

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 1999 together with the comparative figures for the same period in 1998 as follows:

Unaudited Consolidated Results

	Six months ended 30 June	
	Consolidated	
	1999	1998
	HK\$'000	HK\$'000
Turnover (<i>Note 1</i>)	<u>225,229</u>	<u>381,340</u>
Operating (loss) profit	(29,334)	7,536
Share of results of associated companies	<u>(140)</u>	<u>(99)</u>
(Loss) Profit from ordinary activities before taxation	(29,474)	7,437
Taxation (<i>Note 2</i>)	<u>124</u>	<u>(913)</u>
(Loss) Profit before minority interests	(29,350)	6,524
Minority interests	<u>469</u>	<u>(1,114)</u>
(Loss) Profit attributable to shareholders	(28,881)	5,410
Transfer to capital redemption reserves	<u>-</u>	<u>(249)</u>
(Loss) Retained profit for the period	<u><u>(28,881)</u></u>	<u><u>5,161</u></u>
(Loss) Earnings per share (<i>Note 3</i>)		
- Basic	<u><u>(5.5 cents)</u></u>	<u><u>1.0 cent</u></u>

Notes:

- (1) 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.

(2)	Six months ended 30 June	
	1999	1998
	HK\$'000	HK\$'000
 Group		
Hong Kong		
Provision for the period	-	847
Tax Rebate	(117)	-
 Overseas		
Provision/(over-provision) for the period	(7)	66
	<u>(124)</u>	<u>913</u>

No taxation has been provided for the Group for the six months ended 30 June 1999 since it had no assessable profits for the period.

Hong Kong profits tax was calculated at 16% on the estimated assessable profits and taxes on assessable profits in the overseas countries had been calculated at the rates of taxation prevailing in such jurisdictions for the six months ended 30 June 1998.

- (3) The calculation of basic (loss) earnings per share is based on the net loss attributable to shareholders of HK\$28,881,000 (1998 profit: HK\$5,410,000) and the weighted average number of 524,154,000 (1998: 527,962,541) ordinary shares outstanding during the year.

No diluted (loss) earnings per share is presented as the dilution effect from the exercise of share options of the Company is anti-dilutive.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend (1998: Nil).

BUSINESS REVIEW AND PROSPECTS

Following the disclosure of the financial difficulties of the Guangdong Enterprises (Holdings) Limited ("GDE") in December 1998 and its subsequent implementation of the standstill arrangements in January 1999, there has been a freeze by banks of all the Group's short-term facilities. In addition, the Group and its

advisers met with its financial creditors on 4 March 1999 to inform them of the Group's financial position and propose a standstill of principal payments on outstanding borrowings with interest payments continuing to be made as described under "Interim Standstill Arrangements" below. This has adversely affected not only the daily operations of the Group, but also its normal production and sales in tandem with an increase in its expenditure. Our weakened performance was also attributable to the continuing slowdown of the leather market both locally and in mainland China, where keen market competition has triggered a widespread price war among leather producers and less acceptance of price rises among customers. To resolve the problem of liquidity shortage, the Group has adopted a number of measures to maintain its operations on a normal basis. Such measures included keeping fewer inventories of raw materials and launching clearance sales, which were implemented to facilitate faster inflow of cash. In the face of higher production costs and declining selling prices, our profit margin could no longer be sustained and has declined by 71% during the first six months over the same period last year.

The turnover of the Group for the period under review amounted to HK\$225,229,000 (1998 turnover: HK\$381,340,000), representing a drop of 41% over the same period last year. During the period, the Group reported a loss after tax of HK\$28,881,000 as compared to a profit after tax of HK\$5,410,000 for the same period in 1998.

With its traditional discipline of financial prudence and the various measures mentioned above, the Group has maintained a reasonable debt ratio. As at 30 June 1999, the Group's ratio of net banking and other borrowings to shareholders' equity was 21%.

The Board of Directors expects that the standstill arrangements of the GDE group and of the Group will remain in place in the second half of 1999. Until the completion of the proposed restructuring of Guangdong Investment Limited ("GDI") and its subsidiaries ("the GDI Group") with the support of the Guangdong Provincial Government, the Group's operations will continue to be adversely affected and a loss is expected for the whole year of 1999.

To further enhance its competitiveness, the Group will continue its ongoing efforts to actively develop high value added products and pursue feasible measures of effective cost control in the second half of the year. The Board of Directors believes, in line with the

gradual recovery of the China and Hong Kong economies and if the full implementation of the proposed restructuring of the GDE group is achieved, the Group would be set to see its operations improve steadily.

INTERIM STANDSTILL ARRANGEMENTS

The Group together with its major shareholder GDI and GDI's other subsidiaries and their advisers met with the Group's financial creditors and those of the GDI group on 4 March 1999 to inform them of the Group's financial position, the general position regarding events of default which had arisen under certain of the Group's loan and other facilities and to commence discussions regarding a rescheduling of the Group's borrowings involving a proposal that interest payments would continue to be made and that repayments of principal would be postponed until the proposed restructuring referred to above is completed. GDI invited a number of banks to form a steering group to negotiate the rescheduling of principal repayments of the GDI Group (including the Group) which HSBC agreed to lead and which includes ABN AMRO Bank, Banque Nationale de Paris, Citibank, N.A., International Bank of Asia Limited, Société Générale and Dai-Ichi Kangyo Bank.

Subsequent to such meeting, GDI issued a circular letter to HSBC as liaison bank on behalf of the GDI Group's financial creditors (including the Group's financial creditors) outlining the terms of an interim standstill pending formal arrangements with financial creditors being entered into and/or the completion of a proposed restructuring of GDE and the GDI Group to be carried out with the support of the Guangdong Provincial Government. The circular letter requests the Group's financial creditors to abide by certain standstill terms during an interim period, which include the continued payment of interest at contractual rates and a moratorium on repayments of principal and makes proposals as to how the Group intends to operate under the standstill.

The Directors wish to emphasise that the financial results of the Group for the period under review are subject to fundamental uncertainties relating to the interim standstill arrangements of the Group. The financial results set out herein have been prepared on a going concern basis, the validity of which depends amongst other things upon the successful outcome of the standstill arrangements. Were the standstill arrangements to fail, further provisions would be likely to be necessitated from downsizing or discontinuing certain of the Group's operations.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 June 1999, 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") 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
Wu Xuhui	110,000

(B) Guangdong Investment Limited

Names	Number of Ordinary Shares (Personal Interest)	Number of Warrants (Personal Interest) (Note (1))
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

Note:

- (1) The subscription price of the warrant has been adjusted from HK\$8.00 to HK\$7.93 per ordinary share with effect from the close of business on 20 November 1998. The subscription rights attaching to the warrants held by the Directors have not been exercised by the respective Directors and lapsed on 30 July 1999.

(C) Guangdong Brewery Holdings Limited

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

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 01/01/99	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 30/06/99
		Date granted	Number granted				
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 Muihan	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 – Share Options

	No. of options held on 01/01/99	Options granted during the period		Period during which rights exercisable (dd/mm/yy) <i>(Note (1))</i>	Price to be paid per share on exercise of options <i>(HK\$)</i>	No. of options exercised during the period	No. of options held on 30/06/99
		Date granted	Options granted				
Yu Fang	200,000	-	-	17/09/1998- 16/09/2003	3.024	-	200,000
Sun Desong	150,000	-	-	17/09/1998- 16/09/2003	3.024	-	150,000
Zhang Muhan	150,000	-	-	17/09/1998- 16/09/2003	3.024	-	150,000
Cai Jinghua	500,000	-	-	19/08/1998- 18/08/2003	2.892	-	500,000
Chong Chi Wah	150,000	-	-	17/09/1998- 16/09/2003	3.024	-	150,000
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
Wu Xuhui	150,000	-	-	17/09/1998- 16/09/2003	3.024	-	150,000

Notes:

- (1) If the last day of any 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 – Share Options

	No. of options held on 01/01/99	Options granted during the period Date granted	Options 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 30/06/99
Hou Bojian	770,000	-	-	11/09/1995- 10/09/2000	2.25	-	770,000

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) 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 1999, 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 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 1999 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 1999.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 1999. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during this period.

YEAR 2000 COMPLIANCE

The management is highly concerned about the Year 2000 problem, which will have an impact on information systems, equipment, and devices embedded with date sensitive computer chips. With the aim of addressing the risks and problems of the Year 2000 issue, a project team was established which worked with an external computer consultancy company to conduct a comprehensive review of the Group's computers and related systems to identify all possible affected areas. The project team is also responsible for developing a contingency plan and conducting testing of the new computer systems to ensure that they are Year 2000 compliant.

Upgrading and replacing the present systems to ensure Year 2000 readiness has been completed on schedule with all the major systems of the Group being Year 2000 compliant. The contingency plan referred to above was developed to minimise the impact of any possible interruptions to the Group's operations arising from the Year 2000 problem. However, the Group still relies upon the co-operation of third parties such as major suppliers and business partners. Disruption to the Group's business operations may result due to the non-compliance of third party systems.

The total cost of the Year 2000 project is estimated to be approximately HK\$500,000. As at 30 June 1999, a total of HK\$347,238 had been incurred and approximately HK\$152,762 is expected to be spent for subsequent testing and for contingencies.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors of the Company is aware of information that would reasonably indicate that the Company had not been for any part of the accounting period for the six months ended 30 June 1999 in compliance with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By Order of the Board

Yu Fang

Chairman

Hong Kong, 22 September 1999