



Annual Report 年報 2003



粵海制革有限公司  
GUANGDONG TANNERY LIMITED



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## Corporate Information

### Board of Directors

Wu Jiesi (*Honorary President*)

Zhang Chunting (*Chairman*)

Chen Hong (*Managing Director*)

Hui Wai Man Lawrence (*Director & Chief Financial Officer*)

Xiong Guangyang

Cheng Hok Lai James\*

Fung Lak\*

Ho Lam Lai Ping Theresa

Chan Hee Kwan

\* *Independent Non-Executive Director*

### Company Secretary

Chan Miu Ting

### Auditors

Ernst & Young

### Share Registrar

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## 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 100% 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) ("Tongyuan Tannery"), 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.



## Chairman's Statement *(Cont'd)*

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.



## Chairman's Statement *(Cont'd)*

- 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.

- 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 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 for the tax claim 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 Limited ("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.



## Management Discussion and Analysis *(Cont'd)*

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 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 of an amount equal to 1 to 5 times the tax evaded by the Parallel Operation of Nanhai Tannery, i.e. 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.





## Management Discussion and Analysis *(Cont'd)*

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 which may finally be imposed by the PRC authorities against Tongyuan, 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 penalties 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.



## Management Discussion and Analysis (Cont'd)

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 merchandise 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:

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

### 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.



## Management Discussion and Analysis (Cont'd)

### 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:

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

### 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 in 2003.

### 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 2003.



## Management Discussion and Analysis *(Cont'd)*

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

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% (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.



## Management Discussion and Analysis *(Cont'd)*

Net cash outflow from operating activities for the year was HK\$29,371,000 and net cash inflow 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 HK\$62,588,000 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 (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;



## Management Discussion and Analysis *(Cont'd)*

- (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. Details of the Share Option Scheme are set out in the Report of the Directors and note 29 to the financial statements.

### *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 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Taxation Service	—	11
Interim results review	180	350
Others	10	—



## **Biographical Details of Directors and Senior Management**

### **(A) EXECUTIVE DIRECTORS**

#### **Mr. Zhang Chunting (Age: 39) Chairman**

Mr. Zhang was appointed Chairman of the Company in February 2004. He was appointed deputy general manager of the Company in March 2002, managing director of Xuzhou Nanhai Leather Factory Co., Ltd. in September 2002 and chairman of Xuzhou Gangwei Colour Package Co., Ltd. in February 2003. He is an economist and holder of doctorate degree in economics at the Fudan University in the People's Republic of China ("PRC"). Prior to joining the Company, Mr. Zhang worked as the governor of a bank's sub-branch and subsequently worked for a securities firm in mainland China and was responsible for senior management and research duties.

#### **Mr. Chen Hong (Age: 48) Managing Director**

Mr. Chen was appointed Managing Director of the Company in February 2004. He joined the Group in July 2003 and is an economist in the PRC. Mr. Chen has over 20 years of working experience in business management. Prior to joining the Company, Mr. Chen act as vice-principal of an industrial school, and deputy secretary, officer of economic commission and general manager of various enterprises.

#### **Mr. Hui Wai Man Lawrence (Age: 47) Director and Chief Financial Director**

Mr. Hui was appointed Director and Chief Financial Officer of the Company in June 2002. Mr. Hui is a Fellow of the Hong Kong Society of Accountants and an Associate of The Association of Chartered Certified Accountants. He was a director and the chief financial officer of Guangnan (Holdings) Limited and Guangdong Alliance Limited. Prior to joining the GDH group, Mr. Hui was the finance manager of Beijing Oriental Plaza Company Limited, the general manager (Corporate Finance) of Sinoland Company Limited, and the group financial controller of Lai Fung Company Limited. Prior to that, Mr. Hui worked for Deloitte Touche Tohmatsu in Hong Kong and Britain and was the manager in its Audit and Technical & Training Department before he left the firm.



## **Biographical Details of Directors and Senior Management** *(Cont'd)*

### **(B) NON-EXECUTIVE DIRECTORS**

#### **Dr. Wu Jiesi (Age: 52) Honorary President**

Dr. Wu was appointed Honorary President of the Company in February 2004. He is Chairman of 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) and GDH Limited (“GDH”), and is also Honorary President of Guangdong Investment Limited (“GDI”). Dr. Wu holds a Doctorate degree in Economics. He conducted post-doctorate research work in theoretical economics at the Nankai University in the PRC and was conferred the professorship qualification by the University in 2001. He was with the Industrial and Commercial Bank of China (the “Bank”) from 1984 to 1995 and was the President of Shenzhen Branch of the Bank prior to his appointment as Deputy Mayor of the Shenzhen Municipal Government. As the Deputy Mayor between 1995 and 1998, he was responsible for finance, taxation, public revenue, securities, banking and education. He was appointed Assistant to the Governor of Guangdong Province from 1998 to February 2000 and assisted the Governor in the handling of GITIC bankruptcy, the restructuring of the Guangdong Enterprises (Holdings) Limited and other financial incidents.

#### **Mr. Xiong Guangyang (Age: 50)**

Mr. Xiong was appointed a Director of the Company in June 2002. Mr. Xiong is a senior economist in the PRC. He graduated from Jilin University and obtained a master degree in finance from the Graduate School of The People’s Bank of China. Mr. Xiong joined GDH in October 2000 and was appointed a director of GDH in May 2001. He is the chief strategic planning officer of GDH. Prior to joining GDH, Mr. Xiong was mainly engaged in management and operations works in banks. From 1986 to 1996, he was the assistant governor of The People’s Bank of China, Guangdong Branch and the governor of The People’s Bank of China, Shantou Branch. From 1996 to September 2000, Mr. Xiong was with China Everbright Bank in a number of positions including deputy managing governor of its Guangzhou Branch.

#### **Mrs. Ho Lam Lai Ping Theresa (Age: 48)**

Mrs. Ho was appointed a Director of the Company in July 2000. She is also a director of Guangdong Brewery Holdings Limited. Mrs. Ho has been Company Secretary of GDI since December 1992. She graduated from the Hong Kong Polytechnic and is an associate of both The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Company Secretaries.





## **Biographical Details of Directors and Senior Management** *(Cont'd)*

### **(B) NON-EXECUTIVE DIRECTORS (Cont'd)**

#### **Mr. Chan Hee Kwan (Age: 40)**

Mr. Chan was appointed a Director of the Company in November 2003. He is a holder of a bachelor degree in commerce and is a member of Hong Kong Society of Accountants, CPA Australia and Certified General Accountants' Association of Canada. Mr. Chan has 15 years' experience in taxation and prior to joining the GDH group, he worked for several international CPA firms in Hong Kong.

### **(C) INDEPENDENT NON-EXECUTIVE DIRECTORS**

#### **Mr. Cheng Hok Lai James (Age: 56)**

Mr. Cheng was appointed an independent non-executive Director of the Company in November 1996. He has over 20 years of experience in the commercial and industrial sectors of Hong Kong.

#### **Mr. Fung Lak (Age: 56)**

Mr. Fung was appointed an independent non-executive Director of the Company in November 2002. Mr. Fung holds a bachelor degree in Science (Economics) major in Accounting and Finance from the London School of Economics and Political Science of University of London. He is also the holder of a number of professional qualifications including the fellow memberships of the Association of Chartered Certified Accountants, the Hong Kong Society of Accountants and the Taxation Institute of Hong Kong. Mr. Fung was the former president of the Society of Chinese Accountants and Auditors, and has been appointed committee member of the Accountancy Training Board of Vocational Training Council since 2000. Mr. Fung has over 20 years' experience in accounting and finance and is a partner of Fan, Mitchell & Co., Certified Public Accountants.



## Report of the Directors

The Directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The Group is principally engaged in the processing and sale of semi-finished and finished leather. The activities of the subsidiaries and associates are set out in notes 15 and 16 to the financial statements, respectively. There were no significant changes in the nature of the Group's principal activities during the year.

### SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2003 is set out in note 4 to the financial statements.

### RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 32 to 100.

No interim dividend was paid during the year and the Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2003.

### SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate. The summary does not form part of the audited financial statements.



## Report of the Directors (Cont'd)

### SUMMARY FINANCIAL INFORMATION (Cont'd)

#### Results

	Year ended 31 December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
<b>TURNOVER</b>					
Continuing operations	381,601	503,088	711,572	644,111	491,948
Discontinued operations	—	25,967	53,357	77,030	103,046
	<u>381,601</u>	<u>529,055</u>	<u>764,929</u>	<u>721,141</u>	<u>594,994</u>
Loss from operating activities	(95,632)	(198,991)	(62,571)	(92,196)	(43,753)
Finance costs	(5,948)	(6,387)	(15,221)	(21,555)	(22,108)
Share of results of associates	—	—	(154)	(965)	(1,015)
	<u>—</u>	<u>—</u>	<u>(154)</u>	<u>(965)</u>	<u>(1,015)</u>
<b>LOSS BEFORE TAX</b>					
Continuing operations	(101,580)	(205,002)	(19,837)	(23,565)	(61,733)
Discontinued operations	—	(376)	(58,109)	(91,151)	(5,143)
	<u>(101,580)</u>	<u>(205,378)</u>	<u>(77,946)</u>	<u>(114,716)</u>	<u>(66,876)</u>
<b>Tax</b>					
Continuing operations	286	—	88	971	257
Discontinued operations	—	—	—	—	—
	<u>286</u>	<u>—</u>	<u>88</u>	<u>971</u>	<u>257</u>
Loss before minority interests	(101,294)	(205,378)	(77,858)	(113,745)	(66,619)
Minority interests	—	177	5,575	29,195	1,502
	<u>—</u>	<u>177</u>	<u>5,575</u>	<u>29,195</u>	<u>1,502</u>
<b>Net loss from ordinary activities attributable to shareholders</b>	<u>(101,294)</u>	<u>(205,201)</u>	<u>(72,283)</u>	<u>(84,550)</u>	<u>(65,117)</u>



## Report of the Directors (Cont'd)

### SUMMARY FINANCIAL INFORMATION (Cont'd)

#### Assets and liabilities

	As at 31 December				
	2003 HK\$'000	2002 HK\$'000 (restated)	2001 HK\$'000 (restated)	2000 HK\$'000 (restated)	1999 HK\$'000 (restated)
<b>Assets</b>					
Fixed assets	118,406	180,994	204,436	257,801	269,117
Trademarks	—	—	1,500	7,000	35,000
Interest in associates	—	—	—	8,305	29,718
Other long term assets	—	1,268	—	—	—
Current assets	<u>361,411</u>	<u>301,387</u>	<u>368,195</u>	<u>452,866</u>	<u>565,634</u>
Total assets	<u>479,817</u>	<u>483,649</u>	<u>574,131</u>	<u>725,972</u>	<u>899,469</u>
<b>Liabilities</b>					
Current liabilities	300,824	181,546	149,567	191,988	365,783
Long term loans	<u>8,833</u>	<u>26,460</u>	<u>73,566</u>	<u>123,827</u>	<u>9,676</u>
Total liabilities	<u>309,657</u>	<u>208,006</u>	<u>223,133</u>	<u>315,815</u>	<u>375,459</u>
Minority interests	—	—	4,171	9,716	51,658
Net assets	<u>170,160</u>	<u>275,643</u>	<u>346,827</u>	<u>400,441</u>	<u>472,352</u>

Certain comparative figures in the prior years have been restated for the retrospective changes in accounting policy affecting income taxes. Details are further disclosed in notes 2 and 27 to the financial statements and have been reclassified to conform with the current year's presentation.

#### FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Company and the Group during the year are set out in note 13 to the financial statements.



## **Report of the Directors** *(Cont'd)*

### **SHARE CAPITAL AND SHARE OPTIONS**

There were no movements in either the Company's authorized or issued share capital during the year. Details of the Company's movements in the share options during the year, together with the reasons therefore, are set out in note 29 to the financial statements.

### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

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

### **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

### **DISTRIBUTABLE RESERVES**

At 31 December 2003, no reserves, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, is available for cash distribution.

### **CHARITABLE CONTRIBUTIONS**

During the year, the Group made charitable contributions totaling HK\$47,000.



## Report of the Directors *(Cont'd)*

### DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Wu Jiesi ( <i>Honorary President</i> )	(appointed on 19 February 2004)
Zhang Chunting ( <i>Chairman</i> )	(appointed on 19 February 2004)
Chen Hong ( <i>Managing Director</i> )	(appointed on 19 February 2004)
Hui Wai Man Lawrence ( <i>Director &amp; Chief Financial Officer</i> )	
Cheng Hok Lai James*	
Fung Lak*	
Xiong Guangyang	
Ho Lam Lai Ping Theresa	
Chan Hee Kwan	(appointed on 22 November 2003)
Li Wai Keung	(appointed on 22 November 2003 and resigned on 19 February 2004)
Luo Fanyu	(appointed on 22 November 2003 and resigned on 19 February 2004)
Wang Man Kwan Paul	(resigned on 22 November 2003)
Tam Chiu Pang Jaffe	(resigned on 22 November 2003)
Yuen Lam Fai Antony	(resigned on 22 November 2003)
Zeng Haipeng	(resigned on 10 July 2003)

\* *Independent Non-Executive Director*

Mr. Wu Jiesi, Mr. Zhang Chunting, Mr. Chen Hong and Mr. Chan Hee Kwan, who were appointed Directors of the Company after the last Annual General Meeting of the Company are due to retire pursuant to Article 77 of the Company's Article of Association at the forthcoming Annual General Meeting. Being eligible, they offer themselves for re-election.

Mr. Cheng Hok Lai James is due to retire by rotation from the Board in accordance with Article 82 of the Company's Article of Association at the forthcoming Annual General Meeting. Being eligible, he offers himself for re-election.

### DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the employer within one year without payment of compensation, other than statutory compensation.



## Report of the Directors (Cont'd)

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or the Company's subsidiaries or holding company or a subsidiary of the Company's holding company was a party and in which a Director of the Company had a material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### DIRECTORS' INTEREST IN SECURITIES

#### Directors' interest and short position in the securities

As at 31 December 2003, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

#### (1) Interests and short positions in the Company

##### a. Interest in ordinary shares

Name of director	Nature of interests	Number of shares	% of issued share capital	Long/short positions
Cheng Hok Lai James	Personal	500,000	0.0954	Long position
Luo Fanyu	Personal	70,000	0.0134	Long position



## Report of the Directors (Cont'd)

### DIRECTORS' INTEREST IN SECURITIES (Cont'd)

#### (1) Interests and short positions in the Company (Cont'd)

##### b. Interest in options relating to ordinary shares

Name of director	Number of options held on 01/01/2003	Options granted during the year Date (dd/mm/yyyy)	Number	Period during which option is exercisable (dd/mm/yyyy) (Note (3))	Total consideration paid for options (HK\$)	Price per Ordinary Share payable on exercise of option (HK\$)	Number of options exercised during the year	No. of options held on 31/12/2003
Xiong Guangyang	—	09/06/2003	3,000,000	10/09/2003 – 09/09/2008	1.00	0.22	—	3,000,000
Cheng Hok Lai James	—	09/06/2003	300,000	10/09/2003 – 09/09/2008	1.00	0.22	—	300,000
Fung Lak	—	09/06/2003	300,000	10/09/2003 – 09/09/2008	1.00	0.22	—	300,000
Zeng Haipeng (Note 1)	—	09/06/2003	3,000,000	10/09/2003 – 09/09/2008	1.00	0.22	—	—

**Notes:**

- (1) The options totaling 3,000,000 granted to Mr. Zeng Haipeng were cancelled on 2 September 2003.
- (2) The total consideration paid by each Director for the options granted by the Company was HK\$1.00.
- (3) If 09/09/2008 is not a business day in Hong Kong, the option period expires at 5:01 p.m. on the business day preceding that day (Hong Kong time).
- (4) The above options, being unlisted physically settled equity derivatives, to subscribe for the ordinary shares of the Company were granted to the above Directors pursuant to the approved share option scheme of the Company.

#### (2) Interests and short positions in Guangdong Investment Limited (“GDI”)

##### a. Interest in ordinary shares of GDI

Name of director	Nature of interests	Number of shares	% of issued share capital of GDI	Long/short positions
Ho Lam Lai Ping Theresa	Personal	200,000	0.0038	Long position





## Report of the Directors (Cont'd)

### DIRECTORS' INTEREST IN SECURITIES (Cont'd)

#### (2) Interests and short positions in Guangdong Investment Limited ("GDI") (Cont'd)

##### b. Interest in options relating to ordinary shares of GDI

Name of director	Number of options held on 01/01/2003	Options granted during the year Date (dd/mm/yyyy)	Number	Period during which option is exercisable (dd/mm/yyyy) (Note (3))	Total consideration paid for options (HK\$)	Price per	Number of options exercised during the year	No. of options held on 31/12/2003
						Ordinary Share payable on exercise of option (HK\$)		
Li Wai Keung	1,500,000	01/11/2001	—	02/05/2002 – 01/05/2007	—	0.74	800,000	700,000
	1,500,000	07/05/2002	—	08/11/2002 – 07/11/2007	—	0.814	—	1,500,000
	1,500,000	04/12/2002	—	05/03/2003 – 04/03/2008	1.00	0.96	—	1,500,000
	—	07/05/2003	1,500,000	08/08/2003 – 07/08/2008	1.00	1.22	—	1,500,000
Ho Lam Lai Ping Theresa	500,000	18/02/1998	—	19/08/1998 – 18/08/2003	—	2.892	—	—
	1,200,000	10/08/2001	—	11/02/2002 – 10/02/2007	—	0.5312	1,200,000	—
	1,200,000	07/05/2002	—	08/11/2002 – 07/11/2007	—	0.814	200,000	1,000,000
	1,200,000	04/12/2002	—	05/03/2003 – 04/03/2008	1.00	0.96	—	1,200,000
	—	07/05/2003	1,500,000	08/08/2003 – 07/08/2008	1.00	1.22	—	1,500,000

#### 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) The above options, being unlisted physically settled equity derivatives, to subscribe for the ordinary shares of GDI were granted to the above Directors pursuant to the approved share option scheme of GDI.



## Report of the Directors (Cont'd)

### DIRECTORS' INTEREST IN SECURITIES (Cont'd)

(3) Interests and short positions in Guangdong Brewery Holdings Limited ("GDB") — Interest in ordinary shares

Name of director	Nature of interests	Number of shares	% of issued share capital of GDB	Long/short positions
Ho Lam Lai Ping Theresa	Personal	80,000	0.0064	Long position
Luo Fanyu	Personal	70,000	0.0056	Long position

Save as disclosed above, as at 31 December 2003, to the knowledge of the Company, none of the Directors or chief executives of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and the chief executives were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

Save as disclosed above, at no time during the year has the Company, its holding companies or any of its subsidiaries or associated corporation a party to any arrangements to enable the Directors of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company on any other body corporate.

### SHARE OPTIONS OF THE COMPANY

In assessing the theoretical aggregate value of the share options granted during the year, the Black-Scholes option pricing model has been used.



## Report of the Directors (Cont'd)

### SHARE OPTIONS OF THE COMPANY (Cont'd)

Share options granted during the year ended 31 December 2003:

Date of Grant : 09/06/2003  
Vesting Period : 09/06/2003 – 09/09/2003  
Exercise Period : 10/09/2003 – 09/09/2008  
Exercise Price : HK\$0.22

	Number of Options at 09/06/03	Options Value at 09/06/03 (Note (2)) HK\$	Number of Options at 31/12/03	Options Value at 31/12/03 (Note (3)) HK\$
Grantee:				
Zhang Chunting	2,500,000	450,000	2,500,000	425,000
Xiong Guangyang	3,000,000	540,000	3,000,000	510,000
Cheng Hok Lai James	300,000	54,000	300,000	51,000
Fung Lak	300,000	54,000	300,000	51,000
Zeng Haipeng	3,000,000	540,000	—	—
Other employees	550,000	99,000	550,000	93,500
	<u>9,650,000</u>	<u>1,737,000</u>	<u>6,650,000</u>	<u>1,130,500</u>
Total	<u>9,650,000</u>	<u>1,737,000</u>	<u>6,650,000</u>	<u>1,130,500</u>



## Report of the Directors (Cont'd)

### SHARE OPTIONS OF THE COMPANY (Cont'd)

#### Share options granted during the year ended 31 December 2003: (Cont'd)

Notes:

(1) The closing price of the Ordinary Shares of the Company immediately before the date on which the options were granted was HK\$0.204.

(2) According to the Black-Scholes model<sup>1</sup>, the total value of the options was estimated at HK\$1,737,000 as at 9 June 2003 (when the options were granted) with the following variables and assumptions:

Risk Free Rate : 2.41%, being the approximate yield of 5-year Exchange Fund Note traded on 09/06/2003.

Expected Volatility : 112.4%, being the annualised volatility of the closing price of the Ordinary Shares of the Company from 09/06/2002 – 09/06/2003.

Expected Dividend Yield : Nil

Expected Life of the Options : 5.25 years

Assumptions : There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the Ordinary Shares of the Company over the period of 09/06/2002 – 09/06/2003.

(3) According to the Black-Scholes model<sup>1</sup>, the total value of the options was estimated at HK\$1,130,500 as at 31 December 2003 with the following variables and assumptions:

Risk Free Rate : 3.16%, being the approximate yield of 5-year Exchange Fund Note traded on 31/12/2003.

Expected Volatility : 111.6%, being the annualised volatility of the closing price of the Ordinary Shares of the Company from 01/01/2003 – 31/12/2003.

Expected Dividend Yield : Nil

Expected Life of the Options : 4.75 years

Assumptions : There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the Ordinary Shares of the Company over the period of 01/01/2003 – 31/12/2003.

(4) Options forfeited, if any, before expiry of the options will be treated as lapsed options which will be added back to the number of Ordinary Shares available to be issued under the relevant share option scheme.

<sup>1</sup> The Black-Scholes model (the "Model") is developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

\* According to Listing Rules Chapter 17.08, the risk-free rate should be the rate prevailing on debt securities issued by the state, such as the Exchange Fund Notes in case of Hong Kong based entities.



## Report of the Directors (Cont'd)

### SUBSTANTIAL SHAREHOLDERS' INTERESTS

Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

So far as is known to any Director or chief executive of the Company, as at 31 December 2003, the persons or companies (not being a Director or chief executive of the Company) who have interests or short positions in the Ordinary Shares or underlying Ordinary Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholders	Number of Ordinary Shares of the Company held			Percentage of issued capital
	Direct Interests	Deemed Interests	Long/short position	
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) (Note)	—	375,100,000	Long position	71.56
GDH Limited	375,100,000	—	Long position	71.56

*Note: The attributable interest which 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) has in the Company is held through its 100 per cent. direct interest in GDH.*

Save as disclosed above, as at 31 December 2003, the Directors are not aware of any other person who had an interest or short position in the shares, underlying Shares or debentures which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Share Options of the Company" and "Directors' Interests in Securities" of this report, and in note 29 to the financial statements, at no time during the year was the Company, any subsidiaries or holding company of the Company or any subsidiaries of the Company's holding company, a party to any arrangements to enable the Directors of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.



## **R**eport of the **D**irectors *(Cont'd)*

### **POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events of the Group are set out in note 37 to the financial statements.

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

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.

### **AUDIT COMMITTEE**

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

### **AUDITORS**

A resolution will be proposed at the forthcoming Annual General Meeting for the re-appointment of Messrs. Ernst & Young as the auditors of the Company.

By Order of the Board  
**Zhang Chunting**  
*Chairman*

Hong Kong, 14 April 2004



## Report of the Auditors



### To the members

#### Guangdong Tannery Limited

*(Incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages 32 to 100 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.



## Report of the Auditors *(Cont'd)*

### **Fundamental uncertainty — Contingent liabilities**

In arriving at our audit opinion, we have considered the adequacy of the disclosures made in note 34(a) to 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 notes 26(a) and 34(a) to the financial statements 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.

**Ernst & Young**  
*Certified Public Accountants*

Hong Kong  
14 April 2004





## Consolidated Profit and Loss Account

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>TURNOVER</b>	5		
Continuing operations		381,601	503,088
Discontinued operations		—	25,967
		<u>381,601</u>	<u>529,055</u>
Cost of sales		<u>(376,238)</u>	<u>(513,416)</u>
Gross profit		5,363	15,639
Other revenue and gains	5	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	6(a)	—	636
Staff compensation payments in respect of a discontinued operation	6(b)	—	(552)
<b>LOSS FROM OPERATING ACTIVITIES</b>	7	<b>(95,632)</b>	<b>(198,991)</b>
Finance costs	8	<u>(5,948)</u>	<u>(6,387)</u>
<b>LOSS BEFORE TAX</b>			
Continuing operations		(101,580)	(205,002)
Discontinued operations		—	(376)
		<u>(101,580)</u>	<u>(205,378)</u>
Tax	9		
Continuing operations		286	—
Discontinued operations		—	—
		<u>—</u>	<u>—</u>
<b>LOSS BEFORE MINORITY INTERESTS</b>		<b>(101,294)</b>	<b>(205,378)</b>
Minority interests		—	177
		<u>—</u>	<u>177</u>
<b>NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	11	<b><u>(101,294)</u></b>	<b><u>(205,201)</u></b>
<b>LOSS PER SHARE</b>	12		
— Basic		<u>(19.33 cents)</u>	<u>(39.15 cents)</u>
— Diluted		<u>N/A</u>	<u>N/A</u>



# Consolidated Balance Sheet

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
<b>NON-CURRENT ASSETS</b>			
Fixed assets	13	118,406	180,994
Receivables		—	1,268
		<u>118,406</u>	<u>182,262</u>
<b>CURRENT ASSETS</b>			
Inventories	17	221,395	192,189
Receivables, prepayments and deposits	18	47,683	43,357
Tax recoverable		7,031	—
Loan to an officer	21	970	1,015
Cash and cash equivalents	19	76,977	51,854
Pledged bank balances	19	7,355	12,972
		<u>361,411</u>	<u>301,387</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	20	(67,725)	(49,272)
Tax payable		—	(286)
Accruals and other liabilities		(25,720)	(21,882)
Due to a PRC joint venture partner	22	(1,131)	(1,131)
Loans from former immediate holding company	23	—	(46,148)
Loans from immediate holding company	23	(45,957)	—
Loan from a fellow subsidiary	24	(54,600)	(9,418)
Bank borrowings	25	(33,091)	(50,409)
Provisions	26	(72,600)	(3,000)
		<u>(300,824)</u>	<u>(181,546)</u>
<b>NET CURRENT ASSETS</b>		<u>60,587</u>	<u>119,841</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>178,993</u>	<u>302,103</u>
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings	25	—	(16,667)
Deferred tax liabilities	27	(8,833)	(9,793)
		<u>(8,833)</u>	<u>(26,460)</u>
		<u>170,160</u>	<u>275,643</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	28	52,415	52,415
Reserves	30	117,745	223,228
		<u>170,160</u>	<u>275,643</u>

Zhang Chunting  
Director

Hui Wai Man Lawrence  
Director



## Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
Total equity at 1 January:			
As previously reported		285,436	356,376
Prior year adjustments	27	<u>(9,793)</u>	<u>(9,549)</u>
As restated		275,643	346,827
Surplus/(deficit) on revaluation of properties	13, 30	(4,028)	722
Deferred tax charged/(credited) to the property revaluation reserve account	27, 30	960	(244)
Exchange differences on translation of the financial statements of subsidiaries in Mainland China	30	<u>(152)</u>	<u>222</u>
Net gains/(losses) not recognised in the profit and loss account		<u>(3,220)</u>	<u>700</u>
Release of exchange translation reserve upon disposal of subsidiaries	30, 31	(969)	(32)
Release of goodwill in respect of impairment of investment in a subsidiary	14, 30	—	133,349
Net loss for the year from ordinary activities attributable to shareholders		<u>(101,294)</u>	<u>(205,201)</u>
Total equity at 31 December		<u><u>170,160</u></u>	<u><u>275,643</u></u>



## Consolidated Cash Flow Statement

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		(101,580)	(205,378)
Adjustments for:			
Finance costs	8	5,948	6,387
Interest income	5	(194)	(438)
Write off of fixed assets	7	8,021	386
Loss/(gain) on disposal of fixed assets, net	7	(630)	1,764
Gain on disposal of subsidiaries	7	(16,609)	(1,186)
Depreciation of fixed assets	7	16,315	16,075
Amortisation of trademarks	7	—	700
Impairment of fixed assets	7	10,320	1,493
Impairment of goodwill of investment in a subsidiary	7	—	133,349
Provision for doubtful debts	7	816	28,531
Provision against inventories	7	—	11,057
Deficit/(surplus) arising on revaluation of properties, net	7	(704)	3,494
Provisions for tax claim and tax penalty by the PRC authorities	7	69,600	—
Operating loss before working capital changes		(8,697)	(3,766)
Increase in inventories		(30,399)	(26,275)
Increase in receivables, prepayments and deposits		(9,522)	(6,994)
Increase in trade and bills payables, accruals and other liabilities		44,489	27,778
Increase/(decrease) in trust receipts loans		(12,457)	701
Cash used in operations		(16,586)	(8,556)
Interest received		194	438
Interest paid		(5,948)	(6,387)
Mainland China taxes paid		(7,031)	—
Net cash outflow from operating activities		(29,371)	(14,505)



## Consolidated Cash Flow Statement (Cont'd)

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Net cash outflow from operating activities		<u>(29,371)</u>	<u>(14,505)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed assets	13	(3,044)	(15,476)
Proceeds from disposal of fixed assets		16,128	12,111
Disposal of subsidiaries	31	12,276	6,001
Repayment of loan to an officer		45	43
Decrease in pledged bank balances		<u>5,617</u>	<u>3,699</u>
Net cash inflow from investing activities		<u>31,022</u>	<u>6,378</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New loans from former immediate holding company		—	80,096
Repayment of loans from former immediate holding company		—	(33,926)
New loans from fellow subsidiaries		54,600	18,846
Repayment of loans from fellow subsidiaries		(9,418)	(9,423)
New bank loans		48,817	83,923
Repayment of bank loans		<u>(70,327)</u>	<u>(178,327)</u>
Net cash inflow/(outflow) from financing activities		<u>23,672</u>	<u>(38,811)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		25,323	(46,938)
Cash and cash equivalents at beginning of year		51,854	98,769
Effect of foreign exchange rate changes, net		<u>(200)</u>	<u>23</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u><u>76,977</u></u>	<u><u>51,854</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	19	<u><u>76,977</u></u>	<u><u>51,854</u></u>



## Balance Sheet

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	13	111	12,162
Interests in subsidiaries	15	<u>123,808</u>	<u>62,580</u>
		<u>123,919</u>	<u>74,742</u>
<b>CURRENT ASSETS</b>			
Prepayments and deposits		—	195
Loan to an officer	21	970	1,015
Cash and cash equivalents	19	<u>1,095</u>	<u>224</u>
		<u>2,065</u>	<u>1,434</u>
<b>CURRENT LIABILITIES</b>			
Accruals and other liabilities		(1,911)	(1,454)
Loans from former immediate holding company	23	—	(46,148)
Loans from immediate holding company	23	<u>(45,957)</u>	<u>—</u>
		<u>(47,868)</u>	<u>(47,602)</u>
<b>NET CURRENT LIABILITIES</b>			
		<u>(45,803)</u>	<u>(46,168)</u>
		<u>78,116</u>	<u>28,574</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	28	52,415	52,415
Reserves	30	<u>25,701</u>	<u>(23,841)</u>
		<u>78,116</u>	<u>28,574</u>

Zhang Chunting  
Director

Hui Wai Man Lawrence  
Director



# Notes to Financial Statements

31 December 2003

## 1. CORPORATE INFORMATION

The registered office of Guangdong Tannery Limited is located at 29/F, Guangdong Investment Tower, 148 Connaught Road, Central, Hong Kong.

During the year, the Group was principally engaged in the processing and sale of semi-finished and finished leather and property investment.

In the opinion of the Directors, the ultimate holding company of the Company is 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) ("Yue Gang Investment"), a company established in the mainland of the People's Republic of China (the "PRC" or "Mainland China").

## 2. IMPACT OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised): "Income taxes" is effective for the first time for the current year's financial statements.

SSAP 12 prescribes the accounting treatment for current income taxes payable or recoverable, arising from the taxable profit or loss for the current period; and deferred income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses.

The principal impact of the revision of SSAP 12 on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax liability has been recognised on the revaluation of the Group's properties; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.



## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 2. IMPACT OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”) *(Cont'd)*

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 9 and 27 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

Further details of these changes and the prior year adjustment arising from them are included in the accounting policy for deferred tax in notes 3 and 27 to the financial statements.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and leasehold land and buildings, as further explained below.

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intra-group transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

#### **Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share/registered capital or controls the composition of its board of directors.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.





## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

#### Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as a subsidiary if the Company has unilateral control, directly or indirectly, over the joint venture company.

#### Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

#### Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.



## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Goodwill (Cont'd)

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

Prior to the adoption of SSAP 30 “Business combinations” in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

#### Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset’s recoverable amount is estimated. An asset’s recoverable amount is calculated as the higher of the asset’s value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.



## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Impairment of assets (Cont'd)

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

#### Fixed assets and depreciation

Fixed assets, other than construction in progress and investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of leasehold land and buildings are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.



## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Fixed assets and depreciation (Cont'd)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land held under long and medium term leases	Over the lease terms
Buildings	2% – 10%
Leasehold improvements	4% – 20%
Plant and machinery	10% – 12.5%
Electronic equipment	20%
Motor vehicles	15% – 20%
Furniture, fixtures and equipment	15% – 20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, machinery and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

#### Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease, and are stated at their open market values, based on their existing use, on the basis of annual professional valuations performed at the end of each financial year.



## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Investment properties (Cont'd)

Changes in the values of investment properties are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

#### Leased assets

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

#### Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow-moving items. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

#### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents and bank balances comprise cash on hand and at banks, including time deposits, which are not restricted as to use.



## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Provisions for staff redundancy payments and compensation to a PRC joint venture partner for early termination of a joint venture agreement are determined based on employment contracts and the terms of the joint venture agreement.

Provisions for a tax claim and a tax penalty by the PRC authorities is determined based on the amount set out in a demand letter issued by the PRC authorities to a subsidiary of the Company, and with reference to the relevant PRC laws and regulations and a PRC legal opinion.

#### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.



## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Income tax (Cont'd)

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.



## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, properties, fixed assets and investments (collectively referred to as “goods and investments”), when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods and investments sold;
- (b) rental and royalty income, on a time proportion basis over the lease/contract terms; and
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

#### Employee benefits

##### *Retirement benefits scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in central pension schemes (the “PRC Scheme”) operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll to the PRC Scheme to fund their benefits. The only obligation of the Group with respect to the PRC Scheme is to pay the ongoing required contributions under the PRC Scheme. Contributions under the PRC Scheme are charged to the profit and loss account as they become payable in accordance with the rules of the PRC Scheme.





## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Employee benefits (Cont'd)

##### *Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise dates, or which lapse, are deleted from the register of outstanding options.

##### Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of subsidiaries and associate operating in Mainland China and overseas are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associate are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange translation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries and associate operating in Mainland China and overseas are translated to Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries and associate operating in Mainland China and overseas which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.



## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 4. 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 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

- (e) the leather ware products manufacture and distribution segment produces leather ware products in Mainland China and sells them mainly in Hong Kong; and
- (f) 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.



# Notes to Financial Statements (Cont'd)

31 December 2003

## 4. SEGMENT INFORMATION (Cont'd)

### (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

#### Group

	Leather processing		Merchandise trading		Property investment	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:						
Sales to external customers	381,601	412,759	—	90,329	—	—
Intersegment sales	—	—	—	—	—	—
Other revenue (excluding exchange gains/(losses), net)	941	1,121	—	3,900	1,825	2,181
Exchange gains/(losses), net	(1,171)	(222)	—	(297)	—	—
<b>Total</b>	<b>381,371</b>	<b>413,658</b>	<b>—</b>	<b>93,932</b>	<b>1,825</b>	<b>2,181</b>
Segment results	(106,898)	(164,693)*	—	(24,562)	2,075	(1,668)
Interest income						
Loss from operating activities						
Finance costs						
Loss before tax						
Tax						
Minority interests						
Net loss from ordinary activities attributable to shareholders						

\* 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. (note 14).



# Notes to Financial Statements (Cont'd)

31 December 2003

Leather ware products manufacture and distribution (Discontinued)		Packaging materials manufacture and distribution (Discontinued)		Corporate and Other		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
—	17,665	—	8,302	—	—	—	—	381,601	529,055
—	—	—	—	480	652	(480)	(652)	—	—
—	2,308	—	—	16,703	113	—	—	19,469	9,623
—	(42)	—	—	(160)	2	—	—	(1,331)	(559)
—	19,931	—	8,302	17,023	767	(480)	(652)	399,739	538,119
—	(439)	—	(89)	8,997	(7,978)	—	—	(95,826)	(199,429)
								194	438
								(95,632)	(198,991)
								(5,948)	(6,387)
								(101,580)	(205,378)
								286	—
								—	177
								(101,294)	(205,201)



# Notes to Financial Statements (Cont'd)

31 December 2003

## 4. SEGMENT INFORMATION (Cont'd)

### (a) Business segments (Cont'd)

Group

	Leather processing		Merchandise trading		Property investment	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment assets	469,165	449,652	—	2,964	12,848	34,377
Unallocated assets						
<b>Total assets</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>
Segment liabilities	(163,886)	(79,626)	—	(2,475)	(359)	(632)
Unallocated liabilities						
<b>Total liabilities</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>
Other segment information:						
Capital expenditure	2,985	15,039	—	—	—	—
Depreciation	15,531	15,294	—	46	—	—
Amortisation	—	—	—	—	—	—
Impairment of fixed assets	10,320	1,493	—	—	—	—
Revaluation (surplus)/deficit on investment properties	—	—	—	—	(662)	2,938
Revaluation (surplus)/deficit on leasehold land and buildings	(42)	556	—	—	—	—
Other non-cash (income)/expenses	8,098	11,930	—	29,169	(681)	—
Provisions for tax claim and tax penalty by the PRC authorities	69,600	—	—	—	—	—
Impairment of goodwill	—	133,349	—	—	—	—
	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>



# Notes to Financial Statements *(Cont'd)*

31 December 2003

Leather ware products manufacture and distribution (Discontinued)		Packaging materials manufacture and distribution (Discontinued)		Corporate and Other		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
—	—	—	—	2,684	5,765	(5,850)	(10,132)	478,847	482,626
								970	1,023
								<u>479,817</u>	<u>483,649</u>
—	—	—	—	(8,781)	(2,684)	5,850	10,132	(167,176)	(75,285)
								<u>(142,481)</u>	<u>(132,721)</u>
								<u>(309,657)</u>	<u>(208,006)</u>
—	342	—	4	59	91	—	—	3,044	15,476
—	358	—	—	784	377	—	—	16,315	16,075
—	700	—	—	—	—	—	—	—	700
—	—	—	—	—	—	—	—	10,320	1,493
—	—	—	—	—	—	—	—	(662)	2,938
—	—	—	—	—	—	—	—	(42)	556
—	—	—	133	790	506	—	—	8,207	41,738
—	—	—	—	—	—	—	—	69,600	—
—	—	—	—	—	—	—	—	—	133,349



# Notes to Financial Statements *(Cont'd)*

31 December 2003

## 4. SEGMENT INFORMATION (Cont'd)

### (b) Geographical segments

The following tables present revenue, profit/(loss) and certain asset and expenditure 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 losses, net	(1,171)	(200)	(160)	(149)	—	(210)	—	—	(1,331)	(559)
<b>Total</b>	<b>399,273</b>	<b>504,395</b>	<b>466</b>	<b>19,501</b>	<b>—</b>	<b>14,223</b>	<b>—</b>	<b>—</b>	<b>399,739</b>	<b>538,119</b>
Other geographical information:										
Segment assets	445,487	446,599	33,360	36,856	—	1,211	—	(2,040)	478,847	482,626
Unallocated assets									970	1,023
<b>Total assets</b>									<b>479,817</b>	<b>483,649</b>
Capital expenditure	3,035	15,043	9	433	—	—	—	—	3,044	15,476



## Notes to Financial Statements (Cont'd)

31 December 2003

### 5. TURNOVER AND REVENUE AND GAINS

*Continuing:*

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

*Discontinued:*

Turnover from discontinued operations included revenue from the manufacture and distribution of leather ware products and packaging materials, net of goods returned, trade discounts and value-added tax, during the year ended 31 December 2002.

Revenue from the following activities has been included in turnover.

	2003 HK\$'000	2002 HK\$'000
<b>Turnover</b>		
<i>Continuing:</i>		
Processing and sale of leathers	381,601	412,759
Sale of merchandise	—	90,329
	<u>381,601</u>	<u>503,088</u>
<i>Discontinued:</i>		
Manufacture and distribution of leather ware products	—	17,665
Sale of packaging materials	—	8,302
	<u>—</u>	<u>25,967</u>
	<u><u>381,601</u></u>	<u><u>529,055</u></u>





## Notes to Financial Statements (Cont'd)

31 December 2003

### 5. TURNOVER AND REVENUE AND GAINS (Cont'd)

	Note	2003 HK\$'000	2002 HK\$'000
<b>Other revenue and gains</b>			
<i>Continuing:</i>			
Rental income		2,068	2,416
Interest income		194	429
Gain on disposal of subsidiaries	31	16,609	—
Gain from settlement of litigation		—	3,900
Others		792	999
		<u>19,663</u>	<u>7,744</u>
<i>Discontinued:</i>			
Royalty income		—	500
Interest income		—	9
Gain on disposal of a subsidiary	31	—	550
Others		—	622
		<u>—</u>	<u>1,681</u>
		<u>19,663</u>	<u>9,425</u>



## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 6. DISCONTINUED OPERATIONS

**(a) Disposal of the Group's entire 60% interest in Alpha Universal Limited ("Alpha Universal")**

In June 2002, the Company entered into a conditional sale and purchase agreement with an independent third party for the disposal of the Group's entire 60% interest in Alpha Universal and its subsidiaries (the "Alpha Universal Group") at a cash consideration HK\$6,596,000 (net of expenses). The Alpha Universal Group principally operated the Group's leather ware products manufacture and distribution business.

In July 2002, the Group's disposal of its entire 60% interest in the Alpha Universal Group was completed and resulted in a gain of HK\$636,000 for the year ended 31 December 2002. Upon the completion of this transaction, Alpha Universal ceased to be a subsidiary of the Company and the Group's leather ware products manufacture and distribution business was then discontinued.

**(b) Discontinued operation of Xuzhou Gangwei Colour Package Co., Ltd. ("Xuzhou Gangwei")**

In June 2002, the Company negotiated compensation payments to the staff of Xuzhou Gangwei in respect of the decision of the board of directors of Xuzhou Gangwei to discontinue its packaging materials manufacture and distribution operations and to lease certain of its plant and machinery to an independent third party. Xuzhou Gangwei commenced to lease its plant and machinery on 30 June 2002 and the discontinuation of the packaging materials manufacture and distribution operations was then completed.

The discontinuation of the packaging materials manufacture and distribution business was consistent with the Group's strategy to concentrate on its leather processing business.

In connection with the decision to discontinue the packaging materials manufacture and distribution business, the Group incurred compensation payments to staff of HK\$552,000.



# Notes to Financial Statements (Cont'd)

31 December 2003

## 6. DISCONTINUED OPERATIONS (Cont'd)

The turnover, other revenue and gains, expenses, profit/(loss) before tax and tax attributable to the discontinued operations were as follows:

	Leather ware products manufacture and distribution For the year ended 31 December		Packaging materials manufacture and distribution For the year ended 31 December	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
TURNOVER	—	17,665	—	8,302
Cost of sales	—	(5,985)	—	(6,067)
Gross profit	—	11,680	—	2,235
Other revenue and gains	—	2,332	—	157
Selling and distribution costs	—	(7,259)	—	(832)
Administrative expenses	—	(7,144)	—	(760)
Other operating expenses, net	—	(24)	—	(732)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	—	(415)	—	68
Finance costs	—	(29)	—	—
PROFIT/(LOSS) BEFORE TAX	—	(444)	—	68
Tax	—	—	—	—
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	—	(444)	—	68
Minority interests	—	177	—	—
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	—	(267)	—	68



## Notes to Financial Statements (Cont'd)

31 December 2003

### 6. DISCONTINUED OPERATIONS (Cont'd)

The carrying amounts of the total assets and liabilities related to the discontinued operations included in the Group's consolidated balance sheet were as follows:

	Leather ware products manufacture and distribution		Packaging materials manufacture and distribution	
	31 December	31 December	31 December	31 December
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	—	—	—	—
Total liabilities	—	—	—	—
Net assets	—	—	—	—

The net cash inflows/(outflows) related to the discontinued operations were as follows:

	Leather ware products manufacture and distribution		Packaging materials manufacture and distribution	
	For the year ended		For the year ended	
	31 December		31 December	
	2003	2002	2003	2002
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Operating activities	—	(608)	—	(287)
Investing activities	—	(317)	—	154
Financing activities	—	—	—	—
Net cash outflows	—	(925)	—	(133)



## Notes to Financial Statements (Cont'd)

31 December 2003

### 7. LOSS FROM OPERATING ACTIVITIES

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

	Notes	2003 HK\$'000	2002 HK\$'000
Cost of inventories sold		376,238	513,416
Auditors' remuneration		799	850
Depreciation of fixed assets	13	16,315	16,075
Amortisation of trademarks*		—	700
Staff costs (excluding directors' remuneration (note 10)):			
Wages and salaries		20,741	30,166
Pension scheme contributions (defined contributions scheme)		1,153	1,386
Less: Forfeited contributions		—	—
Net pension scheme contributions**		1,153	1,386
		<u>21,894</u>	<u>31,552</u>
Annual fee paid to a PRC joint venture partner		—	183
Operating leases in respect of land and buildings:			
Minimum lease payments		359	4,374
Contingent rental payments		—	1,542
		<u>359</u>	<u>5,916</u>
Other rental income		(384)	(153)
Royalty income		—	(500)
Gain from settlement of litigation		—	(3,900)
Gain on disposal of subsidiaries	31	(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		<u>(1,364)</u>	<u>(1,767)</u>
Interest income		<u>(194)</u>	<u>(438)</u>



## Notes to Financial Statements (Cont'd)

31 December 2003

### 7. LOSS FROM OPERATING ACTIVITIES (Cont'd)

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

	Notes	2003 HK\$'000	2002 HK\$'000
<i>Expenses/(income) included in other operating expenses:</i>			
Deficit/(surplus) arising on revaluation of investment properties	13	(662)	2,938
Deficit/(surplus) arising on revaluation of leasehold land and buildings	13	(42)	556
Provision against inventories		—	11,057
Provision for doubtful debts		816	28,531
Write off of fixed assets	13	8,021	386
Loss/(gain) on disposal of fixed assets, net		(630)	1,764
Impairment of fixed assets	13	10,320	1,493
Impairment of goodwill of investment in a subsidiary	14	—	133,349
Exchange losses, net		1,331	559
Provisions for tax claim and tax penalty by the PRC authorities	26	69,600	—
		<u>88,754</u>	<u>180,633</u>

\* 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.



## Notes to Financial Statements (Cont'd)

31 December 2003

### 8. FINANCE COSTS

	Group	
	2003 HK\$'000	2002 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
	<u>5,948</u>	<u>6,387</u>

### 9. 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	—
	<u>286</u>	<u>—</u>
Total tax credit for the year	<u>286</u>	<u>—</u>



# Notes to Financial Statements (Cont'd)

31 December 2003

## 9. TAX (Cont'd)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

### Group — 2003

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>560</u>		<u>(102,140)</u>		<u>(101,580)</u>	
Tax at the statutory tax rate	98	17.5	(33,706)	33.0	(33,608)	33.1
Lower tax rate for specific provinces or local authority	—	—	10,137	(9.9)	10,137	(9.9)
Income not subject to tax	(3,792)	(677.2)	(7,701)	7.5	(11,493)	11.3
Expenses not deductible for tax	3,321	593.0	19,336	(18.9)	22,657	(22.3)
Adjustments in respect of current tax of previous periods	(286)	(51.1)	—	—	(286)	0.3
Tax losses utilised from previous periods	(861)	(153.7)	—	—	(861)	0.8
Tax effect of unused tax losses not recognised	<u>1,234</u>	<u>220.4</u>	<u>11,934</u>	<u>(11.7)</u>	<u>13,168</u>	<u>(13.0)</u>
Tax credit at effective rate	<u>(286)</u>	<u>(51.1)</u>	<u>—</u>	<u>—</u>	<u>(286)</u>	<u>0.3</u>

### Group — 2002

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(165,785)</u>		<u>(39,593)</u>		<u>(205,378)</u>	
Tax at the statutory tax rate	(26,526)	16.0	(13,066)	33.0	(39,592)	19.3
Lower tax rate for specific provinces or local authority	—	—	3,993	(10.1)	3,993	(1.9)
Income tax not subject to tax	(8,667)	5.2	(10,060)	25.4	(18,727)	9.0
Expenses not deductible for tax	29,384	(17.7)	5,425	(13.7)	34,809	(16.9)
Tax losses utilised from previous periods	(121)	0.1	—	—	(121)	0.1
Tax effect of unused tax losses not recognised	<u>5,930</u>	<u>(3.6)</u>	<u>13,708</u>	<u>(34.6)</u>	<u>19,638</u>	<u>(9.6)</u>
Tax at effective rate	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>





## Notes to Financial Statements (Cont'd)

31 December 2003

### 9. TAX (Cont'd)

Certain subsidiaries of the Company established in the PRC, were exempt from PRC corporate income tax for two years starting from their first profit-making year of operations, and thereafter are eligible for a 50% relief from PRC corporate income tax for the following three years under the PRC tax laws. The standard PRC corporate income tax rate applicable to those PRC subsidiaries ranged from 24% to 33%.

### 10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees:		
Executive directors	—	—
Non-executive directors	—	—
Independent non-executive directors	200	36
	<u>200</u>	<u>36</u>
Other emoluments to executive directors:		
Salaries, allowances and benefits in kind	791	1,836
Pension scheme contributions	89	144
Less: Forfeited contributions	—	—
	<u>89</u>	<u>144</u>
Net pension scheme contributions*	<u>89</u>	<u>144</u>
	<u>1,080</u>	<u>2,016</u>

\* The amount of forfeited pension scheme contributions available at the current and prior year ends to reduce contributions in future years is not material.



## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(Cont'd)*

- (a) Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows: *(Cont'd)*

During the year, 6,600,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 29 to the financial statements. The estimated value of such options, which has not been charged to the profit and loss account, was HK\$1,188,000 as at the date of the grant. This was determined by using the Black-Scholes option pricing model.

The number of directors whose remuneration fell within the following band is as follows:

	Number of directors	
	2003	2002
Nil – HK\$1,000,000	<u>12</u>	<u>14</u>

Mr. Xiong Guangyang, Mr. Hui Wai Man Lawrence, Mrs. Ho Lam Lai Ping Theresa, Mr. Chan Hee Kwan, Mr. Li Wai Keung, Mr. Luo Fanyu, Mr. Wang Man Kwan Paul, Mr. Yuen Lam Fai Antony, Mr. Tam Chiu Pang Jaffe and Mr. Zeng Haipeng, directors or former directors of the Company, waived their directors' fees aggregating for the year. Save for this, there was no arrangement under which a director waived or agreed to waive any remuneration during the year.



## Notes to Financial Statements (Cont'd)

31 December 2003

### 10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Cont'd)

- (b) The five highest paid employees of the Group during the year included two (2002: one) directors, details of whose remuneration are set out in note (a) above. Details of the remuneration of the remaining three (2002: four) non-director, highest paid employees for the year are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Salaries, allowances and benefits in kind	1,372	1,587
Performance related bonuses	100	668
Compensation for loss of office	—	418
Pension scheme contributions	153	144
Less: Forfeited contributions	—	(4)
Net pension scheme contributions	<u>153</u>	<u>140</u>
	<u>1,625</u>	<u>2,813</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2003	2002
Nil – HK\$1,000,000	3	3
HK\$1,000,001 – HK\$1,500,000	—	1
	<u>3</u>	<u>4</u>



## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Cont'd)

(b) (Cont'd)

During the year, 3,050,000 share options were granted to the three non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The estimated value of such options, which has not been charged to the profit and loss account, was HK\$549,000 as at the date of the grant. This was determined by using the Black-Scholes option pricing model.

### 11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK\$49,542,000 (2002: net loss of HK\$456,633,000).

### 12. 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.



# Notes to Financial Statements (Cont'd)

31 December 2003

## 13. FIXED ASSETS

### Group

	Leasehold land and buildings	Investment properties	Leasehold improvements	Plant and machinery	Electronic equipment	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:									
At beginning of year	99,700	27,920	7,909	132,828	2,787	12,002	2,396	221	285,763
Additions	281	—	586	93	62	182	9	1,831	3,044
Disposals	(1,750)	(13,600)	—	(451)	(33)	(292)	(26)	—	(16,152)
Write off	(6,162)	—	(1,748)	(6,389)	(23)	(1,021)	(1,003)	—	(16,346)
Disposal of subsidiaries	(4,000)	(8,000)	(373)	(3,063)	—	—	(262)	—	(15,698)
Reclassifications	—	—	—	1,436	103	194	—	(1,733)	—
Surplus/(deficit) on revaluation, net	(3,986)	662	—	—	—	—	—	—	(3,324)
Written back on revaluation	(5,979)	—	—	—	—	—	—	—	(5,979)
Exchange realignment	(284)	(12)	(25)	(525)	(13)	(41)	—	(1)	(901)
At 31 December 2003	77,820	6,970	6,349	123,929	2,883	11,024	1,114	318	230,407
Analysis of cost or valuation:									
At cost	—	—	6,349	123,929	2,883	11,024	1,114	318	145,617
At 2003 valuation	77,820	6,970	—	—	—	—	—	—	84,790
	77,820	6,970	6,349	123,929	2,883	11,024	1,114	318	230,407
Accumulated depreciation and impairment:									
At beginning of year	—	—	4,801	85,433	1,968	10,360	2,207	—	104,769
Depreciation provided for the year	6,290	—	556	8,653	253	490	73	—	16,315
Impairment	—	—	—	10,320	—	—	—	—	10,320
Disposals	(17)	—	—	(332)	(31)	(248)	(26)	—	(654)
Write off	—	—	(656)	(5,732)	(20)	(919)	(998)	—	(8,325)
Disposal of subsidiaries	(243)	—	(465)	(3,068)	—	—	(262)	—	(4,038)
Written back on revaluation	(5,979)	—	—	—	—	—	—	—	(5,979)
Exchange realignment	(51)	—	(10)	(308)	(8)	(30)	—	—	(407)
At 31 December 2003	—	—	4,226	94,966	2,162	9,653	994	—	112,001
Net book value:									
At 31 December 2003	77,820	6,970	2,123	28,963	721	1,371	120	318	118,406
At 31 December 2002	99,700	27,920	3,108	47,395	819	1,642	189	221	180,994



**Notes to Financial Statements** (Cont'd)  
31 December 2003

**13. FIXED ASSETS (Cont'd)**

**Company**

	Investment property HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
<b>Cost or valuation:</b>				
At beginning of year	11,000	1,262	1,815	14,077
Additions	—	—	9	9
Write off	—	(1,262)	(991)	(2,253)
Disposal	(11,000)	—	—	(11,000)
	<u>—</u>	<u>—</u>	<u>833</u>	<u>833</u>
At 31 December 2003	<u>—</u>	<u>—</u>	<u>833</u>	<u>833</u>
<b>Analysis of cost or valuation:</b>				
At cost	—	—	833	833
At 2003 valuation	—	—	—	—
	<u>—</u>	<u>—</u>	<u>833</u>	<u>833</u>
<b>Accumulated depreciation:</b>				
At beginning of year	—	270	1,645	1,915
Provided for the year	—	17	67	84
Write off	—	(287)	(990)	(1,277)
	<u>—</u>	<u>—</u>	<u>722</u>	<u>722</u>
At 31 December 2003	<u>—</u>	<u>—</u>	<u>722</u>	<u>722</u>
<b>Net book value:</b>				
At 31 December 2003	<u>—</u>	<u>—</u>	<u>111</u>	<u>111</u>
At 31 December 2002	<u>11,000</u>	<u>992</u>	<u>170</u>	<u>12,162</u>



## Notes to Financial Statements (Cont'd)

31 December 2003

### 13. FIXED ASSETS (Cont'd)

The leasehold land and buildings and investment properties of the Company and the Group comprised:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Long term leases in Hong Kong	—	12,050	—	11,000
Medium term leases in Hong Kong	—	3,300	—	—
Medium term leases in Mainland China	<u>84,790</u>	<u>112,270</u>	<u>—</u>	<u>—</u>
At 31 December	<u><u>84,790</u></u>	<u><u>127,620</u></u>	<u><u>—</u></u>	<u><u>11,000</u></u>

The above leasehold land and buildings and investment properties were revalued by an independent professionally qualified valuer, RHL Appraisal Ltd., on an open market basis, based on their existing use, at 31 December 2003.

As at 31 December 2003, the Group's investment properties were revalued at HK\$6,970,000 (2002: HK\$27,920,000) with a revaluation surplus of HK\$662,000 (2002: revaluation deficit of HK\$2,938,000) which has been credited to the profit and loss account in the current year.

As at 31 December 2003, the Group's leasehold land and buildings were revalued at HK\$77,820,000 (2002: HK\$99,700,000) with a net revaluation deficit of HK\$3,986,000 (2002: net revaluation surplus of HK\$166,000). A portion of the revaluation deficit of HK\$4,028,000 (2002: revaluation surplus of HK\$722,000) has been charged to property revaluation reserve and a revaluation surplus of HK\$42,000 (2002: revaluation deficit of HK\$556,000) has been credited to the profit and loss account in the current year.

Had the leasehold land and buildings of the Group been carried at historical cost less accumulated depreciation and impairment, their carrying values as at 31 December 2003 would have been HK\$45,503,000 (2002: HK\$63,355,000).



## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 13. FIXED ASSETS (Cont'd)

At 31 December 2003, an amount of HK\$2,400,000 (2002: HK\$2,600,000) and HK\$490,000 (2002: Nil) included in the Group's investment properties and leasehold land and buildings, respectively, were leasehold properties situated in Mainland China, in respect of which the land use right certificates were in the process of being obtained.

At 31 December 2003, certain of the Group's leasehold land and buildings and investment properties of HK\$3,370,000 (2002: HK\$36,000,000) and HK\$4,570,000 (2002: Nil) were pledged to secure general banking facilities granted to the Group (note 36).

### 14. GOODWILL

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves.

In 2002, a provision for impairment of goodwill of HK\$133,349,000 was made in respect of goodwill arising from the Group's acquisition of Nanhai Tannery & Leather Products Co., Ltd. ("Nanhai Tannery"), a former wholly-owned subsidiary of the Company, which was engaged in leather processing operation in Mainland China.

As a result, the total amount of goodwill of HK\$167,746,000 which had been eliminated against the consolidated general reserve fund of the Group, arising from the acquisition of subsidiaries prior to 1 January 2001, had been fully impaired as at 31 December 2003 and 2002.





# Notes to Financial Statements *(Cont'd)*

31 December 2003

## 15. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted investments, at cost	161,955	385,837
Due from subsidiaries	304,675	298,660
Due to subsidiaries	<u>(23,739)</u>	<u>(2,555)</u>
	442,891	681,942
Less: Provision for impairment	<u>(319,083)</u>	<u>(619,362)</u>
	<u>123,808</u>	<u>62,580</u>

Included in the amounts due from subsidiaries are unsecured loans of HK\$126,599,000, which bear interest at rates ranging from 3.8% per annum to 8.5% per annum and have no fixed terms of repayment. The remaining amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's subsidiaries as at 31 December 2003 are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued ordinary/ registered share capital	Percentage of attributable equity interest held by the Company		Principal activities
			Directly %	Indirectly %	
Crown South (Hong Kong) Limited	Hong Kong	HK\$2	—	100	Dormant
Gastor Enterprises Limited	British Virgin Islands	US\$150	100	—	Investment holding



## Notes to Financial Statements (Cont'd)

31 December 2003

### 15. INTERESTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ establishment and operations	Nominal value of issued ordinary/ registered share capital	Percentage of attributable equity interest held by the Company		Principal activities
			Directly %	Indirectly %	
Gold Star Assets Limited	Hong Kong	HK\$2	—	100	Investment holding
Harbour Hill International Limited	Hong Kong	HK\$1,000,000	100	—	Import and export trade
Jadeford Investments Limited	British Virgin Islands/ Mainland China	US\$1	100	—	Import and export trade
Nanhai City Tongyuan Tanning Company Limited <sup>+</sup>	Mainland China	US\$3,000,000	—	100	Processing of cowhides and leather trading
Qingdao Nanhai Tannery Co., Ltd. <sup>#</sup>	Mainland China	US\$2,500,000	100	—	Dormant
Sun Po (Hong Kong) Leather Ware Company Limited	Hong Kong	HK\$2	—	100	Property investment
Team Up Profits Limited	British Virgin Islands	US\$1	100	—	Investment holding



## Notes to Financial Statements (Cont'd)

31 December 2003

### 15. INTERESTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ establishment and operations	Nominal value of issued ordinary/ registered share capital	Percentage of attributable equity interest held by the Company		Principal activities
			Directly %	Indirectly %	
Time Wise Profits Limited	British Virgin Islands/ Mainland China	US\$1	100	—	Import and export trade
Vermont Property Limited	British Virgin Islands	US\$1	100	—	Investment holding
Xuzhou Gangwei Colour Package Co., Ltd. <sup>+</sup>	Mainland China	RMB18,000,000	100	—	Lessor of plant and machinery
Xuzhou Nanhai Leather Factory Co., Ltd. <sup>+</sup>	Mainland China	RMB12,000,000	100	—	Processing of cowhides and leather trading

+ Wholly foreign-owned enterprises.

# This is a Sino-foreign co-operative joint venture. Pursuant to the joint venture agreement, the registered capital of Qingdao Nanhai Tannery Co., Ltd. ("Qingdao Nanhai") was solely contributed by the Company. The PRC joint venture partner contributed its plant and equipment for the operation of Qingdao Nanhai. The Company is entitled to all its distributable profits after the payment of an agreed annual fee to the PRC joint venture partner. In the event of liquidation, the initial injected assets will be distributed to the respective original contributors and thereafter, any remaining surplus will vest with the Company.



# Notes to Financial Statements *(Cont'd)*

31 December 2003

## 16. INTEREST IN AN ASSOCIATE

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Share of net assets	907	907
Due from an associate	<u>7,270</u>	<u>7,270</u>
	8,177	8,177
Less: Provision for impairment	<u>(8,177)</u>	<u>(8,177)</u>
	<u>—</u>	<u>—</u>

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the Group's associate, which is a corporation, as at 31 December 2003 are as follows:

Name	Place of incorporation/ operations	Issued share capital	Percentage of nominal value of issued ordinary share capital held by the Group %	Principal activities
Essential Holdings Limited	British Virgin Islands	US\$100	32	Investment holding



## Notes to Financial Statements (Cont'd)

31 December 2003

### 17. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	61,855	64,577
Work in progress	107,246	74,867
Finished goods	<u>52,294</u>	<u>52,745</u>
	<u>221,395</u>	<u>192,189</u>

The carrying amount of inventories carried at net realisable value included in the above balance was HK\$40,854,000 (2002: HK\$46,356,000) as at 31 December 2003.

### 18. RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 31 December 2003, included in the receivables, prepayments and deposits are trade receivables with a net balance of HK\$17,162,000 (2002: HK\$21,472,000) due from the Group's customers.

The Group's trading terms with customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well-established customers, where the terms are extended to two to three months. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.



## Notes to Financial Statements (Cont'd)

31 December 2003

### 18. RECEIVABLES, PREPAYMENTS AND DEPOSITS (Cont'd)

As at 31 December 2003, the ageing analysis of the Group's trade receivables, based on the payment due date, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 3 months	17,479	21,472
More than 3 months and less than 6 months	10	—
More than 6 months and less than 1 year	244	28,469
More than 1 year	34,835	7,038
	<u>52,568</u>	<u>56,979</u>
Less: Provisions for doubtful debts	(35,406)	(35,507)
	<u>17,162</u>	<u>21,472</u>

### 19. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances	84,332	64,826	1,095	224
Less: Pledged bank balances*	<u>(7,355)</u>	<u>(12,972)</u>	<u>—</u>	<u>—</u>
Cash and cash equivalents	<u>76,977</u>	<u>51,854</u>	<u>1,095</u>	<u>224</u>

\* The bank balances were pledged to banks for trading facilities granted (note 36).



# Notes to Financial Statements *(Cont'd)*

31 December 2003

## 20. TRADE AND BILLS PAYABLES

As at 31 December 2003, the ageing analysis of the Group's trade and bills payables, based on the payment due date, is as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within 3 months	62,672	37,752
More than 3 months and less than 6 months	2,831	11,050
More than 6 months and less than 1 year	67	20
More than 1 year	<u>2,155</u>	<u>450</u>
	<u><u>67,725</u></u>	<u><u>49,272</u></u>

## 21. LOAN TO AN OFFICER

Pursuant to Section 161B of the Companies Ordinance, a loan to an officer is disclosed as follows:

### Company and Group

Name	Terms of the loan	As at 31 December 2003 <i>HK\$'000</i>	As at 1 January 2003 <i>HK\$'000</i>	Maximum amount outstanding during the year <i>HK\$'000</i>
		Ms. Chan Miu Ting (Company Secretary)	Secured by her property, bears interest at 5% per annum and is repayable by monthly instalments	<u>970</u>

The loan is a staff housing loan used by Ms. Chan Miu Ting to purchase a flat as her main residence. During the year, the interest income earned from the officer amounted to HK\$50,000 (2002: HK\$52,000).

## 22. DUE TO A PRC JOINT VENTURE PARTNER

The amounts due to a PRC joint venture partner are unsecured, interest-free and have no fixed terms of repayment.



## Notes to Financial Statements *(Cont'd)*

31 December 2003

### **23. LOANS FROM FORMER IMMEDIATE HOLDING COMPANY AND IMMEDIATE HOLDING COMPANY**

As at 31 December 2002, the loans from Guangdong Investment Limited (“GDI”), the former immediate holding company of the Company, consisted of two unsecured loans of RMB19,000,000 and RMB30,000,000 (the “Loans”) which were repayable in July 2003 and August 2003, respectively, and bore interest at 3.8% per annum.

Following GDI’s disposal of its entire shareholdings in the Company and its interest in the Loans to GDH Limited (“GDH”), GDI’s immediate holding company, on 31 March 2003, GDI and GDH became the Company’s fellow subsidiary and immediate holding company, respectively.

During the year, on 2 September 2003, the Loans were extended by GDH to be repayable on 30 September 2004. Subsequent to the balance sheet date, the Loans were further extended by GDH to be repayable on 30 June 2005.

### **24. LOAN FROM A FELLOW SUBSIDIARY**

As at 31 December 2002, the loan from a fellow subsidiary represented an unsecured loan of RMB10,000,000 advanced from Yue Hai Hotel, Zhuhai, a fellow subsidiary of the Company, through an entrusted loan agreement, which bore interest at 4.2% per annum. The loan was fully repaid in January 2003.

During the year, on 1 October 2003, Guangdong Assets Management Limited (“Guangdong Assets Management”), a fellow subsidiary of the Company, advanced an unsecured loan of US\$7,000,000 to a wholly-owned subsidiary of the Company. The loan bears interest at 3.8% per annum and was payable on 31 December 2003. Subsequent to the balance sheet date, the loan was extended to be repayable on 30 June 2005.







## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 26. PROVISIONS (Cont'd)

#### (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 by the relevant PRC authorities, which has been provided for by the directors with reference to a PRC legal opinion obtained by them. Details of the claim by the Guangzhou Customs are set out in note 34(a) to the financial statements.

#### (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. Details of the arbitration proceedings are set out in note 34(b) to the financial statements.



## Notes to Financial Statements (Cont'd)

31 December 2003

### 27. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities and assets during the year are as follows:

#### Group — 2003

	Accelerated tax depreciation <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Future benefit of tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003				
As previously reported	—	—	—	—
Prior year adjustment:				
SSAP 12 — restatement of deferred tax	<u>2,641</u>	<u>9,793</u>	<u>(2,641)</u>	<u>9,793</u>
As restated	<u>2,641</u>	<u>9,793</u>	<u>(2,641)</u>	<u>9,793</u>
Deferred tax credited to the property revaluation reserve account during the year	—	(960)	—	(960)
Deferred tax charged/ (credited) to the profit and loss account during the year	(483)	—	483	—
Disposal of a subsidiary	<u>(1,107)</u>	<u>—</u>	<u>1,107</u>	<u>—</u>
Deferred tax liabilities at 31 December 2003	<u>1,051</u>	<u>8,833</u>	<u>(1,051)</u>	<u>8,833</u>



## Notes to Financial Statements (Cont'd)

31 December 2003

### 27. DEFERRED TAX LIABILITIES (Cont'd)

#### Group — 2002

	Accelerated tax depreciation <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Future benefit of tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002				
As previously reported	—	—	—	—
Prior year adjustment:				
SSAP 12 — restatement of deferred tax	<u>2,670</u>	<u>9,549</u>	<u>(2,670)</u>	<u>9,549</u>
As restated	<u>2,670</u>	<u>9,549</u>	<u>(2,670)</u>	<u>9,549</u>
Deferred tax charged to the property revaluation reserve account during the year	—	244	—	244
Deferred tax charged/ (credited) to the profit and loss account during the year	<u>(29)</u>	<u>—</u>	<u>29</u>	<u>—</u>
Deferred tax liabilities at 31 December 2002	<u>2,641</u>	<u>9,793</u>	<u>(2,641)</u>	<u>9,793</u>

The Group has tax losses arising in Hong Kong of HK\$62,851,000 (2002: HK\$62,159,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Except for an amount of HK\$1,051,000 (2002: HK\$2,641,000) recognised as at 31 December 2003 to the extent of the taxable temporary differences arising from the accelerated tax depreciation of the same amount, deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.



## Notes to Financial Statements (Cont'd)

31 December 2003

### 27. DEFERRED TAX LIABILITIES (Cont'd)

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 31 December 2003 and 2002 by HK\$8,833,000 and HK\$9,793,000, respectively. As a consequence, 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, as detailed in note 30 to the financial statements.

### 28. SHARE CAPITAL

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Authorised:		
700,000,000 ordinary shares of HK\$0.10 each	<u>70,000</u>	<u>70,000</u>
Issued and fully paid:		
524,154,000 ordinary shares of HK\$0.10 each	<u>52,415</u>	<u>52,415</u>

There were no changes in the ordinary share capital of the Company during the year.



## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 29. SHARE OPTION SCHEME

On 31 May 2002, the Company terminated its then share option scheme dated 26 November 1996 (the “Old Option Scheme”) and adopted a new share option scheme (the “Share Option Scheme”).

Pursuant to the Old Option Scheme, the exercise price of the share options, which was determinable by the directors, was a price equal to the higher of the nominal value of the shares and an amount not less than 80% of the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant of the option.

In response to the amendments by the Stock Exchange in connection with Chapter 17 (Share Option Schemes) of the Listing Rules, the Company terminated the Old Option Scheme and then adopted the Share Option Scheme on 31 May 2002 as follows:

The purposes of the Share Option Scheme are to provide incentives for the participants to contribute to the Group, to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis, to maintain good relationships with its consultants, professional advisers, suppliers of goods and services and customers, and to attract human resources that are valuable to the Group. Eligible participants of the Share Option Scheme include the Company’s directors (including non-executive and independent non-executive directors), employees or executives of the Group, customers of the Group, and substantial shareholders of the Group. The Share Option Scheme, unless otherwise terminated or amended, will remain in force for 10 years from 31 January 2003.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be granted under the Share Option Scheme and any other schemes of the Company may not exceed 30% of its shares in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company may not in aggregate exceed 10% of the shares of the Company in issue as at the date of adopting the Share Option Scheme, but the Company may seek approval of its shareholders in a general meeting to refresh the 10% limit under the Share Option Scheme.



## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 29. SHARE OPTION SCHEME (Cont'd)

The total number of shares issued and to be issued upon exercise of the share options granted and to be granted to each eligible participant (including both exercised and outstanding options) in any 12-month period up to the date of grant may not exceed 1% of the shares in issue at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 14 days from the date of the offer upon payment of a consideration of HK\$1 by the grantee. The exercise period of the share options granted is determinable by the Directors of the Company, commences after a certain vesting period and ends on a date which is not later than ten years from the date of grant of the share options.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the share options, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

There were no share options exercised by the directors of the Company under the Share Option Scheme during the year.



# Notes to Financial Statements (Cont'd)

31 December 2003

## 29. SHARE OPTION SCHEME (Cont'd)

The following share options were outstanding under the Share Option Scheme during the year:

Name or category of participant	Number of share options				Date of grant of share options* (dd/mm/yyyy)	Exercise period of share options (dd/mm/yyyy)	Exercise price of share options** HK\$	Price of the Company's shares at grant date of options*** HK\$
	At 1 January 2003	Granted during the year	Lapsed during the year	At 31 December 2003				
<b>Directors</b>								
Mr. Xiong Guangyang	—	3,000,000	—	3,000,000	09/06/2003	10/09/2003 — 09/09/2008	0.22	0.22
Mr. Cheng Hok Lai James	—	300,000	—	300,000	09/06/2003	10/09/2003 — 09/09/2008	0.22	0.22
Mr. Fung Lak	—	300,000	—	300,000	09/06/2003	10/09/2003 — 09/09/2008	0.22	0.22
Mr. Zeng Haipeng <sup>#</sup>	—	3,000,000	(3,000,000)	—	09/06/2003	10/09/2003 — 09/09/2008	0.22	0.22
	—	6,600,000	(3,000,000)	3,600,000				
<b>Other employees</b>								
In aggregate	—	3,050,000	—	3,050,000	09/06/2003	10/09/2003 — 09/09/2008	0.22	0.22
	—	9,650,000	(3,000,000)	6,650,000				

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

\*\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the closing price on the Stock Exchange on the trading day on which the options were granted.

<sup>#</sup> Mr. Zeng Haipeng resigned as a director of the Company on 10 July 2003.







# Notes to Financial Statements (Cont'd)

31 December 2003

## 30. RESERVES (Cont'd)

### Group (Cont'd)

		Share premium account	General reserve fund	Capital redemption reserve	Other reserve fund	Exchange translation reserve	Property revaluation reserve	Accumulated losses	Total
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2003:									
As previously reported		412,116	167,746	445	—	969	36,345	(384,600)	233,021
Prior year adjustment	27	—	—	—	—	—	(9,793)	—	(9,793)
As restated		412,116	167,746	445	—	969	26,552	(384,600)	223,228
Deficit on revaluation of properties	13	—	—	—	—	—	(4,028)	—	(4,028)
Deferred tax credited to the property revaluation reserve account	27	—	—	—	—	—	960	—	960
Exchange adjustments		—	—	—	—	(152)	—	—	(152)
Release of reserve upon disposal of subsidiaries	31	—	—	—	—	(969)	—	—	(969)
Net loss for the year		—	—	—	—	—	—	(101,294)	(101,294)
At 31 December 2003		<u>412,116</u>	<u>167,746</u>	<u>445</u>	<u>—</u>	<u>(152)</u>	<u>23,484</u>	<u>(485,894)</u>	<u>117,745</u>
Reserves retained by									
Company and subsidiaries		412,116	167,746	445	—	(145)	23,484	(484,277)	119,369
Associate		—	—	—	—	(7)	—	(1,617)	(1,624)
At 31 December 2003		<u>412,116</u>	<u>167,746</u>	<u>445</u>	<u>—</u>	<u>(152)</u>	<u>23,484</u>	<u>(485,894)</u>	<u>117,745</u>
Company and subsidiaries									
Associate		412,116	167,746	445	—	976	26,552	(382,983)	224,852
		—	—	—	—	(7)	—	(1,617)	(1,624)
At 31 December 2002		<u>412,116</u>	<u>167,746</u>	<u>445</u>	<u>—</u>	<u>969</u>	<u>26,552</u>	<u>(384,600)</u>	<u>223,228</u>



## Notes to Financial Statements (Cont'd)

31 December 2003

### 30. RESERVES (Cont'd)

#### Company

		Share premium account <i>HK\$'000</i>	General reserve fund <i>HK\$'000</i> <i>(Note)</i>	Capital redemption reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
	<i>Note</i>					
At 1 January 2002		412,116	167,746	445	(147,515)	432,792
Net loss for the year	11	<u>—</u>	<u>—</u>	<u>—</u>	<u>(456,633)</u>	<u>(456,633)</u>
At 31 December 2002 and 1 January 2003		412,116	167,746	445	(604,148)	(23,841)
Net profit for the year	11	<u>—</u>	<u>—</u>	<u>—</u>	<u>49,542</u>	<u>49,542</u>
At 31 December 2003		<u>412,116</u>	<u>167,746</u>	<u>445</u>	<u>(554,606)</u>	<u>25,701</u>

*Note:* The general reserve fund of the Company is an undistributable reserve and may not be treated as realised profits.

On 25 November 1996, a court order confirming the reduction of the share premium account by HK\$133,349,000 was registered by the Registrar of Companies in Hong Kong and the credit arising therefrom was transferred to the general reserve fund against which goodwill arising on the acquisition of a subsidiary company was eliminated in the consolidated financial statements.

Pursuant to a special resolution passed in the Company's extraordinary general meeting held on 23 January 1998 and confirmed by the Order of the High Court of Hong Kong dated 2 March 1998, the share premium account was reduced by the amount of HK\$34,397,000 and, as undertaken by the Company, a general reserve fund was credited in the books of account of the Company in the same amount for the purpose of setting off, in the consolidated accounts of the Company and its subsidiaries, goodwill arising on consolidation in 1997.

In 2002, the release of goodwill of HK\$133,349,000 in respect of impairment of an investment in a subsidiary relates to the goodwill arising from acquisition of that subsidiary in 1996.



## Notes to Financial Statements (Cont'd)

31 December 2003

### 31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### Disposal of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Fixed assets	11,660	4,259
Trademarks	—	800
Cash and bank balances	6	1,945
Receivables, prepayments and deposits	5,291	4,409
Inventories	260	4,155
Trade payables, accruals and other payables	(20,575)	(4,782)
Minority interests	—	(3,994)
	<u>(3,358)</u>	<u>6,792</u>
Release of exchange translation reserve	<u>(969)</u>	<u>(32)</u>
	<u>(4,327)</u>	<u>6,760</u>
Gain on disposal of a discontinued operation (note 6(a))	—	636
Gain on disposal of subsidiaries (note 7)	<u>16,609</u>	<u>550</u>
	<u>12,282</u>	<u>7,946</u>
Satisfied by:		
Cash (net of expenses of HK\$233,000)	<u>12,282</u>	<u>7,946</u>



# Notes to Financial Statements (Cont'd)

31 December 2003

## 31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

### Disposal of subsidiaries (Cont'd)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2003 HK\$'000	2002 HK\$'000
Cash consideration (net of expenses of HK\$233,000)	12,282	7,946
Cash and bank balances disposed of	<u>(6)</u>	<u>(1,945)</u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>12,276</u>	<u>6,001</u>

The results of the subsidiaries disposed of in the year ended 31 December 2003 had no significant impact on the Group's consolidated turnover or loss after tax for that year.

## 32. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties and certain plant and machinery under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years.

At 31 December 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with their lessees falling due as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	1,117	1,742	—	239
In the second to fifth years, inclusive	<u>2,639</u>	<u>2,936</u>	<u>—</u>	<u>—</u>
	<u>3,756</u>	<u>4,678</u>	<u>—</u>	<u>239</u>



## Notes to Financial Statements (Cont'd)

31 December 2003

### 32. OPERATING LEASE ARRANGEMENTS (Cont'd)

#### (b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 2 years.

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	Group		Company	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	145	340	—	340
In the second to fifth years, inclusive	—	113	—	113
	<u>145</u>	<u>453</u>	<u>—</u>	<u>453</u>

### 33. COMMITMENTS

At the balance sheet date, the Company and the Group did not have any significant capital commitments (2002: Nil).



## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 34. 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 laws 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 a factory and distribution operations in Nanhai, the PRC. Tongyuan had purchased from Nanhai Tannery most of its fixed assets and inventories during the year.



## Notes to Financial Statements (Cont'd)

31 December 2003

### 34. CONTINGENT LIABILITIES (Cont'd)

#### (a) Nanhai Tannery (Cont'd)

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.





## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 34. CONTINGENT LIABILITIES (Cont'd)

#### (a) Nanhai Tannery (Cont'd)

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 the 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, i.e. HK\$34,800,000 to HK\$174,000,000. The directors have sought legal advice on such matters and consider that a provision of HK\$34,800,000 for the tax penalty is appropriate.

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 tax penalty which may finally be imposed by the PRC authorities against Tongyuan, 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 penalties 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.



## Notes to Financial Statements *(Cont'd)*

31 December 2003

### 34. CONTINGENT LIABILITIES (Cont'd)

#### (a) Nanhai Tannery (Cont'd)

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. Further details of the effect of the freezing of certain of Tongyuan's bank accounts is included in note 37 to 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 partner of RMB15,000,000 has been made in the financial statements as at 31 December 2003.



## Notes to Financial Statements (Cont'd)

31 December 2003

### 35. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

		Group	
		2003	2002
	Notes	HK\$'000	HK\$'000
Annual fee paid to a PRC joint venture partner	(a)	—	183
Office rental paid to a fellow subsidiary	(b)	316	518
Computer system maintenance service fees paid to the immediate holding company	(c)	54	—
Interest expense to the former immediate holding company	(d)	434	1,462
Interest expense to the immediate holding company	(d)	1,343	—
Interest expense to fellow subsidiaries	(e)	586	646
Gain on disposal of subsidiaries, net	(f)	(14,881)	—
Loss on disposal of a subsidiary	(g)	15	—

*Notes:*

- (a) The annual fee paid to a PRC joint venture partner was in accordance with the respective Sino-foreign co-operative joint venture agreement.
- (b) The office rental was charged by a fellow subsidiary at HK\$28,000 per month for the first quarter of the year and HK\$26,000 per month for the remainder of the year (HK\$72,000 per month for the first four months of 2002 and HK\$28,000 per month for the remainder of 2002) in accordance with the terms of rental agreements between the Group and the fellow subsidiary. At the balance sheet date, the Company had a rental deposit of HK\$103,000 (2002: HK\$85,000) with the fellow subsidiary.
- (c) The immediate holding company of the Company charged maintenance service fees for the computer system used by the Company commencing from 1 May 2003.
- (d) The interest expense to the former immediate holding company and the immediate holding company of the Company arose from loans advanced from them. Further details of the loans, including the terms, are disclosed in note 23 to the financial statements.
- (e) The interest expense to fellow subsidiaries arose from loans advanced from them. Further details of the loans, including the terms, are disclosed in note 24 to the financial statements.



## Notes to Financial Statements (Cont'd)

31 December 2003

### 35. RELATED PARTY TRANSACTIONS (Cont'd)

Notes: (Cont'd)

- (f) Pursuant to a conditional sale and purchase agreement entered into between the Company and Yong Sheng Limited, a fellow subsidiary of the Company, the Company disposed of its entire 100% interest in Guangdong Tannery (Nominees) Limited and Nanhai Tannery at a cash consideration of HK\$10,000. The transaction was completed on 31 December 2003.
- (g) Pursuant to a sale and purchase agreement entered into between the Company and Guangdong Assets Management, the Company disposed of its entire 100% interest in Prized Time Limited to Guangdong Assets Management at a cash consideration of HK\$7,998,000 (net of expenses).

In addition to the above, the Group's bank loan of HK\$17,000,000 as at 31 December 2003 was secured by certain bank deposits of the immediate holding company of the Company at nil consideration.

### 36. PLEDGE OF ASSETS

As at 31 December 2003, certain of the Group's leasehold land and buildings, investment properties and bank balances of HK\$3,370,000 (2002: HK\$36,000,000), HK\$4,570,000 (2002: Nil) and HK\$7,355,000 (2002: HK\$12,972,000), respectively, were pledged to secure general banking facilities granted to the Group.

### 37. POST BALANCE SHEET EVENTS

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 the Guangzhou Customs. Details of this are set out in note 34(a) to the financial statements.

The freezing of the bank accounts of Tongyuan has severely affected Tongyuan's operations as Tongyuan has been unable to effect all the cash withdrawals and payments required for the ongoing day to day operation of its business, including the purchase of raw materials for its production. Accordingly, Tongyuan has suspended its operations since 14 March 2004 until the matters with the Guangzhou Customs can be resolved.

In March and April 2004, in order to reduce the operating costs of Tongyuan during the period of suspension of operations, certain workers and staff of Tongyuan were dismissed. The redundancy payment amounting to approximately HK\$7,593,000, in aggregate, will be paid in accordance with the relevant employment contracts and PRC laws and regulations.



## **Notes to Financial Statements** *(Cont'd)*

31 December 2003

### **38. COMPARATIVE AMOUNTS**

As further explained in notes 2 and 27 to the financial statements, due to the adoption of SSAP 12 (Revised) during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

### **39. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 14 April 2004.