leather to finished leather for use in the leather ware products manufacture industry in Hong Kong and Mainland China;

(b) the merchandise trading segment purchases commodities from overseas and sells to customers in Mainland China;

(c) the property investment segment invests in residential and commercial properties in Hong Kong and Mainland China for rental income purpose; and

(d) the corporate and other segment mainly comprises the Group's corporate income and expense items.

Discontinued operations

(a) the leather ware products manufacture and distribution segment produces leather ware products in Mainland China and sells them mainly in Hong Kong; and

(b) the packaging materials manufacture and distribution segment produces and distributes packaging materials in Mainland China.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. Intersegment transactions mainly represented management services, rental expenses and guarantees provided and charged by the Company to its subsidiaries at the bases determined by the Group.

(a) Business segments

The following table presents revenue and profit/(loss) information for the Group's business segments.

Group
2002

	Leather processing	Merchandise trading	Property investment	Leather ware products manufacture and distribution (Discontinued)	Packaging materials manufacture and distribution (Discontinued)	Corporate and other	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:								
Sales to external customers	412,759	90,329	–	17,665	8,302	–	–	529,055
Intersegment sales	–	–	–	–	–	652	(652)	–
Other revenue (excluding exchange gains/(losses), net)	1,121	3,900	2,181	2,308	–	113	–	9,623
Exchange gains/(losses), net	(222)	(297)	–	(42)	–	2	–	(559)
Total	413,658	93,932	2,181	19,931	8,302	767	(652)	538,119
Segment results	(164,693) *	(24,562)	(1,668)	(439)	(89)	(7,978)	–	(199,429)
Interest income								438
Loss from operating activities								(198,991)
Finance costs								(6,387)
Share of losses of associates								–
Loss before tax								(205,378)
Tax								–
Minority interests								177
Net loss from ordinary activities attributable to shareholders								(205,201)

* The balance included an impairment of goodwill amounting to HK$133,349,000 in respect of the Group's acquisition of Nanhai Tannery & Leather Products Co. Ltd.

Group
2001

	Leather processing *HK$'000*	Merchandise trading *HK$'000*	Property investment *HK$'000*	Leather ware products manufacture and distribution (Discontinued) *HK$'000*	Packaging materials manufacture and distribution (Discontinued) *HK$'000*	Corporate and other *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
Segment revenue:								
Sales to external customers	470,312	241,260	-	31,358	21,999	-	-	764,929
Intersegment sales	-	-	-	-	-	1,170	(1,170)	-
Other revenue (excluding exchange gains/(losses), net)	866	246	1,810	2,391	-	260	-	5,573
Exchange gains/(losses), net	5,197	(243)	-	(163)	-	(56)	-	4,735
Total	476,375	241,263	1,810	33,586	21,999	1,374	(1,170)	775,237
Segment results	5,375	12,557	(11,827)	(48,664) **	(9,524)	(12,778)	-	(64,861)
Interest income								2,290
Loss from operating activities								(62,571)
Finance costs								(15,221)
Share of losses of associates	-	(18)	(136)	-	-	-	-	(154)
Loss before tax								(77,946)
Tax								88
Minority interests								5,575
Net loss from ordinary activities attributable to shareholders								(72,283)

** The balance included an impairment of goodwill amounting to HK$21,919,000 in respect of the Group's acquisition of Alpha Universal Limited.

(b) Geographical segments

The following table presents revenue and profit/(loss) information for the Group's geographical segments.

Group
2002

	Mainland China *HK$'000*	Hong Kong *HK$'000*	Elsewhere *HK$'000*	Consolidated *HK$'000*
Segment revenue:				
Sales to external customers	502,274	16,248	10,533	529,055
Other revenue (excluding exchange gains/(losses), net)	2,321	3,402	3,900	9,623
Exchange gains/ (losses), net	(200)	(149)	(210)	(559)
Total	504,395	19,501	14,223	538,119

Group
2001

	Mainland China *HK$'000*	Hong Kong *HK$'000*	Elsewhere *HK$'000*	Consolidated *HK$'000*
Segment revenue:				
Sales to external customers	695,776	67,387	1,766	764,929
Other revenue (excluding exchange gains/(losses), net)	4,034	1,506	33	5,573
Exchange gains/ (losses), net	4,993	(215)	(43)	4,735
Total	704,803	68,678	1,756	775,237

(4) LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	2002 HK$'000	2001 HK$'000
Cost of inventories sold	513,416	683,962
Auditors' remuneration	850	1,075
Depreciation on fixed assets	16,075	20,542
Amortisation of trademarks*	700	1,400
Staff costs (excluding directors' remuneration):		
Wages and salaries	30,166	39,690
Pension scheme contributions	1,386	1,540
Less: forfeited contributions	–	–
Net pension scheme expenses**	1,386	1,540
	31,552	41,230
Annual fees paid to PRC joint venture partners	183	10,735
Operating leases in respect of land and buildings:		
Minimum lease payments	4,374	6,680
Contingent rental payments	1,542	3,007
	5,916	9,687
Expenses included in other operating expenses:		
Provision for impairment of trademarks	–	4,100
Deficit arising on revaluation of investment properties	2,938	7,499
Deficit arising on revaluation of leasehold land and buildings	556	11,670
Provisions against inventories	11,057	10,872
Provision against loans to an associate	–	4,716
Impairment of an investment in an associate	–	907
Provisions for doubtful debts	28,531	3,987
Less: Write-back of provisions for doubtful debts	–	(2,389)
	28,531	1,598
Compensation payments in respect of the planned curtailment of operation of a subsidiary	–	4,616
Write off of fixed assets	386	1,109
Loss on disposal of fixed assets, net	1,764	247
Provision for impairment of fixed assets	1,493	19,417
Impairment of goodwill arising from acquisition of subsidiaries	133,349	21,919
Exchange losses/(gains), net	559	(4,735)
and after crediting:		
Other rental income	153	–
Royalty income	500	1,500
Gain from settlement of a litigation	3,900	–
Gain on disposal of a subsidiary	550	–
Gross rental income from investment properties	2,181	1,810
Add: sublease income	82	189
Total rental income in respect of minimum lease receivables	2,263	1,999
Less: outgoings from investment properties	(496)	(375)
Net rental income	1,767	1,624
Interest income	438	2,290

* The amortisation of trademarks for the year is included in ''Administrative expenses'' on the face of the consolidated profit and loss account.

** The amount of forfeited pension scheme contributions available at the current and prior year ends to reduce contributions in future years is not material.

(5) DISCONTINUED OPERATIONS

(a) Disposal of the Group's entire 60% interest in Alpha Universal Limited (''Alpha Universal'')

In June 2002, the Company entered into a conditional sales and purchases agreement with an independent third party for the disposal of the Group's entire 60% interest in Alpha Universal and its subsidiaries (the ''Alpha Universal Group'') at HK$6,596,000 (net of expenses). The Alpha Universal Group principally operates the Group's leather ware products manufacture and distribution business.

In July 2002, the Group's disposal of its entire 60% interest in the Alpha Universal Group was completed and resulted in a gain of HK$636,000 in the current year. Upon the completion of this transaction, Alpha Universal ceased to be a subsidiary of the Company and the Group's leather ware products manufacture and distribution business was then discontinued.

(b) Discontinued operation of Xuzhou Gangwei Colour Package Co., Ltd (''Xuzhou Gangwei'')

In June 2002, the Company negotiated with the staff of Xuzhou Gangwei for the compensation payments in respect of the decision of the board of directors of Xuzhou Gangwei to discontinue its packaging materials manufacture and distribution operations and lease all its plant and machinery to an independent third party. Xuzhou Gangwei commenced to lease all its plant and machinery on 30 June 2002 and the discontinuation of packaging materials manufacture and distribution operations was then completed.

The discontinuation of the packaging materials manufacture and distribution business is consistent with the Group's strategy to concentrate on its leather processing business.

In connection with the decision to discontinue the packaging materials manufacture and distribution business, the Group incurred compensation payments to staff of HK$552,000.

(6) FINANCE COSTS

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	4,279	15,221
Interest on loans from immediate holding company	1,462	–
Interest on loans from fellow subsidiaries	646	–
	6,387	15,221

(7) TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2001: Nil). No provision for Mainland China and overseas profits tax has been made (2001: Nil) as there were no assessable profits arising from the subsidiaries of the Company in Mainland China and overseas during the year.

	2002	**2001**
	HK$'000	*HK$'000*
Group:		
Hong Kong	–	–
Underprovision of Hong Kong profits tax in previous years	–	29
Overprovision of overseas profits tax in previous years	–	(117)
Tax credited for the year	–	(88)

There was no material unprovided deferred tax in respect of the year (2001: Nil).

(8) LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK$205,201,000 (2001: HK$72,283,000) and the weighted average of 524,154,000 (2001: 524,154,000) ordinary shares in issue during the years.

No diluted loss per share is presented for the years ended 31 December 2002 and 2001 as there was no diluting events existed during the year.

(9) CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following significant contingent liabilities:

(a) Following the change in senior management of the Company in June 2002, it was discovered that certain former executives (the ''Former Executives'') of Nanhai Tannery & Leather Products Co Ltd. (''Nanhai Tannery'') (one of whom was also a former director of the Company) had been involved in certain irregularities. Nanhai Tannery is a wholly owned subsidiary of the Company established in Nanhai, the People's Republic of China (''PRC'' or ''Mainland China'').

Upon discovery of the irregularities, an internal audit team of the Company's holding companies, working with the new management, conducted a preliminary investigation of the irregularities. The investigation revealed that the Former Executives apparently operated a business in parallel to the operations of Nanhai Tannery (the ''Parallel Operation'') for their own personal gain.

The incident was reported by the Company to the relevant PRC authorities who have detained the Former Executives and seized documents related to the Parallel Operation for investigation. The Company also instructed its auditors and the PRC lawyers to carry out special investigations with a view to ascertaining the effects of the Parallel Operation on the business of Nanhai Tannery and to advise management of the Group's possible recourse against the Former Executives.

Based on the findings of the special investigations and having regard to the professional advice received, the directors of the Company are of the opinion that the Parallel Operation should not be incorporated in the financial statements of the Group and that the Parallel Operation appears to have involved various irregularities in its transactions under the applicable PRC law and regulations.

As the investigation of the PRC authorities are still ongoing, it is not possible to ascertain with any degree of reasonable certainty the consequential actions that may be taken by the PRC authorities for the aforesaid irregularities and the existence or otherwise of any penalties and claims. As of the date of this report, no action has been taken against the Group and there have been no indications that any adverse actions against it are pending. Accordingly, based on currently available information, no provision has been made in the financial statements for such contingencies.

(b) In September 2002, the Company submitted a claim to China International Economic and Trade Arbitration Commission (the ''Arbitration Commission'') in Shenzhen, Mainland China against a PRC joint venture partner of a subsidiary of the Company at Qingdao seeking, amongst others, termination of the joint venture agreement and compensation of losses and damages of approximately RMB24,000,000. However, the PRC joint venture partner also applied to the Arbitration Commission in Beijing against the Company claiming for loss of fixed return under the said joint venture agreement in question and damages in an aggregate of RMB15,000,000. The two arbitration proceedings are still in progress.

In the opinion of the Directors, based on legal advice, it is premature to conclude the likely outcome of the two arbitration proceedings, accordingly, no provision has been made in the financial statements as at 31 December 2002.

SUMMARY OF REPORT OF THE AUDITORS

An extract from the report of the auditors to the Company for the year ended 31 December 2002 is as follows:

Fundamental uncertainty – Contingent liabilities

In arriving at our audit opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the investigations of the authorities of the People's Republic of China (''PRC'') in respect of the irregularities involving certain former executives of a subsidiary of the Company. As the investigations of the PRC authorities are still ongoing, it is not possible to ascertain with any degree of reasonable certainty the consequential actions that may be taken by the PRC authorities for the apparent breaches of certain PRC laws and regulations and the existence or otherwise of any penalties and claims as a result of the aforesaid irregularities. As of the date of this report, no provision has been made in the financial statements for such contingencies. We consider that appropriate disclosures and estimates have been made and our audit opinion is therefore not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

DIVIDENDS

The Directors do not recommend the payment of a final dividend (2001: Nil).

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the ''Stock Exchange'') will be published on the website of the Stock Exchange in due course.

By Order of the Board
Xiong Guangyang
Chairman

Hong Kong, 11 April 2003

(The above results announcement may be downloaded from the Company's website at www.gdtann.com.)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Guangdong Tannery Limited (the ''Company'') will be held at The Boardroom, Basement II, The Wharney Hotel Hong Kong, 57-73 Lockhart Road, Wanchai, Hong Kong, on Wednesday, 18 June 2003 at 3:30 p.m. for the purpose of transacting the following business:

(1) To receive and consider the audited Consolidated Financial Statements and the Reports of the Directors and the Auditors for the year ended 31 December 2002.

(2) To re-elect retiring Directors and to authorize the Board of Directors to fix the remuneration of the Directors.

(3) To re-appoint Auditors and to authorize the Board of Directors to fix their remuneration.

And as special business, to consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

(4) ''**THAT**:

(a) subject to the following provisions of this Resolution and pursuant to Section 57B of the Companies Ordinance, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution shall be in addition to any other authorization given to the Directors of the Company and shall authorize the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined), (ii) the exercise of the rights of subscription or conversion attaching to any warrants, convertible bonds or other securities issued by the Company which are convertible into shares of the Company, (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue to the Directors, officers and/or employees of the Company and/or any of its subsidiaries and other eligible persons (if any) of shares or rights to acquire shares of the Company, or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

(d) for the purposes of this Resolution:

''Relevant Period'' means the period from the passing of this Resolution until the earliest of:

(i) the conclusion of the next Annual General Meeting of the Company;

(ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Articles of Association of the Company or any applicable laws of Hong Kong to be held; and

(iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the Shareholders of the Company in general meeting; and

''Rights Issue'' means an offer of shares in the capital of the Company open for a period fixed by the Company (or by the Directors of the Company) to the holders of shares on the Register of Members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognized regulatory body or any stock exchange in, any territory outside Hong Kong).

By Order of the Board
Xiong Guangyang
Chairman

Hong Kong, 11 April 2003

Registered Office:
Unit B, 9th Floor,
Guangdong Investment Tower,
148 Connaught Road Central,
Hong Kong

Notes:

(a) A member entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote instead of him. A proxy need not be a member of the Company.

(b) A form of proxy for use at the Meeting is enclosed. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting if he so wishes. In the event that he attends the meeting after returning the proxy, his form of proxy will be deemed to have been revoked.

(c) In order to be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority must be lodged at the registered office of the Company not less than 48 hours before the time appointed for the holding of the meeting or the adjourned meeting.

(d) In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members in respect of the joint holding.

(e) With reference to the Ordinary Resolution proposed under item (4) above, approval is being sought from the shareholders for the grant to the Directors of a general mandate to authorize the allotment and issue of shares under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The purpose of the general mandate to be conferred on the Directors is to enable them to issue shares up to a specified number without having to first obtain the consent of shareholders in general meeting. The need for such an issue of shares could, for example, arise in the context of a transaction (such as an acquisition) which has to be completed speedily. The Directors believe that it is in the interest of the Company if such a general mandate is granted to them. The Directors wish to state that they presently have no immediate plans to issue any new shares of the Company pursuant to the general mandate.

(f) The Register of Members will be closed on 17 and 18 June 2003, during which period, no transfer of shares will be effected. In order to be eligible to attend and vote at the Annual General Meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Tengis Limited at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 16 June 2003.

Please also refer to the published version of this announcement in The Standard.