

The Board of Directors of Guangdong Tannery Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2000 together with the comparative figures for the same period in 1999 as follows:

Unaudited Consolidated Results

	Notes	Six months ended 30 June Consolidated	
		2000 HK\$'000	1999 HK\$'000
TURNOVER	1	338,790	225,229
Cost of sales		(302,851)	(216,929)
Gross profit		35,939	8,300
Other revenue		5,199	5,019
Distribution costs		(3,673)	(4,424)
Administrative expenses		(30,903)	(29,082)
Other operating expenses		(663)	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		5,899	(20,187)
Finance costs		(11,389)	(9,147)
Share of profits less losses of associates		(35)	(140)
LOSS BEFORE TAX		(5,525)	(29,474)
Tax	2	569	124
LOSS BEFORE MINORITY INTERESTS		(4,956)	(29,350)
Minority interests		147	469
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		(4,809)	(28,881)
Loss per share	3		
– Basic		(0.9 cents)	(5.5 cents)
– Diluted		N/A	N/A

Notes:

(1) TURNOVER

Turnover represents gross proceeds received and receivable on the sales of leather and leather goods and the gross invoiced revenue arising from general merchandise trading, net of goods returned, trade discounts and value-added tax, during the period.

(2) TAX

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the period. No provision for Hong Kong profits tax had been made as the Group had no assessable profits arising in Hong Kong in prior period. Taxes on assessable profits of subsidiaries of the Company in Mainland China and overseas countries have been calculated at the rates of taxation applicable to those subsidiaries.

	Six months ended 30 June	
	Consolidated	
	2000	1999
	HK\$'000	HK\$'000
Group:		
Hong Kong	417	-
Overseas	249	-
Overprovision in prior periods	(1,235)	(7)
	(569)	(7)
Hong Kong tax rebate	-	(117)
Tax credited for the period	(569)	(124)

There was no material unprovided deferred tax in respect of the period (1999: Nil).

(3) LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of HK\$4,809,000 (1999: HK\$28,881,000) and the weighted average number of 524,154,000 (1999: 524,154,000) ordinary shares in issue during the period.

Diluted loss per share for the period and prior period reflecting the exercise of all outstanding share options of the Company is not presented because the impact is anti-dilutive.

(4) COMPARATIVE FIGURES

Certain comparative figures for the six months ended 30 June 1999 have been reclassified to conform to the current period's presentation.

INTERIM DIVIDEND

The Board of Directors has resolved not to declare an interim dividend for the six months ended 30 June 2000 (1999: Nil).

REVIEW OF OPERATIONS AND PROSPECTS

The Group's unaudited consolidated losses attributable to shareholders for the six months ended 30 June 2000 amounted to HK\$4,809,000, a reduction of 83% as compared to the same period last year. Losses per share declined to 0.9 cents. The Group continued to face difficult operating conditions during the first six months of 2000 exacerbated by a lack of credit facilities resulting from the interim standstill announced in March 1999. The restructuring of the Group is however now well advanced (see "Debt Restructuring" below).

Market and Operations

Signs of economic recovery were evident in Hong Kong and the Asian region during the first half of 2000. Moderated deflation, positive economic growth in Hong Kong and Mainland China, in tandem with revitalized retail markets, were all illustrations of the steady recovery. Solid improvements were particularly witnessed in the Mainland China's consumer market, primarily boosted by the government's stimulus measures for local consumption since late 1999. Benefiting from these favourable developments, the Group's businesses started to improve during the period with turnover rising to HK\$338,790,000, an increase of 50% over HK\$225,229,000 of last period. Production volume for the first half of 2000 also posted a surge over the previous period as production of cowhides and coated cow splits respectively rose by 17% and 10% to 12,999,000 sq. ft. and 2,884,000 sq. ft

The Group always strives for stronger competitiveness in the leather market through higher operational efficiency. In pursuit of this corporate goal, the Group has restructured its product mix since late 1999 with particular emphasis on developing and introducing a new generation of black soft leather. This new product with a competitive edge was well received when launched in the market and total sales have continued to rise steadily. Whilst

actively developing new products with good sales potential, the Group is focusing on producing and supplying high quality and low cost leather in large volume in order to achieve higher operational efficiency on the back of its existing advantages.

Sales of leather ware products were adversely affected in the Mainland China market due to competition from fake products. The Group is dedicated to curbing lawbreaking manufacturers by various means in a move to protect the Group's interests and reputation. Given the shrinking wholesale leather ware market in Hong Kong, the Group has shifted its marketing focus to the retail market and actively expanded its sales network of specialty counters in department stores including Wing On, Sogo, Jusco and Seiyu. Specialty shops will also be set up when suitable opportunities arise. Sales of *Saint Jack* leather ware products have shown trend of improvement, gathering solid momentum for further growth.

Cost Control

Since the debt restructuring last year, the Group has endeavored not only to maintain a normal schedule of production but also to achieve better cost control. A range of cost control measures such as minimizing administrative expenditure and laying off staff have contributed to the reduction of the Group's total expenditure by around HK\$1.7 million as compared to the same period last year. Production lines have also been reorganized, particularly by terminating the production of leather garments that are less satisfactory in terms of operational efficiency.

Debt Restructuring

As previously announced, since March 1999, the Group has been operating under informal interim standstill arrangements pending the finalization of a proposal to restructure the financial liabilities of Guangdong Investment Limited ("GDI") and its subsidiaries (including the Group) (the "GDI Group"). The Group and its advisers have negotiated a definitive term sheet for the restructuring of the financial liabilities of the Group with the Group's financial creditors and their approval is expected shortly.

The proposed restructuring of the Group and of the GDI group as a whole has been negotiated on the basis that GDI will complete the acquisition of the Dongshen Water Supply Project. Details of the acquisition and the proposed restructuring are set out in GDI's circular to its shareholders dated 15 September 2000. The Group's restructuring is therefore at an advanced stage and the Directors of the Company are optimistic about the success of the restructuring.

As at 30 June 2000, the Group had banking and other borrowings amounting to HK\$258,565,000. After deduction of cash and bank balances of HK\$134,603,000, the Group's ratio of net banking and other borrowings to shareholders' equity was 26%.

Change of Directors

Mr. Yu Fang, former Chairman of the Company, retired and his duties was assumed by Mr. Yu Ziquan who was appointed Chairman. Messrs. Sun Desong, Cai Jinghua, Hou Bojian, Tang Zhen, Ko Chun-hsiung, Wang Haoming and Wu Xuhui resigned as directors. Mrs. Ho Lam Lai Ping, Theresa, Mr. Lau Chi Sing and Mr. Wat Kam Hang were appointed directors of the Company. The Board of Directors would like to take this opportunity to extend its heartfelt thanks to the retired directors for their contribution over the years.

Prospects

The Group's results have experienced a major decline over the past three years, primarily hit by negative impact from the Asian financial turmoil, the problem of deflation and the debt-restructuring of Guangdong group. However, the Group's solid fundamentals have enabled it to withstand all these difficulties. Its ongoing policy to strengthen the assets and rationalize the management has proven its worth as the resilience of the Group's performance remained intact and the Group's resistance to business risks was enhanced. The Group is set to stage a turnaround when its restructuring development becomes more finalized and more opportunities emerge from the market recovery. The Board of Directors is fully confident of the prospects for the Group and its overall operations in second half of 2000.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2000, the interests of the Directors of the Company in the equity or debt securities of the Company and its associated corporations recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules were as follows:

(A) Guangdong Tannery Limited

Names	Number of Ordinary Shares (Personal Interest)
Cheng Hok Lai, James	500,000
Chong Chi Wah	394,000

(B) Guangdong Investment Limited

Names	Number of Ordinary Shares (Personal Interest)
Zhang Muhan	150,000
Chong Chi Wah	20,000
Yu Fang	150,000
Hou Bojian	150,000
Tang Zhen	666,000

(C) Guangdong Brewery Holdings Limited

Names	Number of Ordinary Shares (Personal Interest)
Zhang Muhan	20,000
Yu Fang	20,000

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 scheme of the Company and the existing share option schemes of Guangdong Investment Limited and Guangdong Building Industries Limited, to subscribe for shares in the respective companies.

(A) Guangdong Tannery Limited – Share Options

	No. of options held on 01/01/2000	Options granted During the period Date granted	Number granted	Period during which rights exercisable (dd/mm/yy) (Note (1))	Price to be paid per share on exercise of options (HK\$)	No. of options exercised during the period	No. of options held on 30/06/2000
Zhang Mihan	1,600,000	-	-	15/07/1997 – 14/01/2002	1.3936	-	1,600,000
Chong Chi Wah	900,000	-	-	15/07/1997 – 14/01/2002	1.3936	-	900,000
Poon Kin	500,000	-	-	15/07/1997 – 14/01/2002	1.3936	-	500,000
Yu Fang	2,000,000	-	-	15/07/1997 – 14/01/2002	1.3936	-	2,000,000
Hou Bojian (Note (2))	1,100,000	-	-	15/07/1997 – 14/01/2002	1.3936	-	1,100,000
Ko Chun-hsiung	1,300,000	-	-	15/07/1997 – 14/01/2002	1.3936	-	1,300,000
Tang Zhen (Note (2))	1,100,000	-	-	15/07/1997 – 14/01/2002	1.3936	-	1,100,000

Notes:

- (1) If 14/01/2002 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 options were cancelled on 22 August 2000.
- (3) No consideration has been paid by any of the Directors for the options granted by the Company.

(B) Guangdong Investment Limited – Share Options

	No. of options held on 01/01/2000	Options granted During the period		Period during which rights exercisable (dd/mm/yy) (Note (1))	Price to be paid per share on exercise of options (HK\$)	No. of options exercised during the period	No. of options held on 30/06/2000
		Date granted	Options granted				
Zhang Mihan	150,000	-	-	17/09/1998 – 16/09/2003	3.024	-	150,000
Chong Chi Wah	150,000	-	-	17/09/1998 – 16/09/2003	3.024	-	150,000
Yu Fang	200,000	-	-	17/09/1998 – 16/09/2003	3.024	-	200,000
Hou Bojian	500,000	-	-	19/08/1998 – 18/08/2003	2.892	-	500,000
Ko Chun-hsiung	150,000	-	-	17/09/1998 – 16/09/2003	3.024	-	150,000
Tang Zhen	350,000	-	-	10/06/1997 – 09/06/2002	4.536	-	350,000
	500,000	-	-	19/08/1998 – 18/08/2003	2.892	-	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) No consideration has been paid by any of the Directors for the options granted by Guangdong Investment Limited

(C) Guangdong Building Industries Limited – Share Options

	No. of options held on 01/01/2000	Options granted During the period		Period during which rights exercisable (dd/mm/yy) (Note (1))	Price to be paid per share on exercise of options (HK\$)	No. of options exercised during the period	No. of options held on 30/06/2000
		Date granted	Options granted				
Hou Bojian	770,000	-	-	11/09/1995 – 10/09/2000	2.25	-	770,000

Notes:

- (1) As the last day of the option period was not a business day in Australia, the option period expired at 5:01 p.m. (Australian time) on the business day preceding that day.
- (2) The consideration paid by the Director for each of the option granted by Guangdong Building Industries Limited was HK\$0.005.

Save as disclosed above, as at 30 June 2000, 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 pursuant to section 28 of the SDI Ordinance, including interests which they were deemed or taken to have under Section 31 or Part I of the Schedule to that Ordinance, or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein.

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 2000 as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

Names	No. of Ordinary Shares
(i) Guangdong Enterprises (Holdings) Limited	375,100,000
(ii) Guangdong Investment Limited	375,100,000

Note: For the avoidance of doubts and double counting, it should be noted that duplication occurs in respect of the above-stated shareholdings to the extent that the shareholdings stated against party (ii) above are entirely duplicated or included in the shareholdings stated against party (i) above, the abovenamed parties were deemed to be interested in the relevant shareholdings under the SDI Ordinance as at 30 June 2000.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2000. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during this period.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the period except that the Non-Executive Directors are not appointed for a specific term as they are subject to retirement by rotation in accordance with Company's Articles of Association.

The Board of Directors of the Company has established an Audit Committee in accordance with the Code of Best Practice. The Audit Committee meets regularly to consider the nature and scope of audit reviews, the effectiveness of the internal control systems and compliance with the relevant rules and regulations.

By Order of the Board

Yu Ziquan

Chairman

Hong Kong, 22 September 2000