粵海制革有限公司
GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

2003 ANNUAL RESULTS ANNOUNCEMENT

CHAIRMAN'S STATEMENT

I am pleased to report that our ongoing programs of corporate restructuring and rationalizing the management structure since two years ago have delivered encouraging results. A direct management mechanism has been established, under which management of production, supply, distribution and finance are centralized at two production bases in Nanhai and Xuzhou. In the meantime, we have established a solid position as a significant and influential player in the PRC's leather market.

The outbreak of Severe Acute Respiratory Syndrome ("SARS") in China earlier the year had caused widespread worries and uncertainties. This had a negative impact on the Group as our daily process of business negotiations and trading was hindered, and orders from customers were postponed. Fortunately, our operations have returned to normal in the second half of 2003, with business activities resumed almost to the same level before the SARS outbreak. The key to the Group's resilience lies in our shrewd actions to open up new markets in the wake of the SARS epidemic, to strengthen our long-term solid relationship with customers, and to continue our ongoing drive for quality enhancement.

In December 2003, the Group disposed of its entire interest in Nanhai Tannery & Leather Products Limited to a subsidiary of GDH Limited. It was a strategic move to minimize the impact of the "Nanhai Tannery Incident" on the Group. However, in February and March 2004, certain bank accounts of 南海市通遠皮革有限公司 (Nanhai City Tongyuan Tanning Company Limited), a subsidiary of the Group, were frozen by the Guangzhou Customs in the PRC. A written notification was later sent to Tongyuan Tannery by the Guangzhou Customs demanding payment of an amount of RMB36,989,441.92. Tongyuan Tannery will continue to follow up with the Guangzhou Customs to resolve the matter and will, if necessary, take all such steps as may be required to safeguard its rights and position. As the freezing of its bank accounts has severely affected its operations, Tongyuan Tannery has suspended all of its operations on 19 March 2004 and started to lay off its existing staff.

The Group strives to effectively resolve the problem of reduced production and sales volume triggered by the suspension of Tongyuan Tannery's operations, while taking proactive steps to address the environmental issues that have long been a major concern facing the leather industry. To offset part of the impacts from shrinking business following the suspension of Tongyuan Tannery's operations, we have embarked on a northward shift of operations, underpinned by the establishment of Xuzhou Tannery as a major production base. At the same time, a larger proportion of upstream processing will be outsourced so that the negative impact on the environment that may be caused by our expanded operations can be minimized.

Operating results of Xuzhou Nanhai Tannery & Leather Products Limited ("Xuzhou Nanhai Tannery") have improved markedly for the second consecutive year. This is primarily due to an effective reduction in production costs as competition is introduced into the sourcing process by way of open tender under the "Sunshine" program. In addition, a notable growth in production and sales volume has been recorded as the leather products manufactured in the PRC are well received by customers given their unique quality and design. We aim to double the annual capacity of Xuzhou Nanhai Tannery to 18,000,000 sq.ft., and initiatives have been made to expand its production equipment and auxiliary facilities. Xuzhou Nanhai Tannery is set to be a major source of profit contribution to the Group over the next few years, as it will become a production base for the Group's leather products made in the PRC. Plans are underway to restructure Xuzhou Gangwei Colour Packaging Limited, another company in Xuzhou, to include production, processing and distribution of leather products as a new core business. Its idle plant will be used for downstream processing of imported cow hides, with an annual production capacity of 15,000,000 sq.ft. We target to complete this restructuring program within this year, and new streams of revenue will be created for the Group following its completion.

After years of a general slowdown, the leather industry has turned the corner in the first quarter of 2004, showing positive signs of a steady recovery. The summer sales, previously commenced only when the summer season set in, have started to grow as early as in January this year, with selling prices also picking up. Given this favourable environment, I have confidence that the Group is well poised to benefit from the strong demand in the leather market in 2004.

2004 will continue to be a difficult year for the Group. However, we are steadfast in an aim to enhance further our competitiveness in the leather industry, and to achieve a higher market share. Active efforts will be made in different areas to accomplish our objectives as follows:

1. To resolve completely the Tongyuan Tannery Incident

We are determined to effectively resolve the problems associated with the suspension of Tongyuan Tannery's operations, such as lay-off of existing staff and collection of trade receivables. We will take all possible steps to avoid any further damages made to the Company.

In the meantime, negotiations with the Guangzhou Customs are actively underway in order that the "Tongyuan Tannery Incident" can be resolved as early as possible. We are studying the proposal to resume the operations of Tongyuan Tannery and establish it as a processing base for the two tanneries in Xuzhou. Proposals to lease or to dispose of Tongyuan Tannery are also being considered.

2. To expedite the development of Xuzhou base, a step to facilitate the northward shift of operations

During the year, as mentioned above, we target to complete the expansion and renovation project of the two tanneries in Xuzhou to provide a combined capacity of up to 36,000,000 sq.ft.

3. To strengthen further the direct management mechanism

The Group's management will closely monitor the Group's operations at the front line. A program to streamline the Hong Kong headquarters will be pursued so as to reduce the staff-related costs and other expenses.

Management of production, supply, distribution and finance will be further centralized. We will continue to carry out the "Sunhsine" program for sourcing activities, and implement the "Integrated Application" program to integrate market-oriented R&D results into our production process. With these programs firmly in place, the Group is in a more solid position to enhance its market competitiveness and to improve further its profit margin.

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

Zhang Chunting
Chairman

Hong Kong, 14 April 2004

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Provisions

The Group's loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 was HK$101,294,000 (2002: HK$205,201,000). Turnover was HK$381,601,000, a drop of 27.9% as compared to HK$529,055,000 for the same period last year. The loss was primarily attributable to the major provisions and impairment loss totaling HK$88,757,000 as follows:

— A provision of HK$69,600,000 (the actual figure is yet to be ascertained) for the claim of tax and tax penalty by the Guangzhou Customs from Nanhai City Tongyuan Tanning Company Limited/Nanhai Tannery & Leather Products Co., Ltd.;

— A provision of HK$816,000 for doubtful trade receivables;

— Provision for impairment of fixed assets amounting to HK$10,320,000; and

— Write off of fixed assets amounted to HK$8,021,000.

The above provision for the duty and tax recovered by the Guangzhou Customs was made as a prudential measure by the Board. Tongyuan Tannery will continue to follow up with the Guangzhou Customs to resolve the matter and will, if necessary, take all such steps as may be required to safeguard its rights and positions.

Net assets of the Group as at 31 December 2003 were HK$170,160,000, decreased by HK$105,483,000 and HK$94,003,000 respectively as compared to 31 December 2002 and 30 June 2003.

Tongyuan Tannery Incident

Pursuant to a business restructuring plan implemented by the Group, Nanhai City Tongyuan Tanning Company Limited ("Tongyuan") was established to operate the Group's tannery operations and businesses in the Guangdong province in January 2003. Tongyuan is a wholly owned subsidiary of the Company which owns and operates factory and distribution operations in Nanhai, in the PRC. Tongyuan had purchased from Nanhai Tannery & Leather Products Co., Ltd. ("Nanhai Tannery") most of its fixed assets and inventories during the year.

On 31 December 2003, the Company entered into a conditional sale and purchase agreement with Yong Sheng Limited, a subsidiary of GDH and a fellow subsidiary of the Company, for the disposal of the Company's entire 100% interest in Nanhai Tannery. The transaction was completed on 31 December 2003 and Nanhai Tannery became a wholly-owned subsidiary of GDH and a fellow subsidiary of the Company.

Subsequent to the balance sheet date, in February and March 2004, certain bank accounts of Tongyuan in the PRC containing in total approximately RMB7 million were frozen by 廣州海關緝私局 (the Anti-Smuggling Bureau of Guangzhou Customs) (the "Guangzhou Customs"). The directors and management of the Company are satisfied that all the business and operations of Tongyuan have been conducted strictly in accordance with all the applicable PRC laws and regulations and that there has been no wrongdoing on the part of Tongyuan or any of its management or staff. Therefore, the Company's director's and management concluded that the actions taken by the Guangzhou Customs cannot be related to the business or operations of Tongyuan and must be related to the irregularities of Nanhai Tannery in 2002. Further details of the above are set out in the announcement of the Company dated 17 March 2004.

On 22 March 2004, the Guangzhou Customs has issued a demand letter to Tongyuan/Nanhai Tannery (i) claiming a tax of RMB36,989,000 (equivalent to approximately HK$34,800,000) payable within 30 days from the date of the demand letter in relation to the tax evaded by Nanhai Tannery during the period from 2000 to 2002; and (ii) asserting that Tongyuan/Nanhai Tannery failed to notify the Guangzhou Customs of the change from Nanhai Tannery to Tongyuan.

Although the Group has disposed of its entire interest in Nanhai Tannery to GDH and the tax evasion was related to the Parallel Operation of Nanhai Tannery, it cannot be precluded that the Guangzhou Customs may still claim the tax evaded by Nanhai Tannery against Tongyuan on the ground that Nanhai Tannery had transferred its fixed assets and inventories to Tongyuan after the commencement of the investigations taken by the Guangzhou Customs. The directors have sought PRC legal advice on such matters and consider that Tongyuan will be liable for the tax claim of HK$34,800,000 from the Guangzhou Customs if Guangzhou Customs consider that Tongyuan and Nanhai Tannery are one and the same entity. Accordingly, a provision of HK$34,800,000 has been made as at 31 December 2003.

In addition, based on a PRC legal opinion, under the existing PRC laws and regulations, the relevant PRC authorities may also impose a tax penalty on Tongyuan/Nanhai Tannery of an amount equal to 1 to 5 times the tax evaded by the Parallel Operation of Nanhai Tannery, ie. HK$34,800,000 to HK$174,000,000. The directors have sought legal advice on such matters and considers that a provision of HK$34,800,000 for the tax penalty is appropriate.

As the actions taken by the PRC authority have not yet been concluded, it is not possible to ascertain with any degree of reasonable certainty the amount of tax penalty finally imposed by the PRC authorities against Tongyuan, in which may be in the range of HK$34,800,000 to HK$174,000,000, other 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 other penalty and claims as a result of the aforesaid irregularities. Should additional tax penalty in excess of the amount provided of HK$34,800,000 be imposed against Tongyuan, the directors are of the opinion that Tongyuan would have adequate net assets and resources to fulfill such obligation should it arises.

OPERATIONS REVIEW

Turnover

Turnover from leather business for the year was HK$381,601,000, a drop of HK$31,158,000 or 7.5% as compared to HK$412,759,000 in 2002. This was attributable to the negative impact on the Group's leather production and operations resulted from the outbreak of SARS in China and Hong Kong during the first half of 2003.

The leather market started to recover in the second half year, primarily boosted by the solid economic growth in China. Performance of Xuzhou Nanhai Tannery was particularly encouraging as continued to break new grounds in overall results.

The Group is actively strengthening its research and development effort to develop techniques that turn defective leather into innovative products. Focus is placed on the development of fashion and dyed leather with higher market acceptance, such as "imitation reindeer leather" and "kaibianzhu". These product development initiatives are devised to clear up the Group's defective leather inventories, to avoid too much reliance on the black nappa cow leather, and to increase the overall market share.

The lower turnover against last year was due to a number of majors factors — a drop of HK$25,967,000 as a result of discontinuation of the paper box packaging business and disengagement of the Group's interests in the leather ware business; a decrease of HK$90,329,000 in trading turnover; and a decline of HK$31,158,000 in turnover from the leather business. Turnover of the leather business (by product) in 2002 and 2003 are as follows:

	Turnover			
Product	**2003**	2002	+/(-)	+/(-)
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(%)*
Cow hides	**314,003**	321,232	(7,229)	(2.25)
Cow split, coated cow split & others	**67,598**	91,527	(23,929)	(26.14)
Total	**381,601**	412,759	(31,158)	(7.55)

Costs

Leather sourcing cost accounted for approximately 80% of the total sourcing costs and reduced markedly following a number of effective measures. These measures include the adoption of tender for sourcing, cautious selection of suppliers based on competitive pricing and better product quality, strict control on sourcing costs, expansion of supplier network, introduction of competition into the sourcing process, and enhanced efforts in market research and price negotiation. Sourcing of chemicals and metals was carried out through open tender in order to lower the overall production costs.

Production

We have in place a more effective workshop management approach to ensure a steady production, and have set up a quality control department to achieve better controls on product quality. The Group's total leather production for the year was 31,148,000 sq.ft., declined by 7,750,000 sq.ft. from 38,898,000 sq.ft. in 2002. Production volume of the leather business (by product) in 2002 and 2003 are as follows:

	Production Volume			
Product	**2003**	2002	+/(-)	+/(-)
	('000 sq.ft.)	*('000 sq.ft.)*	*('000 sq.ft.)*	*(%)*
Cow hides	**22,234**	24,870	(2,636)	(10.60)
Cow split, coated cow split & others	**8,914**	14,028	(5,114)	(36.45)
Total	**31,148**	38,898	(7,750)	(19.92)

Inventories

As at 31 December 2003, the Group's consolidated inventories amounted to HK$221,395,000, increased by HK$29,206,000 as compared to 31 December 2002. The increase primarily comprised a surge in sourcing inventories used to cope with the sales in 2004 given the satisfactory sales results of Xuzhou Nanhai Tannery.

Trade Receivables

Balance of trade receivables as at the end of the year was HK$52,568,000. After deducting the provisions for doubtful debts of HK$35,406,000, trade receivables amounted to HK$17,162,000, a drop of HK$4,310,000 as compared to 31 December 2002. Trade receivables turnover was 19.8 times and average collection period was 18.43 days, improved from 13.3 times and 27.44 days in 2002. The decrease in trade receivables was mainly attributable to faster payments from customers of Xuzhou Nanhai Tannery in the fourth quarter of 2002.

Financial Position

As at 31 December 2003, the Group's interest-bearing borrowings and cash and bank balances are analysed as follows together with their comparative figures as at 31 December 2002:

	31 December 2003 *(HK$'000)*	31 December 2002 *(HK$'000)*
Interest-bearing borrowings		
Currencies:		
Hong Kong dollar	**17,000**	24,400
Renminbi	**45,957**	69,694
United States dollar	**70,691**	28,548
	133,648	122,642
Interest rates:		
At fixed rate	**100,557**	69,694
At floating rate	**33,091**	52,948
	133,648	122,642
Cash and bank balances		
Currencies:		
Hong Kong dollar	**1,985**	666
Renminbi	**51,232**	43,094
United States dollar	**31,115**	21,066
	84,332	64,826

At 31 December 2003, after deduction of cash and bank deposits, the Group's ratio of net interest-bearing borrowings to shareholders' equity was 28.98% (31 December 2002: 20.97%). Loan facilities bear interest at approximately 3% to 6% per annum. Of the Group's total borrowings, HK$33,091,000 is repayable within one year. Interest expense incurred by the Group during the year was HK$5,948,000, a drop of 6.87% as compared to the same period last year.

Net cash outflow from operating activities for the year was HK$29,371,000 and net cash from financing was HK$23,672,000. Net increase in cash and cash equivalents for the year amounted to HK$25,323,000.

Fixed assets as at 31 December 2003 were HK$118,406,000, a reduction of HK62,588,000 as compared to 31 December 2002. The Group's capital expenditure during the year amounted to HK$3,044,000 (2002: HK$15,476,000). It was incurred mainly for the replacement of the leather manufacture machinery and equipment, a move to cope with the operations and development of the leather business.

As at 31 December 2003, certain of the Group's buildings, investment properties and bank deposits with a total net book value of HK$15,295,000 (31 December 2002: HK$48,972,000) were pledged to secure general banking facilities granted to the Group.

Litigations

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 Qingdao Nanhai Tannery Co., Ltd. ("Qingdao Tannery") seeking, amongst others, termination of the joint venture agreement of Qingdao Tannery (the "Qingdao 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 Qingdao Joint Venture Agreement and damages in an aggregate of RMB15,000,000. The two arbitration proceedings are still in progress.

Major Customers and Suppliers

For the year ended 31 December 2003,

(a) the amount of purchases attributable to the Group's largest supplier represented 10.9% 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 39.0% of the Group's total purchases;

(c) the amount of turnover attributable to the Group's largest customer represented 26.7% of the Group's total turnover;

(d) the aggregate amount of the turnover attributable to the Group's five largest customers represented 41.9% 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 2003, a total of 1,018 employees (2002: 1,075 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.

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:

	2003	2002
	(HK$'000)	*(HK$'000)*
Taxation Service	**—**	11
Interim results review	**180**	350
Others	**10**	—

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 2003 together with the comparative figures for 2002 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		2003	2002
	Notes	***HK$'000***	*HK$'000*
TURNOVER	2		
Continuing operations		**381,601**	503,088
Discontinued operations		**—**	25,967
		381,601	529,055
Cost of sales		**(376,238)**	(513,416)
Gross profit		**5,363**	15,639
Other revenue and gains	2	**19,663**	9,425
Selling and distribution costs		**(2,941)**	(10,958)
Administrative expenses		**(28,963)**	(32,548)
Other operating expenses, net		**(88,754)**	(180,633)
Gain on disposal of a discontinued operation		**—**	636
Staff compensation payments in respect of a discontinued operation		**—**	(552)
LOSS FROM OPERATING ACTIVITIES	3	**(95,632)**	(198,991)
Finance costs	4	**(5,948)**	(6,387)
LOSS BEFORE TAX			
Continuing operations		**(101,580)**	(205,002)
Discontinued operations		**—**	(376)
		(101,580)	(205,378)
Tax	5		

Continuing operations		**286**	—
Discontinued operations		**—**	—
LOSS BEFORE MINORITY INTERESTS		**(101,294)**	(205,378)
Minority interests		**—**	177
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**(101,294)**	(205,201)
LOSS PER SHARE	6		
— Basic		**(19.33 cents)**	(39.15 cents)
— Diluted		**N/A**	N/A

Notes:

(1) IMPACT OF REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAP")

Due to the adoption of SSAP 12 (Revised) in the year, prior year adjustments were made to recognize the deferred tax liabilities in respect of the revaluation of the Group's properties which was not required in prior years. The principal effects of the prior year adjustments was an increase in Group's deferred tax liability as at 31 December 2003 and 2002 by HK$8,833,000 and HK$9,793,000, respectively. And the Group's property revaluation reserve as at 1 January 2003 and 2002 has been reduced by HK$9,793,000 and HK$9,549,000, respectively.

(2) 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 manufacturing industry in Hong Kong and in 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 purposes; 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 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
2003

	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	**381,601**	**—**	**—**	**—**	**—**	**—**	**—**	**381,601**
Intersegment sales	**—**	**—**	**—**	**—**	**—**	**480**	**(480)**	**—**
Other revenue (excluding exchange gains/ (losses), net)	**941**	**—**	**1,825**	**—**	**—**	**16,703**	**—**	**19,469**
Exchange gains/ (losses), net	**(1,171)**	**—**	**—**	**—**	**—**	**(160)**	**—**	**(1,331)**
Total	**381,371**	**—**	**1,825**	**—**	**—**	**17,023**	**(480)**	**399,739**
Segment results	**(106,898)**	**—**	**2,075**	**—**	**—**	**8,997**	**—**	**(95,826)**
Interest income								**194**
Loss from operating activities								**(95,632)**
Finance costs								**(5,948)**
Loss before tax								**(101,580)**
Tax								**286**
Minority interests								**—**
Net loss from ordinary activities attributable to shareholders								**(101,294)**

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)
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.

(b) Geographical segments

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

Group

	Mainland China		Hong Kong		Elsewhere		Eliminations		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:										
Sales to external customers	**381,601**	502,274	**—**	16,248	**—**	10,533	**—**	—	**381,601**	529,055
Other revenue (excluding exchange gains/(losses), net)	**18,843**	2,321	**626**	3,402	**—**	3,900	**—**	—	**19,469**	9,623
Exchange gains/(losses), net	**(1,171)**	(200)	**(160)**	(149)	**—**	(210)	**—**	—	**(1,331)**	(559)
Total	**399,273**	504,395	**466**	19,501	**—**	14,223	**—**	—	**399,739**	538,119

(3) LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	2003	2002
	HK$'000	*HK$'000*
Cost of inventories sold	**376,238**	513,416
Auditors' remuneration	**799**	850
Depreciation of fixed assets	**16,315**	16,075
Amortisation of trademarks*	**—**	700
Staff costs (excluding directors' remuneration)		
Wages and salaries	**20,741**	30,166
Pension scheme contributions (defined contributions scheme)	**1,153**	1,386
Less: Forfeited contributions	**—**	—
Net pension scheme expenses**	**1,153**	1,386
	21,894	31,552
Annual fees paid to PRC joint venture partners	**—**	183
Operating leases in respect of land and buildings:		
Minimum lease payments	**359**	4,374
Contingent rental payments	**—**	1,542
	359	5,916
Other rental income	**(384)**	(153)
Royalty income	**—**	(500)
Gain from settlement of a litigation	**—**	(3,900)
Gain on disposal of subsidiaries	**(16,609)**	(550)
Gross rental income from investment properties	**(1,684)**	(2,181)
Add: Sublease income	**—**	(82)
Total rental income in respect of minimum lease receivables	**(1,684)**	(2,263)
Less: Outgoings from investment properties	**320**	496
Net rental income	**(1,364)**	(1,767)
Interest income	**(194)**	(438)

Expenses/(income) included in other operating expenses:		
Deficit/(surplus) arising on revaluation of investment properties	**(662)**	2,938
Deficit/(surplus) arising on revaluation of leasehold land and buildings	**(42)**	556
Provision against inventories	**—**	11,057
Provision for doubtful debts	**816**	28,531
Write off of fixed assets	**8,021**	386
Loss/(gain) on disposal of fixed assets, net	**(630)**	1,764
Impairment of fixed assets	**10,320**	1,493
Impairment of goodwill of investment in a subsidiary	**—**	133,349
Exchange losses, net	**1,331**	559
Provisions for tax claim and tax penalty by the PRC authorities	**69,600**	—
	88,754	180,633

* The amortisation of trademarks for the year ended 31 December 2002 was 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.

(4) FINANCE COSTS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Interest on:		
Bank loans wholly repayable within five years	**3,585**	4,279
Loans from former immediate holding company	**434**	1,462
Loans from immediate holding company	**1,343**	—
Loans from fellow subsidiaries	**586**	646
	5,948	6,387

(5) 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 (2002: Nil). No provision for Mainland China and overseas profits tax has been made (2002: Nil) as there were no assessable profits arising from the subsidiaries of the Company in Mainland China and overseas during the year.

	2003	2002
	HK$'000	*HK$'000*
Group:		
Current — Hong Kong		
Charge for the year	**—**	—
Overprovision in prior years	**286**	—
Total tax credited for the year	**286**	—

(6) LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK$101,294,000 (2002: HK$205,201,000) and the 524,154,000 (2002: 524,154,000) ordinary shares in issue during the year.

A diluted loss per share amount for the year ended 31 December 2003 has not been disclosed, as the share options outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

A diluted loss per share amount for the year ended 31 December 2002 has not been disclosed as no diluting events existed during that year.

(7) PROVISIONS

	Tax claim and tax penalty by the PRC authorities	Early termination of a joint venture agreement	Total
	HK$'000	*HK$'000*	*HK$'000*
At beginning of year	—	3,000	3,000
Additional provisions	69,600	—	69,600
At 31 December 2003	69,600	3,000	72,600

(a) Tax claim by the PRC authorities

With respect to the tax claim of RMB36,989,000 (equivalent to approximately HK$34,800,000) made by 廣州海關緝私局 (the Anti-Smuggling Bureau of Guangzhou Customs) (the "Guangzhou Customs") to Nanhai City Tongyuan Tanning Company Limited ("Tongyuan"), a wholly-owned subsidiary of the Company established in Mainland China, provisions of HK$69,600,000 has been made as at 31 December 2003 for (a) the tax claim of HK$34,800,000 by the Guangzhou Customs; and (b) the tax penalty of HK$34,800,000 that may be imposed which has been provided for by the directors with reference to a PRC legal opinion obtained by them.

(b) Provisions for termination of a joint venture agreement

With respect to the Group's decision in August 2001 to curtail the operations of Qingdao Nanhai Tannery Co., Ltd. ("Qingdao Tannery") due to its continuous losses, provisions of HK$3,000,000 was made as at 31 December 2001 for (a) staff redundancy payments of HK$2,000,000; and (b) a compensation of HK$1,000,000 to the PRC joint venture partner for early termination of the joint venture agreement of Qingdao Tannery. These provisions were determined based on the relevant employment contracts and the terms of the joint venture agreement.

As a result of the arbitration proceedings raised by the Group and the PRC joint venture partner, no payment has yet been made and, accordingly, there was no movement in the provisions during the year.

(8) CONTINGENT LIABILITIES

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

(a) Nanhai Tannery

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 was a former wholly-owned subsidiary of the Company established in Nanhai, the People's Republic of China (the "PRC").

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.

Pursuant to a business restructuring plan implemented by the Group, Nanhai City Tongyuan Tanning Company Limited ("Tongyuan") was established to operate the Group's tannery operations and businesses in the Guangdong province in January 2003. Tongyuan is a wholly owned subsidiary of the Company which owns and operates factory and distribution operations in Nanhai, in the PRC. Tongyuan had purchased from Nanhai Tannery & Leather Products Co., Ltd. ("Nanhai Tannery") most of its fixed assets and inventories during the year.

On 31 December 2003, the Company entered into a conditional sale and purchase agreement with Yong Sheng Limited, a subsidiary of GDH and a fellow subsidiary of the Company, for the disposal of the Company's entire 100% interest in Nanhai Tannery. The transaction was completed on 31 December 2003 and Nanhai Tannery became a wholly-owned subsidiary of GDH and a fellow subsidiary of the Company.

Subsequent to the balance sheet date, in February and March 2004, certain bank accounts of Tongyuan in the PRC containing in total approximately RMB7 million were frozen by 廣州海關緝私局 (the Anti-Smuggling Bureau of Guangzhou Customs) (the "Guangzhou Customs").

The directors and management of the Company are satisfied that all the business and operations of Tongyuan have been conducted strictly in accordance with all the applicable PRC laws and regulations and that there has been no wrongdoing on the part of Tongyuan or any of its management or staff. Therefore, the Company's directors and management concluded that the actions taken by the Guangzhou Customs cannot be related to the business or operations of Tongyuan and must be related to the irregularities of Nanhai Tannery in 2002. Further details of the above are set out in the announcement of the Company dated 17 March 2004.

On 22 March 2004, the Guangzhou Customs has issued a demand letter to Tongyuan/Nanhai Tannery (i) claiming a tax of RMB36,989,000 (equivalent to approximately HK$34,800,000) payable within 30 days from the date of the demand letter in relation to the tax evaded by Nanhai Tannery during the period from 2000 to 2002; and (ii) asserting that Tongyuan/Nanhai Tannery failed to notify the Guangzhou Customs of the change from Nanhai Tannery to Tongyuan.

Although the Group has disposed of its entire interest in Nanhai Tannery to GDH and the tax evasion was related to the Parallel Operation of Nanhai Tannery, it cannot be precluded that the Guangzhou Customs may still claim the tax evaded by Nanhai Tannery against Tongyuan on the ground that Nanhai Tannery had transferred its fixed assets and inventories to Tongyuan after the commencement of the investigations taken by the Guangzhou Customs. The directors have sought PRC legal advice on such matters and considers that Tongyuan will be liable for the tax claim of HK$34,800,000 from the Guangzhou Customs if Guangzhou Customs consider that Tongyuan and Nanhai Tannery are one and the same entity. Accordingly, a provision of HK$34,800,000 has been made as at 31 December 2003.

In addition, based on a PRC legal opinion, under the existing PRC laws and regulations, the relevant PRC authorities may also impose a tax penalty on Tongyuan of an amount equal to 1 to 5 times the tax evaded by the Parallel Operation of Nanhai Tannery, ie. HK$34,800,000 to HK$174,000,000. The directors has sought legal advice on such matters and considers that a provision of HK$34,800,000 for the tax penalty is appropriate.

As the actions taken by the PRC authority have not yet been concluded, it is not possible to ascertain with any degree of reasonable certainty the amount of tax penalty finally imposed by the PRC authorities against Tongyuan, in which may be in the range of HK$34,800,000 to

HK$174,000,000 and the other 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 other penalty and claims as a result of the aforesaid irregularities.

As of the date of this report, no further action has been taken by the Guangzhou Customs or any other PRC authorities against Tongyuan and there have been no further claims made against Tongyuan. Accordingly, based on the current available information, no further provision for the tax penalty and other claims or liabilities has been made in the financial statements.

(b) Qingdao Tannery

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 Qingdao Tannery seeking, among others, termination of the joint venture agreement of Qingdao Tannery (the "Qingdao 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 Qingdao Joint Venture Agreement 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 too premature to conclude the likely outcome of the two arbitration proceedings. Accordingly, no provision of the claim for loss of fixed return and damages by the PRC joint venture partners of RMB15,000,000 has been made in the financial statements as at 31 December 2003.

SUMMARY OF REPORT OF THE AUDITORS

An extract from the report of the auditors to the Company for the year ended 31 December 2003 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 irregularities involving certain former executives of a former subsidiary of the Company in the previous year and the related provision of HK$69,600,000 for the tax claim and tax penalty made by the Group as at 31 December 2003. As the actions taken by the PRC authorities have not yet been concluded, it is not possible to ascertain with any degree of reasonable certainty the amount of any tax penalty which may finally be imposed by the PRC authorities and the other consequential actions that may be taken by the PRC authorities for the apparent breaches of certain PRC laws and regulations, or the existence or otherwise of any other penalties and claims arising as a result of the aforesaid irregularities. As of the date of this report, no further provision other than that disclosed in the financial statement has been made in the financial statements for such contingencies. We consider that appropriate disclosures and estimates have been made in the financial statements 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 2003 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 (2002: Nil).

CORPORATE GOVERNANCE

The Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the year except that the non-executive Directors are not appointed for a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's Articles of Association.

The Company has an Audit Committee which was established in accordance with the requirements of the Code of Best Practice. Regular meetings have been held by the Audit Committee since its establishment and it shall meet at least twice each year to review and supervise the Group's financial reporting process and internal controls. The Audit Committee comprises the two independent non-executive Directors of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year under review.

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
Zhang Chunting
Chairman

Hong Kong, 14 April 2004

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

Please also refer to the published version of this announcement in the ***(The Standard)***