

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 1998 together with comparative figures for the same period in 1997 are as follows:

Unaudited Consolidated Results

	Six months ended 30 June	
	Consolidated	
	1998	1997
	HK\$'000	HK\$'000
Turnover (<i>Note 1</i>)	<u>381,340</u>	<u>303,751</u>
Operating profit from continuing operations	7,536	25,702
Share of results of associated companies	(99)	-
Profit from ordinary activities before taxation	7,437	25,702
Taxation (<i>Note 2</i>)	(913)	(1,692)
Profit before minority interests	6,524	24,010
Minority interests	(1,114)	-
Profit attributable to shareholders	5,410	24,010
Dividends	-	(7,929)
Transfer to capital redemption reserves	(249)	-
Retained profit for the period	<u>5,161</u>	<u>16,081</u>
Earnings per share		
- Basic (<i>Note 3</i>)	<u>1 cent</u>	<u>5 cents</u>
- Diluted (<i>Note 4</i>)	<u>1 cent</u>	<u>5 cents</u>

Notes:

- (1) The gross invoiced revenue arising from general merchandise trading in last period has been reclassified to conform with current period's presentation.

- (2) Hong Kong profits tax is calculated at 16% (1997: 16.5%) on the estimated assessable profits for the period. Taxes on assessable profits in the overseas countries have been calculated at the rates of taxation prevailing in such countries. No provision for deferred taxation has been recognised as the amount involved is insignificant.

	Six months ended 30 June	
	1998	1997
	HK\$'000	HK\$'000
Group:		
Hong Kong	847	685
Overseas	66	1,007
	<hr/> 913 <hr/>	<hr/> 1,692 <hr/>

- (3) The calculation of basic earnings per share is based on the net profit attributable to shareholders of HK\$5,410,000 (1997: HK\$24,010,000) and on the weighted average number of 527,962,541 (1997: 441,944,751) ordinary shares of the Company in issue during the period.
- (4) The calculation of the diluted earnings per share is based on the adjusted profit of HK\$5,410,000 (1997: HK\$24,010,000) and on the weighted average number of 527,962,541 (1997: 447,658,280) ordinary shares issued and issuable for the period.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend (1997: 1.5 cent).

BUSINESS REVIEW AND PROSPECTS

The Group's turnover for the first half of 1998 amounted to HK\$381,340,000, an increase of 26% over the corresponding period last year. Profit attributable to shareholders was decreased by 77% as compared to the same period last year to HK\$5,410,000.

The repercussion of the Asian financial turmoil has been reflected in the Group's first-half results, which were adversely affected in the face of slowing domestic and overseas demand for leather products and the continuing price declines.

However, our persistent adherence to financial prudence has paved the way for a reasonable gearing level. As at 30 June 1998, the Group's ratio of net banking and other borrowings to shareholder's equity was 22%.

Given the steady economic adjustment in Hong Kong, China and some other Asian countries, we believe the leather market is unlikely to be hit further following prolonged correction. For years we have established a strong foundation and a vast marketing network in leather production and leather ware distribution. These solid fundamentals, coupled with our flexible business strategies and prudent financial management, will all provide the drivers for further growth of the Group.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 June 1998, the interests of the Directors of the Company in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

(I) Shares

(A) Guangdong Tannery Limited

Names	Number of Ordinary Shares (Personal Interest)
Cheng Hok Lai, James	500,000
Chong Chi Wah	394,000
Wu Xuhui	110,000

(B) Guangdong Investment Limited

Names	Number of Ordinary Shares (Personal Interest)	Number of Warrants (Personal Interest)
Yu Fang	150,000	15,000
Zhang Muhan	150,000	15,000
Cai Jinghua	–	35,000
Chong Chi Wah	20,000	80,000
Hou Bojian	150,000	35,000
Tang Zhen	666,000	66,600
Wu Xuhui	–	10,000

(C) Guangdong Brewery Holdings Limited

Names	Number of Ordinary Shares (Personal Interest)
Yu Fang	20,000
Zhang Muhan	20,000
Wu Xuhui	858,000

(II) Share options

(A) Guangdong Tannery Limited

	No. of options held on 01/01/98	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 30/06/98
Yu Fang	2,000,000	-	-	15/07/1997- 14/01/2002	1.3936	-	2,000,000
Sun Desong	1,400,000	-	-	15/07/1997- 14/01/2002	1.3936	-	1,400,000
Zhang Muhan	1,600,000	-	-	15/07/1997- 14/01/2002	1.3936	-	1,600,000
Cai Jinghua	1,100,000	-	-	15/07/1997- 14/01/2002	1.3936	-	1,100,000
Chong Chi Wah	900,000	-	-	15/07/1997- 14/01/2002	1.3936	-	900,000
Hou Bojian	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
Poon Kin	500,000	-	-	15/07/1997- 14/01/2002	1.3936	-	500,000
Tang Zhen	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 shall end on the business day preceding that day.
- (2) No consideration has been paid by any of the Directors for the options granted by the Company.

(B) Guangdong Investment Limited

	No. of options held on 01/01/98	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 30/06/98
Yu Fang	-	16/03/1998	200,000	17/09/1998- 16/09/2003	3.024	-	200,000
Sun Desong	-	16/03/1998	150,000	17/09/1998- 16/09/2003	3.024	-	150,000
Zhang Muhan	-	16/03/1998	150,000	17/09/1998- 16/09/2003	3.024	-	150,000
Cai Jinghua	-	18/02/1998	500,000	19/08/1998- 18/08/2003	2.892	-	500,000
Chong Chi Wah	-	16/03/1998	150,000	17/09/1998- 16/09/2003	3.024	-	150,000
Hou Bojian	-	18/02/1998	500,000	19/08/1998- 18/08/2003	2.892	-	500,000
Ko Chun-hsiung	-	16/03/1998	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
	-	18/02/1998	500,000	19/08/1998- 18/08/2003	2.892	-	500,000
Wu Xuhui	-	16/03/1998	150,000	17/09/1998- 16/09/2003	3.024	-	150,000

Notes:

- (1) If the last day of any of the option period is not a business day in Hong Kong, the option period shall end 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

	No. of options held on 01/01/98	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 30/06/98
Cai Jinghua	770,000	-	-	26/08/1993- 30/06/1998	2.00	-	770,000 (Note (2))
Hou Bojian	770,000	-	-	11/09/1995- 10/09/2000	2.25	-	770,000
Tang Zhen	770,000	-	-	26/08/1993- 30/06/1998	2.00	-	770,000 (Note (2))

Notes:

- (1) If 10/09/2000 is not a business day in Australia, the option period shall end on the business day preceding that day.
- (2) Expired and lapsed at 5:00 p.m. Australian Eastern Standard Time on 30 June 1998.
- (3) The consideration paid by the Directors for each of the options granted by Guangdong Building Industries Limited was HK\$0.005.

Save as disclosed above, as at 30 June 1998, 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 Sections 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 1998 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 1998.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period, a total of 692,000 ordinary shares of the Company were repurchased by the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Subsequent to the period end, in July and August 1998, a total of 1,536,000 ordinary shares of the Company were repurchased by the Company on the Stock Exchange. Details of the purchases are as follows:

Month of Repurchase	Total No. of shares Repurchased	Highest Price Paid Per Share (HK\$)	Lowest Price Paid Per Share (HK\$)	Total Price Paid (HK\$)
January 1998	692,000	0.400	0.320	249,120
July 1998	390,000	0.265	–	103,350
August 1998	1,146,000	0.250	0.248	286,094

The above repurchases were aiming at increasing the consolidated net asset value and earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities during the six months ended 30 June 1998.

YEAR 2000 COMPLIANCE

The management is fully aware of the Year 2000 problem which will have impact on the information system, equipment and devices embedded with date sensitive chips. With an aim at addressing the risk and problems of the Year 2000 issue, a project team has been established and worked with an external computer consultancy company to conduct a comprehensive review of the Group's computer and related systems to identify all possible affected area.

As a major computer replacement program was undergone in late 1996 when the Company was listed, most of the computer systems used by the Group were Year 2000 compliance. The Group has incurred

insignificant costs in the previous and current financial years in relation to Year 2000 compliance and is satisfied that the total future amount will not be material in relation to the future profitability or liquidity of the Group. The total cost of the Year 2000 project estimated by the external computer consultancy company is expected to be in the region of HK\$500,000.

The project team will also be responsible for developing a contingency plan and conducting further testing of the new computer systems to ensure that they are Year 2000 compliance. The Group anticipates that the issue of Year 2000 compliance will be completed latest by the end of second quarter of 1999.

The Directors believed that the issue would not have any material impact on the Group.

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 1998.

By Order of the Board
Yu Fang
Chairman

Hong Kong, 25 September 1998