

The Board of Directors of Guangdong Tannery Limited (the "Company") is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 1997 together with comparative figures for the same period in 1996 are as follows:

### UNAUDITED CONSOLIDATED RESULTS

	<b>Six months ended 30 June</b>	
	<b>Consolidated 1997 HK\$'000</b>	<b>Proforma combined 1996 HK\$'000</b>
Turnover	<u>208,566</u>	<u>245,061</u>
Profit from ordinary activities before taxation	<b>25,702</b>	24,405
Taxation (Note 2)	<b>(1,692)</b>	(2,416)
Profit attributable to shareholders	<u>24,010</u>	<u>21,989</u>
Interim dividend	<u>7,929</u>	<u>12,082</u>
Earnings per share (Note 3)	<u>5 cents</u>	<u>N/A</u>

*Notes:*

- (1) The Group financial statements are presented using the following basis:
  - a. The consolidated profit and loss account include the results of the Company and its subsidiaries for the period ended 30 June 1997.
  - b. The proforma profit and loss account include the results of the Company and its subsidiaries with effect from 1 January 1996 or since their respective dates of incorporation, where this is a shorter period on a combined basis as if the current group structure had been in existence.
- (2) Hong Kong profits tax has been provided at the rate of 16.5% (1996: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on assessable profits in the overseas countries have been calculated at the rates of taxation prevailing in such countries.

	<b>Six months ended 30 June</b>	
	<b>1997 HK\$'000</b>	<b>1996 HK\$'000</b>
Group:		
Hong Kong	685	310
Overseas	1,007	2,106
Taxation charge for the period	<u>1,692</u>	<u>2,416</u>

- (3) Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$24,010,000 (1996: N/A) and on the weight average of 442,430,939 shares (1996: N/A) in issue during the period under review.

## **INTERIM DIVIDEND**

The Board of Directors has resolved to declare the payment of an interim dividend of 1.5 cents (1996: N/A) per share for the half year ended 30 June 1997. The interim dividend will be paid on Wednesday, 22 October 1997 to shareholders whose names appear on the Register of Members on Tuesday, 14 October 1997.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed on 13 and 14 October 1997, during these two days no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrars, Standard Registrars Limited, at Room 4401, 44th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Thursday, 9 October 1997.

## **BUSINESS REVIEW**

The Group's turnover for the first half of 1997 amounted to HK\$208,566,000. Profit attributable to shareholders was HK\$24,010,000, an increase of HK\$2,021,000 or 9.2% over the proforma profit of HK\$21,989,000 reported for the comparable 1996 period. The Group's net profit ratio also posted an improvement of 2.5% as compared to the same period last year.

With no exception this year, the first six months again witnessed a low season in leather industry, as orders often come on-stream in the second half year. Quiet sentiment was particularly felt in the market of sheep skin and double-face lamb leather for leather garments. The Group recorded an unaudited turnover of HK\$208,566,000, representing a drop of 14.9% from the proforma turnover for the same period in 1996. It is primarily attributable to a change in market demands for leather. No longer dominating the market as in the first half of 1996, leather for casual and fashion shoes was outpaced by calfskin for fashion shoes and leather for scandals in terms of sales, accompanied by a decline of their consumption as well as market price. This has not, however, prevented the Group from registering an improved unaudited profit attributable to shareholders for the first half year of HK\$24,010,000, a 9.2% rise over the proforma profit of HK\$21,989,000 for the comparable period of 1996. The Group's net profit ratio also enjoyed a surge of 2.5% over the previous year. The cornerstone of such increases lies in our achievements of:

1. timely acquisition of high-quality raw cow hides at low cost, particularly from the PRC market;
2. effective control of other production costs;

3. effective application of proceeds from public offering, and successful negotiation for more favourable terms on bank financing so that interest expense could be reduced;
4. appropriate and prompt adjustments of new product production in response to the changing market demand.

It has been the Group's traditional pursuit of diversifying its business and sharpening its competitive edge through vertical and horizontal expansion, which could be traced back even before the public offering in December last year. On 16 May 1997, an agreement was entered into between South Charm Investments Company Limited, Gastor Enterprises Limited ("Gastor") and the Company, whereby the Company agreed to purchase 60 shares of US\$1 each in the issued share capital of Gastor, representing 60 per cent of the entire issued share capital of Gastor, for a consideration of HK\$70,920,000. This transaction was completed on 30 June 1997. Gastor has guaranteed an audited net profit after taxation of no less than HK\$18,000,000 for each of the two years commencing from the completion date.

Gastor is an investment holding company, members of which are three leather ware manufacturing factories and a company with trademark. The principal activities of the Gastor group encompass design, manufacturing and sale of leather ware products including leather handbag, leather wallet, leather briefcase. Its distribution network consists of nine wholesale and retail outlets, serving more than 150 major consumers in the PRC.

Another agreement was concluded on 1 August 1997 between Fonno Industrial Limited ("Fonno") and the Company through Gastor for the acquisition of all assets and operating business of Fonno at a total consideration of HK\$60,000,000. Fonno is the sole producer and distributor of *Saint Jack* leather ware products. With target consumers from middle and upper income classes, *Saint Jack's* distribution network principally covers both Hong Kong and South East Asia. In Hong Kong, *Saint Jack's* specialty counters are set up in major department stores, including Wing On, Sogo, Yaohan and Jusco. Enchoing that of Gastor, the acquisition of Fonno is well-conceived to pave the way for entering into the business of leather handbags. Following the acquisition, the Gastor Group will underpin its production and sale of brand names targeted at the middle and upper income classes, with distribution network extending from the PRC to Hong Kong and South East Asia. As Gastor expected, the inclusion of Fonno will fuel a rise of 1998 turnover to HK\$300 million, and secure a profit of no less than HK\$27,600,000. The integration of Gastor's business with the Group's leather production will establish a vertical distribution network, giving a boost to our production and sale of leather materials.

To cope with the Group's business expansion, we have acquired a property at Silvercord, Tsimshatsui as our headquarters in May 1997, and moved into our new office in August 1997.

The Group has completed all investments in line with its stated application of proceeds from public offering in the prospectus published last year except that the balance of HK\$8,500,000 will be utilized as capital for the acquisition and installation of facilities to expand our production lines. Applications of all proceeds, as the Directors expect, will be accomplished by the end of this year.

On 16 June 1997, the Company has placed through Jardine Fleming Securities Limited and CEF Capital Limited an aggregate of 88,000,000 shares to Guangdong Investment Limited, the controlling shareholder of the Company, and to institutional investors. The proceeds of HK\$273,120,000 derived therefrom was applied as capital for the above-mentioned acquisitions as well as general working purposes.

On 29 August 1997, the Group entered into a Shareholders Agreement with Liang Shing (Holdings) Limited for the acquisition and development of eight pieces of land in Zong Heng Industrial Park, Heng Men, in Zhongshan City, the PRC with an aggregate area of 530 "mou" (353,333.5 square metres). The total land acquisition cost is RMB17,960,640. The eight pieces of land will be used for the construction of shoes manufacturing facilities and also leather and other related ancillary manufacturing facilities. The Board believe that the joint venture will be beneficial for the long term development of the Group, especially for diversifying the product range and enhancing market share.

## **PROSPECTS**

Both in production and sale, Xuzhou Tannery has registered satisfactory results for the first half of 1997. The Directors believe, given the momentum of growth in Northern PRC market, the Group is well-positioned to reap greater benefits from the expansion of Xuzhou Tannery.

Pilot production of the first production line of the Water Transfer System in Nanhai Tannery has commenced in March 1997, followed by the commissioning of an additional production line in August. We expect the leather market is poised to see a flood of products in the last six months.

The Gastor group will embark on a multitude of marketing activities during the second half of 1997, in a drive to further exploit the local and overseas markets (particularly the PRC market) and to enhance brand popularity. Among Gastor's other attempts will also see an expansion of distribution network by establishing additional wholesale and retail outlets at suitable locations in Hong Kong and the PRC.

Coincided with its dedicated development of leather ware product brands now under our flag, the Group will capitalize on timely opportunities to pursue investments for business expansion. Also in place is our persistent adherence to building value for all our shareholders through strengthened earnings per share.

## DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 June 1997, the interests of the Directors of the Company in the equity 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") were as follows:

### (I) Ordinary Shares

#### Guangdong Investment Limited

Names	Number of Shares held (Personal Interest)
Yu Fang	150,000
Zhang Muhan	150,000
Hou Bojian	350,000
Tang Zhen	666,000

As at the same date, the following Directors had interests recorded in the register kept under Section 29 of the SDI Ordinance, being options granted under the existing share option schemes of the Company and the existing share option schemes of Guangdong Investment Limited and Guangdong Corporation Limited, to subscribe for shares in the respective companies.

### (II) Share Options

#### (A) Guangdong Tannery Limited

	No. of share options	Date granted	Period during which rights exercisable (dd/ mm/ yy) (Note (i))	Price per share to be paid on exercise of options (HK\$)	No. of options exercised during the six months ended 30 June 1997
Yu Fang	2,000,000	15/01/1997	15/07/1997 - 14/01/2002	1.3936	-
Sun Desong	1,400,000	15/01/1997	15/07/1997 - 14/01/2002	1.3936	-
Zhang Muhan	1,600,000	15/01/1997	15/07/1997 - 14/01/2002	1.3936	-
Cai Jinghua	1,100,000	15/01/1997	15/07/1997 - 14/01/2002	1.3936	-
Cheng Hok Lai James	500,000	15/01/1997	15/07/1997 - 14/01/2002	1.3936	-
Hou Bojian	1,100,000	15/01/1997	15/07/1997 - 14/01/2002	1.3936	-
Ko Chun-hsiung	1,300,000	15/01/1997	15/07/1997 - 14/01/2002	1.3936	-
Poon Kin	500,000	15/01/1997	15/07/1997 - 14/01/2002	1.3936	-
Tang Zhen	1,100,000	15/01/1997	15/07/1997 - 14/01/2002	1.3936	-

Notes:

- (i) If 14/01/2002 is not a business day in Hong Kong, the option period shall end on the business day preceding 14/01/2002.
- (ii) No consideration has been paid by the option holder for each option granted by the Company.

**(B) Guangdong Investment Limited**

	No. of options held on 01/01/97	Options granted during the half year		Period during which rights exercisable (dd/mm/yy) (Note (i))	Price per share to be paid on exercise of options (HK\$)	No. of options exercised during the six months ended 30/06/1997	No. of options held on 30/06/97
		Date granted	Options granted				
Yu Fang	100,000	-	-	09/06/1995 - 08/06/2000	3.764	100,000	-
	150,000			10/06/1997 - 09/06/2002	4.536	150,000	
Zhang Muhan	100,000	-	-	09/06/1995 - 08/06/2000	3.764	100,000	-
	150,000			10/06/1997 - 09/06/2002	4.536	150,000	
Cai Jinghua	350,000	-	-	10/06/1997 - 09/06/2002	4.536	350,000	-
Hou Bojian	350,000	-	-	10/06/1997 - 09/06/2002	4.536	350,000	-
Tang Zhen	350,000	-	-	09/06/1995 - 08/06/2000	3.764	350,000	-
	350,000			10/06/1997 - 09/06/2002	4.536	-	350,000

Notes:

- (i) If 08/06/2000 is not a business day in Hong Kong, the option period shall end on the business day preceding 08/06/2000.  
If 09/06/2002 is not a business day in Hong Kong, the option period shall end on the business day preceding 09/06/2002.
- (ii) No consideration has been paid by the option holder for each option granted by Guangdong Investment Limited.

### (C) Guangdong Corporation Limited

	No. of options held on 01/01/97	Options granted during the half year		Period during which rights exercisable (dd/mm/yy) (Note (i))	Price per share to be paid on exercise of options (HK\$)	No. of options exercised during the six months ended 30/06/1997	No. of options held on 30/06/97
		Date granted	Options granted				
Cai Jinghua	385,000	-	-	26/08/1993 - 30/06/1998	4.00	-	385,000
Hou Bojian	385,000	-	-	11/09/1995 - 10/09/2000	4.50	-	385,000
Tang Zhen	385,000	-	-	26/08/1993 - 30/06/1998	4.00	-	385,000

*Notes:*

- (i) If 30/06/1998 is not a business day in Australia, the option period shall end on the business day preceding 30/06/1998.  
If 10/09/2000 is not a business day in Australia, the option period shall end on the business day preceding 10/09/2000.
- (ii) The consideration paid by the option holder for each option granted by Guangdong Corporation Limited was HK\$0.01.

Save as disclosed above, as at 30 June 1997, 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 Stock Exchange of Hong Kong Limited pursuant to Section 28 of the SDI Ordinance, including interests which were deemed or taken to be held 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.

#### **Substantial Shareholders' Interests**

Given below are the names of all parties which were, directly or indirectly, interested in 10% or more of the nominal value of the share capital of the Company and the respective relevant numbers of shares in which they were and/or were deemed to be, interested as at 30 June 1997 as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

	<b>Names</b>	<b>No. of Ordinary Shares</b>
(i)	Guangdong Enterprises (Holdings) Limited	374,000,000
(ii)	Guangdong Investment Limited	374,000,000
(iii)	Grammie Profits Limited	60,000,000

*Note:* For the avoidance of doubts and double counting, it should be noted that duplication occurs in respect of all of the above-stated shareholdings to the extent that the shareholdings stated against party (iii) above are entirely duplicated or included in the shareholdings stated against party (ii) above, with the same duplication of the shareholdings in respect of (ii) in (i); all of the abovenamed parties were deemed to be interested in the relevant shareholdings under the SDI Ordinance as at 30 June 1997.

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

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

### **COMPLIANCE WITH CODE OF BEST PRACTICE**

None of the Directors of the Company is aware of any information which would reasonably indicate that the Company was not in compliance with the Code of Best Practice, as set out by The Stock Exchange of Hong Kong Limited, at any time during the six months ended 30 June 1997.

By Order of the Board  
**Yu Fang**  
*Chairman*

Hong Kong, 12 September 1997