GDH

粵海制革有限公司

GUANGDONG TANNERY LIMITED

股份代號 Stock Code: 1058

2006

Annual Report 年報

Contents

Corporate Information

Board of Directors

Zhang Chunting *(Chairman)*
Deng Rongjun *(Managing Director)*
Zhang Yaping
Xiong Guangyang
Fung Lak*
Choi Kam Fai Thomas*
Chan Cheong Tat*
Ho Lam Lai Ping Theresa

* *Independent Non-Executive Director*

Company Secretary

Lee Wai Mei

Auditors

Ernst & Young

Registered Office

29th Floor, Guangdong Investment Tower
148 Connaught Road Central
Hong Kong

Telephone: (852) 2308 1013
Facsimile: (852) 2789 0451

Share Registrar and Share Transfer Office

Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

Listing Information

Stock Code: 1058

Website

www.gdtann.com.hk

Results

I am pleased to report to the shareholders that we have recorded a satisfactory growth in the results of the Group for 2006. The Group's consolidated profit attributable to shareholders for 2006 was HK$20,657,000 (2005: HK$5,403,000), a significant increase of 282% over last year. The basic earnings per share was HK cents 3.94 (2005: HK cents 1.03), representing an increase of 282% compared with last year.

Dividend

The board of directors (the "Board") of the Company does not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: Nil).

Review

Upon the completion of the disposal of idle assets in 2006, the Group centralised the resources on realizing the strategy of large-scale operation and expanding its tannery business, which resulted in stable growth.

After more than two years of adjustment in the management structure and operation restructuring, the Group has established a direct mode of operation to centralize the management of the core activities including production, procurement, distribution and finance. The Group has also become an influential enterprise in the production of cow leather vamp in China.

2006 was a very difficult year for the tannery industry in China. In the midst of the surging prices of raw materials, the stringent environmental protection policies, the changes in the industrial policies of the State and the continuous international trading conflicts, a large number of small- to medium-sized tanneries were closed as a result. The Group had the foresight to implement the strategy of large-scale operation in order to secure the survival and development through economies of scale. In the face of the problems arising from the aging of equipments, insufficient production premises and lack of synergy between the upstream and downstream processing, the Group took the initiative to mobilize the resources and to go along with an appropriate operation strategy, by which the Group succeeded in beating out a path to operate the business at low cost and high efficiency.

On the one hand the Group strives to expand the tannery business, while taking proactive steps to address the environmental issues which have long been a major concern in the leather industry. In view of this, the Group shifted the operation to the northern part of China years ago and speeded up the development of the production base in Xuzhou. In order to meet demand from increasing sales and to resolve the problems of the lack of synergy between the upstream and downstream processing and the serious productivity insufficiencies in the upstream production of chromed hides, the Group has increased the sourcing of chromed hides and also established a strategic cooperation relationship with peripheral tanneries to outsource the upstream processing of producing chromed hides. Following the outsourcing of certain parts of the upstream processing through subcontracting in 2005, the Group entered into agreements with two other subcontracting plants in 2006 to process and produce chromed hides for the Group in order to resolve the upstream productivity shortages of the production base in Xuzhou. This has reduced the pressure on sewage discharge, effectively broke through the bottleneck constraint in production, greatly released the potential productivity of the production base in Xuzhou, and also safeguarded our market share and minimized our commitment in production equipments.

Review (Continued)

The operating results of the production base in Xuzhou have been surging for three consecutive years. This has benefited from the large-scale operation and the strategy of outsourcing processing. Other factors include: (1) the enforcement of procurement through tendering and the introduction of a competitive mechanism for the supply of raw materials, which effectively reduced purchasing costs even during the period when the price of raw materials increased significantly, thus enhancing our price competitiveness; (2) the realization of the direct purchase of imported hides and the establishment of five direct purchasing points for domestically produced hides, which became the main purchasing channel in the second half of this year. These tactics can help to achieve better results by stabilizing the supply of hides for the Group and through the continuous implementation of the large-scale operation strategy. With an accurate judgment of the market, the Group carried out an extensive foresighted strategy in procurement of hides and imported chemicals on a large scale, which has secured the production and at the same time significantly reduced costs; and (3) the strengthened and improved regional distribution system which has allowed an expansion of the proportion of direct sales, stabilized the direct sales networks of the renowned footwear manufacturers, hence, greatly enhanced the competitiveness of the Group's products as well as the capacity of the Group to withstand risks.

Outlook

2006 was a year when the Group implemented the strategy of large-scale operation. In spite of the unfavourable factors such as the significant increase in the costs of raw materials and the stringent policies on environmental protection, the Group will continue to encounter the difficulties in its operation. In spite of these, the Group still adheres to its belief of making concerted efforts by the entire group and working hard to ride out the storm, as on one hand we will put efforts in construction, and on the other hand we will work on our production to achieve rapid growth in both production and turnover so as to capture a larger market share.

We anticipate that the Group will have to encounter a number of difficulties in 2007. Nevertheless, the Group will strive to implement fully the strategy of large-scale operation, to strengthen further the development on the technology and production management, to increase market share and to improve the regional market structure. In addition, the Group will actively seek investment opportunities in the tannery business with the aim of creating development opportunities and better returns in profit.

On behalf of the Board, I would like to take this opportunity to thank sincerely the customers, suppliers and shareholders of the Group for their support over the past years and express my earnest gratitude to each dedicated member of staff.

Zhang Chunting
Chairman

Hong Kong, 30 March 2007

Results

The Group's consolidated profit attributable to shareholders for the year ended 31 December 2006 was HK$20,657,000, representing an increase of HK$15,254,000 or 282% when compared with the profit for the same period of last year. The increase in profit was mainly due to the continued improvement in the operating results of the production base in Xuzhou and a gain on disposal of subsidiaries.

The net asset value of the Group as at 31 December 2006 was HK$199,721,000, representing an increase of HK$27,287,000 and HK$25,344,000 as compared to the net asset value as at 31 December 2005 and 30 June 2006 respectively.

The Board does not recommend the payment of final dividend for the year ended 31 December 2006.

Business Review

The business volume recovered rapidly with the production base in Xuzhou entering the early phase of large-scale operation in the wake of the successful shift of operations to the northern part of China. Since the outsourcing of upstream production processes has been completed and in place, the shortfall arising from the upstream production processes prior to outsourcing has been resolved, which effectively breaks through the bottleneck constraint in production and greatly releases the potential productivity of the production base in Xuzhou. The Group's leather production volume for the year was 23,047,000 sq. ft., an increase of 8,836,000 sq. ft. compared to 14,211,000 sq. ft. for the same period last year. The production of cowhides increased by 71.9% to 23,047,000 sq. ft. (2005: 13,411,000 sq. ft.) whereas the production of coated cow split and others decreased by 100% to zero sq. ft. (2005: 800,000 sq. ft.). The rise in production volume marks the successful completion of the Group's strategic shift of operations to the northern part of China.

Product development will continue to be one of our priority tasks. Through the introduction of technical staffs, technical support services from chemical suppliers, the Group's leather production technology has been further consolidated. Apart from our traditional bestseller such as nappa leather and natural-look nappa leather series, the breakthrough in the production technology of calf skin leather resulting in the improvement of the quality of calf skin leather, these products have become our new areas of profit growth. At the same time, we strive for products innovations and promotion campaigns. Of which, new products have been successfully developed such as wax resemble nappa leather series which are well-received by the market. The product mix has become broader, and thus, the Group's ability to face the risks of market changes has been strengthened and it also helps the Group in exploring a further breakthrough in marketing.

During the year, the Group took an initiative to push forward with the transformation from production oriented to sales and marketing oriented, to optimize our staff incentive mechanism and to improve the segregation of duties and responsibilities of each division. The Group initiated various sales and marketing activities such as hosting industry summit meetings, becoming members of the related industry associations, participating in leather exhibitions and providing customized services to key customers in key regions. This also helps building up our image of being a reputable and well-established enterprise with a modernized management team in the industry, thus reinforcing our sales. The Group's regional sales system has also been enhanced and improved, with the direct sales made to renowned footwear manufacturers seeing marked growth. Other than the significant growth in turnover, the Group has become much more capable in dealing with market risk and the recoverability risk of receivables.

Business Review (Continued)

During the year, the consolidated turnover of the Group was HK$419,975,000, representing an increase of HK$161,432,000, or 62.4% from HK$258,543,000 of the same period of last year. The increase in turnover was mainly due to the effectiveness of the strategy of large-scale operation. In the midst of the surging prices of raw materials, the stringent environmental protection policies, the changes in the industrial policies of the State and the continuous international trading conflicts, a large number of small- to medium-sized tanneries were closed as a result. The Group had the foresight to implement the strategy of large-scale operation in order to secure the survival and development through economies of scale. In the face of the problems arising from the aging of equipments, insufficient production premises and lack of synergy between the upstream and downstream processing, the Group took the initiative to mobilize the resources and to go along with an appropriate operation strategy, by which the Group succeeded in beating out a path to operate the business at high efficiency.

During the year, the turnover of cowhides amounted to HK$373,013,000 (2005: HK$237,370,000), an increase of 57.1%; the turnover of coated cow split and other products amounted to HK$46,962,000 (2005: HK$21,173,000), an increase of 121.8%.

As at 31 December 2006, the Group's consolidated inventories amounted to HK$210,076,000, an increase of HK$87,608,000 and HK$42,502,000 compared with 31 December 2005 and 30 June 2006 respectively. The increase in inventories was mainly due to the implementation of an extensive foresighted strategy in procurement of hides and imported chemicals on a large scale, which has secured the production and at the same time significantly reduced costs.

As at 31 December 2006, the trade receivables of the Group was HK$25,453,000. After deducting the impairment of trade receivables of HK$1,422,000, the balance net of impairment amounted to HK$24,031,000, an increase of HK$2,166,000 and a decrease of HK$7,936,000 as compared with 31 December 2005 and 30 June 2006 respectively. Trade receivables turnover was 18 times, and the average collection period was 20 days, a decrease of 14 days compared with 34 days in 2005.

Financial Review

As at 31 December 2006, the Group's interest-bearing borrowings amounted to HK$100,309,000 (as at 31 December 2005: HK$84,176,000). Of which, interest-bearing borrowings in Hong Kong dollars amounted to HK$10,350,000, interest-bearing borrowings in Renminbi amounted to HK$19,908,000, and interest-bearing borrowings in US dollars amounted to HK$70,051,000. All of these interest-bearing borrowings were charged at floating interest rate.

As at 31 December 2006, the Group's cash and bank balances amounted to HK$54,424,000 (as at 31 December 2005: HK$69,832,000), which were denominated in Hong Kong dollars (HK$10,143,000), Renminbi (equivalent to HK$43,575,000) and US dollars (equivalent to HK$706,000).

As at 31 December 2006, after deduction of cash and bank balances, the ratio of the net value of our interest-bearing borrowings to shareholders' equity was 22.97% (as at 31 December 2005: 8.32%). The annual interest rate of the borrowings was approximately 4.15% to 6.5%. Of the Group's total borrowings, all are repayable within one year except for the amount due to immediate holding company amounted to HK$30,258,000. During the year, the Group's interest expenses amounted to HK$5,726,000, an increase of 53.3% from the same period of last year.

Financial Review (Continued)

During the year, net cash outflow from operating activities was HK$27,578,000, which mainly represented our forward-looking purchase strategy on a mass scale of raw materials to ensure our production and minimize the effect of rise in prices of raw materials. Our net cash inflow from financing activities was HK$18,248,000, and the cash and cash equivalents was decreased by HK$17,335,000.

As at 31 December 2006, the net value of non-current assets including property, plant and equipment and investment property amounted to HK$34,785,000, a decrease of HK$51,540,000 over the net value as at 31 December 2005. The decrease was mainly due to the disposal of subsidiaries and provision for depreciation. The capital expenditure for the year amounted to HK$6,525,000 (2005: HK$987,000), which was mainly due to the renewal and purchase of leather manufacturing machines and equipments to cope with the production requirements of the production base in Xuzhou.

As at 31 December 2006, certain of the Group's bank deposits, machinery and equipments with a total net book value of HK$16,568,000 (as at 31 December 2005: HK$40,220,000) were pledged to secure general banking facilities granted to the Group.

Major Customers and Suppliers

For the year ended 31 December 2006, the amount of purchases attributable to the Group's largest supplier represented 25.1% of the Group's total purchases; and the aggregate amount of purchases (excluding the purchases of items of a capital nature) attributable to the Group's five largest suppliers represented 69.8% of the Group's total purchases. In addition, the amount of turnover attributable to the Group's largest customer represented 8.9% of the Group's total turnover; and the aggregate amount of the turnover attributable to the Group's five largest customers represented 29.0% of the Group's total turnover. None of the Directors of the Company or their associates, or any shareholders (which, to the best knowledge of the Directors of the Company, owns more than 5% of the Company's issues share capital) had any beneficial interest in the Group's five largest suppliers or customers.

Risk of Exchange Rate

The assets, liabilities and transactions of the Group are basically denominated in Hong Kong dollars, US dollars or Renminbi. During the year, the exchange rates of Hong Kong dollars and US dollars were relatively stable without causing any material risk of exchange rate; as to the appreciation of Renminbi, since the sales of the Group are settled in Renminbi, whereas the purchases are made in Renminbi or US dollars, the Group does not have material exposure to foreign exchange.

Disposal of Subsidiaries

On 1 November 2006, the Group disposed its subsidiary, Sun Perfect Limited and its subsidiary, for a total consideration of HK$8,500,000, which recorded a gain of HK$14,119,000. Details of the disposal were set out in the announcement of the Company dated 1 November 2006 and in the notes 31 and 35(a)(vi) to the financial statements.

Employees

As at 31 December 2006, a total of 871 employees (2005: 622) were employed by the Group. The remuneration policy is based on the Group's operating results and the employee's performance. The Group offered social and medical insurance and provident fund to all employees in different areas. The Company has adopted a 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.

(A) Executive Directors

Mr. Zhang Chunting (Age: 42)

Mr. Zhang was appointed Chairman of the Company in February 2004. He joined the Group and was appointed deputy general manager of the Company in March 2002. He is a senior economist in the People's Republic of China ("PRC") and holder of doctorate degree in economics at the Fudan University in the 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. Deng Rongjun (Age: 34)

Mr. Deng was appointed Managing Director of the Company in December 2005. He graduated from Fudan University in the PRC and holds a master degree in International Economics granted by Zhongshan University, Guangzhou. Mr. Deng joined the Company in July 2003 and was appointed deputy general manager of the Company in March 2004. He is also the managing director of Xuzhou Nanhai Leather Factory Co., Ltd. and Xuzhou Gangwei Leather Co., Ltd.. Prior to joining the Company, Mr. Deng worked for GDH Limited ("GDH") since 1999.

(B) Non-Executive Directors

Mr. Zhang Yaping (Age: 54)

Mr. Zhang was appointed a Non-Executive Director of the Company in January 2007. Mr. Zhang is a senior economist in the PRC. He was appointed a director of GDH in September 2000 and has been an executive director of GDH since May 2001. Mr. Zhang was also appointed the chairman of 深圳市東深投資控股有限公司 (Shenzhen Dongshen Investment Holding Co. Ltd.) ("Dongshen") in July 2002. Dongshen is a wholly-owned subsidiary of 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited), the ultimate controlling shareholder of the Company. He was appointed a director of Guangdong Investment Limited ("GDI") during the period from March 2001 to February 2004 and a director of Kingway Brewery Holdings Limited ("Kingway") during the period from August 2000 to October 2003. Both GDI and Kingway, which are subsidiaries of GDH, are listed on The Stock Exchange of Hong Kong Limited. Mr. Zhang completed the Professional Finance Program in Jilin College of Finance and Trading and the Senior Management Program in the Economic Management College of Tianjin Nankai University. He has more than 20 years working experience in the banking and securities industries. Between 1990 and 1997, he had worked in the Bank of China Group. Prior to joining GDH, he was Deputy Commissioner in the Shenzhen Regulatory Commissioner's Office of the China Securities Regulatory Commission.

Mr. Xiong Guangyang (Age: 53)

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.

(B) Non-Executive Directors (Continued)

Mrs. Ho Lam Lai Ping Theresa (Age: 51)

Mrs. Ho was appointed a Director of the Company in July 2000. She is also a director of Kingway. Mrs. Ho has been the Company Secretary of GDI since December 1992. She graduated from 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.

(C) Independent Non-Executive Directors

Mr. Fung Lak (Age: 59)

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 a fellow member of Hong Kong Institute of Certified Public Accountant, an associate member of the Institution of Chartered Accountants in the United Kingdom, a fellow member of the Association of Chartered Certified Accountants and a member of the Taxation Institute of Hong Kong. Mr. Fung was the former president of the Society of Chinese Accountants and Auditors. Mr. Fung has over 20 years' experience in the accounting and finance and is a director of Lak & Associates C.P.A. Limited.

Mr. Choi Kam Fai Thomas (Age: 61)

Mr. Choi was appointed an Independent Non-Executive Director of the Company in October 2004. Mr. Choi is a Certified Management Accountant with the Society of Management Accountant of Canada. He holds a bachelor degree in Commerce and Business Administration from the University of Alberta, Canada and completed the Executive Development Program organized by J.L. Kellogg Graduate School of Management of the Northwestern University, U.S.A. Mr. Choi is the General Manager of the Internal Audit Department of Henderson Land Development Company Limited. He has worked for the audit departments of various private, public and governmental bodies in Hong Kong and Canada for 30 years.

Mr. Chan Cheong Tat (Age: 57)

Mr. Chan was appointed an Independent Non-Executive Director of the Company in March 2006. Mr. Chan is a fellow member of Hong Kong Institute of Certified Public Accountants, Chartered Association of Certified Accountants and CPA Australia. He is also an associate member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Company Secretaries. Mr. Chan obtained his master's degree in Financial Management from Central Queensland University. He served in the Inland Revenue Department of the Hong Kong Government for 33 years and left the government service in early 2005. Mr. Chan is now a director of a tax consultancy company.

(D) Senior Management

The senior management of the Group comprises the Executive Directors above, namely Mr. Zhang Chunting and Mr. Deng Rongjun.

The directors (the "Directors") of Guangdong Tannery Limited (the "Company") herein present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006.

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 revenue and contribution to results by principal activity for the year ended 31 December 2006 is set out in note 4 to the financial statements.

Results and Dividends

The results of the Group for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 86.

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 2006.

Financial Summary

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 and adjusted to reflect the change in accounting policy. The summary does not form part of the audited financial statements.

Results

	Year ended 31 December				
	2006	**2005**	**2004**	**2003**	**2002**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
			(Restated)	***(Restated)***	***(Restated)***
Revenue					
Continuing operations	**419,975**	**258,543**	**281,951**	**381,601**	**503,088**
Discontinued operations	**—**	**—**	**—**	**—**	**25,967**
	419,975	**258,543**	**281,951**	**381,601**	**529,055**
Profit/(Loss) from operating activities	**31,146**	**8,604**	**11,941**	**(95,118)**	**(198,453)**
Finance costs	**(5,726)**	**(3,734)**	**(5,734)**	**(5,948)**	**(6,387)**
Share of results of associates	**—**	**—**	**—**	**—**	**—**
Profit/(Loss) before tax					
Continuing operations	**25,420**	**4,870**	**6,207**	**(101,066)**	**(204,464)**
Discontinued operations	**—**	**—**	**—**	**—**	**(376)**
	25,420	**4,870**	**6,207**	**(101,066)**	**(204,840)**
Tax					
Continuing operations	**(4,763)**	**533**	**(1,203)**	**286**	**—**
Discontinued operations	**—**	**—**	**—**	**—**	**—**
	(4,763)	**533**	**(1,203)**	**286**	**—**
Profit/(Loss) before minority interests	**20,657**	**5,403**	**5,004**	**(100,780)**	**(204,840)**
Minority interests	**—**	**—**	**—**	**—**	**177**
Net Profit/(loss) from ordinary activities attributable to shareholders	**20,657**	**5,403**	**5,004**	**(100,780)**	**(204,663)**

Financial Summary (Continued)

Assets and liabilities

	As at 31 December				
	2006 *HK$'000*	2005 *HK$'000*	2004 *HK$'000* *(Restated)*	2003 *HK$'000* *(Restated)*	2002 *HK$'000* *(Restated)*
Assets					
Property, plant and equipment, investment property and prepaid land lease payments	34,785	86,325	95,031	100,228	152,831
Interest in an associate	1,219	4,336	—	—	—
Other long term assets	—	—	—	—	1,268
Current assets	345,858	291,636	301,883	361,503	301,479
Total assets	381,862	382,297	396,914	461,731	455,578
Liabilities					
Current liabilities	150,695	205,146	233,002	300,824	181,546
Long term liabilities	31,446	4,717	4,765	4,196	18,882
Total liabilities	182,141	209,863	237,767	305,020	200,428
Minority interests	—	—	—	—	—
Net assets	199,721	172,434	159,147	156,711	255,150

Property, Plant and Equipment and Investment Property

Details of movements in property, plant and equipment, and investment property of the Company and the Group during the year are set out in notes 12 and 13 to the financial statements.

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 2006, no reserves, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, is available for cash distribution.

Charitable Contributions

The Group did not make any charitable contributions during the year (2005: Nil).

Share Options of the Company

In assessing the theoretical aggregate value of the share options granted during the year, the Binomial option pricing model (the "Model")# has been used.

Share options granted during the year ended 31 December 2006:

Date of Grant	:	3 April 2006
Vesting Period	:	3 April 2006–3 July 2006
Exercise Period	:	4 July 2006–3 July 2011
Exercise Price	:	HK$0.196 per share

	Number of options at 3 April 2006	**Options value at 3 April 2006 *(Note (2))* *HK$***	**Number of options at 31 December 2006**	**Options value at 31 December 2006 *(Note (3))* *HK$***
Grantee:				
Employee	1,000,000	110,000	1,000,000	100,000
Total	1,000,000	110,000	1,000,000	100,000

Notes:

(1) The closing price of the ordinary shares of the Company immediately before the date on which the options were granted was HK$0.191.

Share Options of the Company (Continued)

Notes: (Continued)

(2) According to the Model, the theoretical aggregate value of the options was estimated at HK$110,000 as at 3 April 2006 (when the options were granted) with the following variables and assumptions:

Risk Free Rate	:	4.4298%, being the approximate yield of the 5-year Exchange Fund Note traded on 3 April 2006
Expected Volatility	:	61.73%, being the annualised volatility of the closing price of the ordinary shares of the Company from 4 April 2005 to 3 April 2006
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 from 4 April 2005 to 3 April 2006.

(3) According to the Model, the theoretical aggregate value of the outstanding options was estimated at HK$100,000 as at 31 December 2006 with the following variables and assumptions:

Risk Free Rate	:	3.715%, being the approximate yield of the 5-year Exchange Fund Note traded on 31 December 2006
Expected Volatility	:	57.45%, being the annualised volatility of the closing price of the ordinary shares of the Company from 1 January 2006 to 31 December 2006
Expected Dividend Yield	:	Nil
Expected Life of the Options	:	4.5 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 from 1 January 2006 to 31 December 2006.

(4) Options forfeited, if any, before the 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.

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.

Directors

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

Zhang Chunting *(Chairman)*
Deng Rongjun *(Managing Director)*
Zhang Yaping *(appointed on 9 January 2007)*
Xiong Guangyang
Fung Lak*
Choi Kam Fai Thomas*
Chan Cheong Tat* *(appointed on 22 March 2006)*
Ho Lam Lai Ping Theresa

* Independent Non-Executive Director

Mr. Zhang Yaping, who was appointed a Director of the Company after the last annual general meeting of the Company is due to retire pursuant to Article 77 of the Company's Articles of Association at the forthcoming annual general meeting of the Company. Being eligible, he offers himself for re-election.

Mr. Zhang Chunting and Mr. Fung Lak are due to retire by rotation from the board of Directors in accordance with Article 82 of the Company's Articles of Association at the forthcoming annual general meeting of the Company. Being eligible, they offer themselves for re-election.

Directors' Service Contracts

No Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts of Significance

No contracts of significance to which the Company, its subsidiaries, its holding companies or any of its fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Interests and Short Positions in Securities

As at 31 December 2006, the Directors and chief executives of the Company and their respective associates had the following interests and short positions 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")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

(1) Interests and short positions in the Company

(a) Interests in ordinary shares

Name of Director	Capacity/ nature of interests	Number of ordinary shares interested(1)	Long/short position	Approximate percentage of holding
Zhang Chunting	Personal	4,500,000	Long position	0.86%
Deng Rongjun	Personal	1,500,000	Long position	0.29%
Xiong Guangyang	Personal	5,200,000	Long position	0.99%

Notes:

(1) All relevant shares were in fact only allotted on 9 January 2007. However, as the options relating to those shares were exercised during the year, for disclosure purposes, the number of ordinary shares interested set out above include also all the relevant shares.

(2) The number of ordinary shares of the Company actually in issue as at 31 December 2006 was 524,154,000 and therefore without including therein also any of the relevant shares referred to in Note (1) above.

Directors' Interests and Short Positions in Securities (Continued)

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

(b) Interests in options relating to ordinary shares

Name of Director	Number of options held as at 1 January 2006	Options granted during the year ended 31 December 2006 Date *(dd/mm/yyyy)*	Number	Exercisable period *(dd/mm/yyyy)* *(Note)*	Total consideration paid for options *(HK$)*	Price per ordinary share payable on exercise of options *(HK$)*	Number of options exercised during the year ended 31 December 2006	Number of options held as at 31 December 2006	Long/Short Position
Zhang Chunting	2,500,000	—	—	10/09/2003 – 09/09/2008	1.00	0.220	2,500,000	—	Long position
	2,000,000	—	—	12/05/2004 – 11/05/2009	1.00	0.246	2,000,000	—	Long position
Deng Rongjun	1,500,000	—	—	12/05/2004 – 11/05/2009	1.00	0.246	1,500,000	—	Long position
Xiong Guangyang	3,000,000	—	—	10/09/2003 – 09/09/2008	1.00	0.220	3,000,000	—	Long position
	2,200,000	—	—	12/05/2004 – 11/05/2009	1.00	0.246	2,200,000	—	Long position
Fung Lak	300,000	—	—	10/09/2003 – 09/09/2008	1.00	0.220	—	300,000	Long position
	300,000	—	—	12/05/2004 – 11/05/2009	1.00	0.246	—	300,000	Long position

Note: If the last day of any of the option period is not a business day in Hong Kong, the option period shall end at the close of business on the business day preceding that day.

(2) Interests and short positions in Guangdong Investment Limited ("GDI")

(a) Interests in ordinary shares of GDI

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of holding
Ho Lam Lai Ping Theresa	Personal	3,000,000	Long position	0.05%

Note: The number of ordinary shares of GDI in issue as at 31 December 2006 was 6,090,948,071.

(b) Interests in options relating to ordinary shares of GDI

Name of Director	Number of options held as at 1 January 2006	Options granted during the year ended 31 December 2006 Date *(dd/mm/yyyy)*	Number	Exercisable period *(dd/mm/yyyy)* *(Note)*	Total consideration paid for options *(HK$)*	Price per ordinary share payable on exercise of options *(HK$)*	Number of options exercised during the year ended 31 December 2006	Number of options held as at 31 December 2006	Long/Short Position
Ho Lam Lai Ping Theresa	900,000	—	—	05/03/2003– 04/03/2008	1.00	0.96	900,000	—	Long position
	1,500,000	—	—	08/08/2003– 07/08/2008	1.00	1.22	1,500,000	—	Long position
	1,500,000	—	—	07/05/2004– 06/05/2009	1.00	1.59	—	1,500,000	Long position
	1,000,000	—	—	25/08/2004– 24/08/2009	1.00	1.25	—	1,000,000	Long position

Note: If the last day of any of the option period is not a business day in Hong Kong, the option period shall end at the close of business on the business day preceding that day.

Directors' Interests and Short Positions in Securities (Continued)

(3) Interests and short positions in Kingway Brewery Holdings Limited ("Kingway")

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of holding
Ho Lam Lai Ping Theresa	Personal	80,000	Long position	0.0057%

Note: The number of ordinary shares of Kingway in issue as at 31 December 2006 was 1,396,368,000.

Save as disclosed above, as at 31 December 2006, to the knowledge of the Company, none of the Directors or chief executives of the Company or their respective associates had any interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests

As at 31 December 2006, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interests in five per cent. or more of the issued share capital of the Company as recorded in the register to be kept by the Company under Section 336 of the SFO. Details of the interests in the shares or underlying shares of the Company as notified to the Company are set out below:

Name of Shareholders	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of the Company's issued ordinary share capital
廣東粵港投資控股有限公司 (Guangdong Yue Gang InvestmentHoldings Company Limited) *(Note)*	Beneficial owner/ interest of controlled corporation	375,100,000	Long position	71.56%
GDH Limited	Beneficial owner/ interest of controlled corporation	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 Limited.

Substantial Shareholders' Interests (Continued)

Save as disclosed above, no other persons (other than a Director or chief executive of the Company) known to any Director or chief executive of the Company as at 31 December 2006 had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Arrangements to Acquire Shares or Debentures

Save as disclosed in the sections headed "Directors' Interests and Short Positions 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 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.

Connected Transaction

Details of the connected transaction are disclosed in note 35(a)(vi).

Subsequent Event

Details of the significant subsequent event of the Group are set out in note 38 to the financial statements.

Public Float

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules based on the information that is publicly available to the Company and within the knowledge of the Directors.

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, 30 March 2007

The Group recognizes the importance of achieving and monitoring the highest standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all of its stakeholders and its fully committed to doing so. It is also with these objectives in mind that the Group has applied the principles of the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In the opinion of the directors of the Company (the "Directors"), the Company has met with the code provisions set out in the CG Code.

Board of Directors

The board of Directors (the "Board") comprises two Executive Directors, being Mr. Zhang Chunting and Mr. Deng Rongjun, three Non-Executive Directors, being Mr. Zhang Yaping, Mr. Xiong Guangyang and Mrs. Ho Lam Lai Ping Theresa, and three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai Thomas and Mr. Chan Cheong Tat.

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The Management was delegated the authority and responsibility by the Board for the day-to-day management of the Group. Major corporate matters that are specifically delegated by the Board to the Management include the preparation of interim and annual reports and announcements for Board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory and regulatory requirements and rules and regulations.

Four board meetings were held during the financial year ended 31 December 2006. The attendances of the Directors at the Board meetings are as follows:

Directors	**Number of Attendance**
Zhang Chunting	3/4
Deng Rongjun	4/4
Zhang Yaping *(appointed on 9 January 2007)*	N/A
Xiong Guangyang	3/4
Ho Lam Lai Ping Theresa	4/4
Fung Lak	4/4
Choi Kam Fai Thomas	4/4
Chan Cheong Tat *(appointed on 22 March 2006)*	4/4

The Company has received confirmation of independence from the three Independent Non-Executive Directors, namely Mr. Fung Lak, Mr. Choi Kam Fai Thomas and Mr. Chan Cheong Tat, in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the Independent Non-Executive Directors are independent within the definition of the Listing Rules.

Board of Directors (Continued)

The Board members do not have any financial, business, family or other material/relevant relationships with each other. Such balanced board composition ensures that strong independence exists across the Board. The biographies of the Directors are set out in pages 8 and 9 of this annual report, which demonstrate a diversity of skills, expertise, experience and qualifications.

Chairman and Managing Director

The Chairman of the Board is Mr. Zhang Chunting and the Managing Director is Mr. Deng Rongjun. Their roles are clearly defined and segregated to ensure independence and proper checks and balances. Mr. Zhang Chunting as the Chairman has executive responsibilities, provides leadership to the Board and ensures the proper and effective functioning of the Board in the discharge of its responsibilities. Mr. Deng Rongjun as the Managing Director is accountable to the Board for the overall implementation of the Company's strategies and the co-ordination of overall business operations.

Non-executive Directors

All Directors, including Non-Executive Directors, appointed to fill a causal vacancy or as an addition to the existing Board, shall hold office only until the first general meeting after his appointment and shall then be eligible for re-election. Moreover, each Non-Executive Director will hold office for a specific term expiring on the earlier of either (i) the conclusion of the annual general meeting of the Company in the year of the third anniversary of the appointment or re-election of that Director or (ii) the expiration of the period within which the annual general meeting of the Company is required to be held in the year of the third anniversary of the appointment or re-election of that Director and in any event, subject to earlier determination in accordance with the Articles of Association of the Company and/or applicable laws and regulations.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions. All Directors have confirmed, upon specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the year.

Remuneration of Directors

The Company established a remuneration committee (the "Remuneration Committee") in June 2005. The authorities and duties of the Remuneration Committee are as follows:

Authority

1. The Remuneration Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Remuneration Committee; and

2. The Remuneration Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Remuneration of Directors (Continued)

Duties

1. To make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

2. To have the delegated responsibilities to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. Factors which should be taken into consideration include but are not limited to salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and desirability of performance-based remuneration;

3. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

4. To review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

5. To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

6. To make recommendations to the Board on the remuneration of non-executive directors;

7. To ensure that no director or any of his associates is involved in deciding his own remuneration;

8. To consult the chairman and/or the managing director about their proposals relating to the remuneration of executive directors and senior management and have access to professional advice if considered necessary; and

9. To consider other topics as defined by the Board.

The Remuneration Committee comprises one Executive Director, being Mr. Zhang Chunting and three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai Thomas and Mr. Chan Cheong Tat. Mr. Zhang Chunting is the Chairman of the Remuneration Committee.

Remuneration of Directors (Continued)

During the financial year ended 31 December 2006, the Remuneration Committee held one meeting to review the annual remuneration package for the Executive Directors and senior management of the Company and approve the 2005 performance bonuses for the senior management of the Company. The attendance of each member of the Remuneration Committee is set out as follows:

Directors	**Number of Attendance**
Zhang Chunting	0/1
Fung Lak	1/1
Choi Kam Fai Thomas	1/1
Chan Cheong Tat *(appointed on 22 March 2006)*	1/1

Details of the amount of Directors' emoluments are set out in note 8 to the financial statements.

Nomination of Directors

The Company established a nomination committee (the "Nomination Committee") in June 2005. The authorities and duties of the Nomination Committee are as follows:

Authority

1. The Nomination Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Nomination Committee; and

2. The Nomination Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

1. To review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

2. To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships;

3. To assess the independence of independent non-executive directors;

4. To make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the chairman and the managing director; and

5. To consider other topics as defined by the Board.

Nomination of Directors (Continued)

The Nomination Committee comprises one Executive Director, being Mr. Zhang Chunting and three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai Thomas and Mr. Chan Cheong Tat. Mr. Zhang Chunting is the Chairman of the Nomination Committee.

The Nomination Committee identified suitable individual qualified to become Board members and makes recommendation to the Board on relevant matters relating to the appointment or reappointment of directors if necessary, in particular, candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result on the constitution of strong and diverse Board.

During the financial year ended 31 December 2006, the Nomination Committee held one meeting to review the structure, size and composition of the Board and to recommend to the Board the proposed re-election of Mr. Deng Rongjun, Mr. Xiong Guangyang and Mr. Chan Cheong Tat as Directors at 2006 Annual General Meeting of the Company . The attendance of each member of the Nomination Committee is set out as follows:

Directors	**Number of Attendance**
Zhang Chunting	1/1
Fung Lak	1/1
Choi Kam Fai Thomas	1/1
Chan Cheong Tat *(appointed on 22 March 2006)*	1/1

Audit Committee

An audit committee of the Company (the “Audit Committee”) was established in September 1998. The authorities and duties of the Audit Committee are as follows:

Authority

1. The Audit Committee is authorized by the Board to investigate activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee; and

2. The Audit Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

1. to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

Audit Committee (Continued)

Duties (Continued)

2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

3. to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

4. to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and , if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Audit Committee should focus particularly on:

    i. any changes in accounting policies and practices;

    ii. major judgmental areas;

    iii. significant adjustments resulting from audit;

    iv. the going concern assumptions and any qualifications;

    v. compliance with accounting standards; and

    vi. compliance with the Exchange Listing Rules and other legal requirements in relation to financial reporting.

5. In regard to (4) above:

    i. members of the Audit Committee must liaise with the Company's Board, senior management and the person appointed as the Company's qualified accountant and the Audit Committee must meet, at least once a year, with the Company's auditors; and

    ii. the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors.

6. to review the Company's financial controls, internal controls and risk management systems;

Audit Committee (Continued)

Duties (Continued)

7. to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;

8. to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

9. where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;

10. to review the group's financial and accounting policies and practices;

11. to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of controls and management's response;

12. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

13. to report to the Board on the matters set out in the terms of reference of the Audit Committee; and

14. to consider other topics, as defined by the Board.

The Audit Committee comprises the three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai Thomas and Mr. Chan Cheong Tat who all possess the required experience and knowledge in the accounting profession. Mr. Fung Lak is the Chairman of the Audit Committee.

During the financial year ended 31 December 2006, the Audit Committee held three meetings to review the 2005 annual results and the 2006 interim results of the Company before their submission to the Board and to review the scope of the audit of the external auditors and to approve their fees. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's financial results. The Audit Committee has also met the external auditors during the financial year ended 31 December 2006 to discuss any areas of concerns without the presence of the management. The attendance of each member of the Audit Committee is set out as follows:

Directors	**Number of Attendance**
Fung Lak	3/3
Choi Kam Fai Thomas	3/3
Chan Cheong Tat *(appointed on 22 March 2006)*	3/3

Auditors' Remuneration

During the year under review, the remuneration paid/payable to the Company's auditors, Messrs Ernst & Young, is set out as follows:

Services rendered	**Fee paid/payable** *HK$'000*
Audit of Final Results	990,000
Review of Interim Results	210,000

Accountability and Audit

The Board is responsible for overseeing the preparation of financial statements for the year ended 31 December 2006, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that financial year. In preparing the financial statements for the year ended 31 December 2006, the Board has selected appropriate accounting policies, applied them consistently in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements and, made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on the going concern basis.

The Company aims at presenting a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. The annual and interim results of the Company are announced in a timely manner within the limit of 4 months and 3 months respectively after the end of the relevant periods in accordance with the Listing Rules.

Internal Controls

The Board is responsible for the Group's system of internal controls and its effectiveness. The internal control system has been designed to mitigate the Group's risk exposure; to facilitate the effectiveness and efficiency of operations; to safeguard the assets against loss and misappropriation; to maintain proper accounting records for producing reliable financial information and ensuring compliance with applicable laws and regulations.

The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.

Internal Controls (Continued)

The internal control system of the Group comprises a well-established organisational structure and comprehensive policies and standards. The Board has clearly defined the authorities and key responsibilities of each operational unit to ensure adequate checks and balances. The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and involving in the design, operation and monitoring of suitable internal controls to mitigate and control these risks. The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

The Audit Committee is established to, *inter alia*, review internal control issues identified by the Internal Audit Department, external auditors, regulatory authorities and management, and evaluate the adequacy and effectiveness of the Group's risk management and internal control systems.

The Internal Audit Department monitors compliance with policies and procedures and the effectiveness of the internal control systems, and highlight significant findings in respect of any non compliance. It plays an important role in the Group's internal control framework, and provides objective assurance to the Board that a sound internal control system is maintained and operated in compliance with the established processes and standards by performing periodic checking. Using a risk-based approach, the Internal Audit Department plans its internal audit schedules annually with audit resources being focused on higher risk areas. To preserve the audit independence, the Head of Internal Audit Department of the Company reports directly to the Board.

The Board has conducted an annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance controls and risk management systems. The Board is satisfied that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and accounts is sound and is sufficient to safeguard the interests of shareholders and the Group's assets.

ERNST & YOUNG
安 永 會 計 師 事 務 所

To the shareholders of **Guangdong Tannery Limited**
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Guangdong Tannery Limited set out on pages 31 to 86, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

30 March 2007

Consolidated Income Statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
REVENUE	5	**419,975**	258,543
Cost of sales		**(383,245)**	(234,971)
Gross profit		**36,730**	23,572
Other income	5	**3,609**	3,201
Selling and distribution costs		**(1,346)**	(1,419)
Administrative expenses		**(21,966)**	(22,891)
Gain on disposal of subsidiaries	31	**14,119**	—
Reversal of impairment for an amount due from an associate		**—**	6,141
Finance costs	6	**(5,726)**	(3,734)
PROFIT BEFORE TAX	6	**25,420**	4,870
Tax	7	**(4,763)**	533
PROFIT FOR THE YEAR	10	**20,657**	5,403
EARNINGS PER SHARE	11		
— Basic		**3.94 cents**	1.03 cents
— Diluted		**3.92 cents**	1.03 cents

Consolidated Balance Sheet

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**32,600**	80,313
Investment property	13	**2,185**	2,280
Prepaid land lease payments	14	**—**	3,732
Interest in an associate	16	**1,219**	4,336
Total non-current assets		**36,004**	90,661
CURRENT ASSETS			
Inventories	17	**210,076**	122,468
Receivables, prepayments and deposits	18	**81,358**	91,257
Tax recoverable		**—**	7,206
Loan to an officer	19	**—**	873
Pledged and frozen bank balances	20	**12,888**	13,918
Cash and cash equivalents	20	**41,536**	55,914
Total current assets		**345,858**	291,636
CURRENT LIABILITIES			
Trade and bills payables	21	**51,403**	26,123
Other payables and accruals		**23,736**	19,601
Interest-bearing bank borrowings	22	**15,451**	—
Due to a PRC joint venture partner	23	**1,131**	1,131
Loans from the immediate holding company	24	**—**	29,576
Loan from a fellow subsidiary	25	**54,600**	54,600
Provisions	26	**3,162**	74,115
Tax payable		**1,212**	—
Total current liabilities		**150,695**	205,146
NET CURRENT ASSETS		**195,163**	86,490
TOTAL ASSETS LESS CURRENT LIABILITIES		**231,167**	177,151
NON-CURRENT LIABILITIES			
Loans from the immediate holding company	24	**30,258**	—
Deferred tax liabilities	27	**1,188**	4,717
Total non-current liabilities		**31,446**	4,717
Net assets		**199,721**	172,434
EQUITY			
Issued capital	28	**52,415**	52,415
Reserves	30(a)	**147,306**	120,019
Total equity		**199,721**	172,434

Zhang Chunting
Director

Deng Rongjun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2006

	Notes	**Issued capital** *HK$000* *(Note 28)*	**Share premium account** *HK$000*	**General reserve fund** *HK$000* *(Note 30(a))*	**Reserve funds** *HK$000* *(Note 30(a))*	**Share option reserve** *HK$000*	**Capital redemption reserve** *HK$000*	**Exchange translation reserve** *HK$000*	**Property revaluation reserve** *HK$000*	**Accumulated losses** *HK$000*	**Total** *HK$000*
At 1 January 2005		52,415	412,116	167,746	—	—	445	37	3,519	(477,131)	159,147
Surplus on revaluation of buildings	*12*	—	—	—	—	—	—	—	1,876	—	1,876
Deferred tax charged to the property revaluation reserve	*27*	—	—	—	—	—	—	—	(485)	—	(485)
Exchange realignment		—	—	—	—	—	—	6,493	—	—	6,493
Total income and expense recognised directly in equity		—	—	—	—	—	—	6,493	1,391	—	7,884
Profit for the year		—	—	—	—	—	—	—	—	5,403	5,403
Total income and expense for the year		—	—	—	—	—	—	6,493	1,391	5,403	13,287
Transfer from retained profits of a subsidiary established in the PRC		—	—	—	1,378	—	—	—	—	(1,378)	—
At 31 December 2005 and 1 January 2006		52,415	412,116	167,746	1,378	—	445	6,530	4,910	(473,106)	172,434
Deficit on revaluation of buildings	*12*	—	—	—	—	—	—	—	(2,838)	—	(2,838)
Deferred tax credited to the property revaluation reserve	*27*	—	—	—	—	—	—	—	767	—	767
Exchange realignment		—	—	—	—	—	—	12,972	—	—	12,972
Total income and expense recognised directly in equity		—	—	—	—	—	—	12,972	(2,071)	—	10,901
Profit for the year		—	—	—	—	—	—	—	—	20,657	20,657
Total income and expense for the year		—	—	—	—	—	—	12,972	(2,071)	20,657	31,558
Disposal of subsidiaries	*31*	—	—	—	—	—	—	(4,381)	(1,526)	1,526	(4,381)
Transfer from retained profits of a subsidiary established in the PRC		—	—	—	2,489	—	—	—	—	(2,489)	—
Equity-settled share option arrangement		—	—	—	—	110	—	—	—	—	110
At 31 December 2006		52,415	412,116*	167,746*	3,867*	110*	445*	15,121*	1,313*	(453,412)*	199,721

* These reserve accounts comprise the consolidated reserves of HK$147,306,000 (2005: HK$120,019,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**25,420**	4,870
Adjustments for:			
Finance costs	6	**5,726**	3,734
Interest income	5	**(752)**	(708)
Depreciation	6, 12	**11,789**	9,907
Provision for inventories	6	**2,576**	6,460
Recognition of prepaid land lease payments	6, 14	**79**	93
Deficit on revaluation of buildings	6, 12	**93**	80
Write-off of items of property, plant and equipment	6, 12	**31**	581
Gain on disposal of items of property, plant and equipment	6	**(393)**	(617)
Impairment of trade receivables	6	**184**	645
Changes in fair value of investment property	6, 13	**95**	—
Equity-settled share option expense	29	**110**	—
Gain on disposal of subsidiaries	31	**(14,119)**	—
Reversal of impairment of an amount due from an associate		**—**	(6,141)
		30,839	18,904
(Increase)/decrease in inventories		**(89,563)**	15,807
Decrease/(increase) in receivables, prepayments and deposits		**11,186**	(35,296)
Increase in frozen bank balances		**—**	(127)
Increase/(decrease) in trade and bills payables		**24,197**	(13,487)
Increase/(decrease) in other payables and accruals		**4,343**	(315)
Cash used in operations		**(18,998)**	(14,514)
Interest received		**752**	708
Interest paid		**(5,726)**	(3,734)
Tax paid		**(3,606)**	—
Net cash outflow from operating activities		**(27,578)**	(17,540)

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	12	**(6,525)**	(987)
Proceeds from disposal of items of property, plant and equipment		**3,372**	3,776
Proceeds from disposal of subsidiaries	31	**1,928**	—
Repayment of a loan to an officer		**873**	50
(Increase)/decrease in pledged bank balances		**(7,653)**	1,333
Net cash (outflow)/inflow from investing activities		**(8,005)**	4,172
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loan		**15,131**	—
Repayment from an associate		**3,117**	1,846
Repayment of loans from the immediate holding company		**—**	(17,087)
Net cash inflow/(outflow) from financing activities		**18,248**	(15,241)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(17,335)**	(28,609)
Cash and cash equivalents at beginning of year		**55,914**	83,246
Effect of foreign exchange rate changes, net		**2,957**	1,277
CASH AND CASH EQUIVALENTS AT END OF YEAR		**41,536**	55,914
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	**41,536**	55,914

Balance Sheet

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**32**	45
Interests in subsidiaries	15	**154,069**	148,647
Total non-current assets		**154,101**	148,692
CURRENT ASSETS			
Prepayments and deposits		**133**	59
Loan to an officer	19	**—**	873
Cash and bank balances	20	**9,941**	4,618
Total current assets		**10,074**	5,550
CURRENT LIABILITIES			
Accruals and other liabilities		**3,620**	729
Loans from the immediate holding company	24	**—**	29,576
Total current liabilities		**3,620**	30,305
NET CURRENT ASSETS/(LIABILITIES)		**6,454**	(24,755)
TOTAL ASSETS LESS CURRENT LIABILITIES		**160,555**	123,937
NON-CURRENT LIABILITIES			
Loans from the immediate holding company	24	**30,258**	—
Net assets		**130,297**	123,937
EQUITY			
Issued capital	28	**52,415**	52,415
Reserves	30(b)	**77,882**	71,522
Total equity		**130,297**	123,937

Zhang Chunting
Director

Deng Rongjun
Director

1. Corporate Information

Guangdong Tannery Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 29/F, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong.

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

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

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment property and buildings, which have been measured at fair value, as further explained in note 2.4 to the financial statements. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for certain cases giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards (Continued)

HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms a part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 27 *Consolidated and Separate Financial Statements*

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements as described in note 2.4 "Summary of significant accounting policies" below.

(c) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the consolidated income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards (Continued)

(c) HKAS 39 Financial Instruments: Recognition and Measurement (Continued)

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(d) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. The Group has determined based on this interpretation that certain arrangements of the Group contained leases and accordingly, the Group has treated them in accordance with HKAS 17 *Leases*. However, the adoption of this interpretation has had no material impact on these financial statements.

2.3 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

2.3 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards (Continued)

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting.*

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRSs 7 and 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

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

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture 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 entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture'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.

2.4 Summary of Significant Accounting Policies (Continued)

Joint ventures (Continued)

A joint venture is treated as a subsidiary if the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies has unilateral control, directly or indirectly, over the joint venture; or an associate if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture.

Associate

An associate is an entity, not being a subsidiary or a jointly-controlled entity, 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 an associate is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets other than goodwill (Continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the consolidated income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment 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 consolidated income statement. Any subsequent revaluation surplus is credited to the consolidated income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the property revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2% to 10%
Leasehold improvements	4% to 20%
Plant and machinery	10% to 12.5%
Electronic equipment	20%
Furniture, fixtures and equipment	15% to 20%
Motor vehicles	15% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation (Continued)

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 property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use.

Leases

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 consolidated income statement 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 consolidated income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that loans and receivables are impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loans and receivables' original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of loans and receivables with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

2.4 Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets (Continued)

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to a PRC joint venture partner, amounts due to the immediate holding company and a fellow subsidiary, and interest-bearing bank borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated income statement.

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.

2.4 Summary of Significant Accounting Policies (Continued)

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 sheets, cash and cash equivalents comprise cash on hand and at banks, including time deposits, which are not restricted as to use.

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 consolidated income statement.

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 and a former 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 consolidated income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from 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 interests in subsidiaries and associate, 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 credits 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 credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from 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 interests in subsidiaries and associate, 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 reassessed at each balance sheet date and 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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 Summary of Significant Accounting Policies (Continued)

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, 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 sold;

(b) rental income, on a time proportion basis over the lease terms; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Share-based payment transactions

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. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 29 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

2.4 Summary of Significant Accounting Policies (Continued)

Employee benefits (Continued)

Share-based payment transactions (Continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Pension schemes

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 consolidated income statement 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.

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 costs to the PRC Scheme. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the PRC Scheme.

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

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

3. Significant Accounting Judgements and Estimates

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial property lease on its investment property. The Group has determined that it retains all the significant risks and rewards of ownership of the property which is leased out on operating lease.

3. Significant Accounting Judgements and Estimates (Continued)

Judgements (Continued)

Provision for obsolete inventories

Management reviews the condition of inventories of the Group at each balance sheet date and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. Management reassesses the estimation at each balance sheet date.

Impairment of trade receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of the asset. The estimation of the useful life of the asset is based on experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at each balance sheet date, based on changes in circumstances.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2006 was HK$84,784,000 (2005: HK$124,828,000). Further details are contained in note 27 to the financial statements.

4. Segment Information

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues 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. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

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 the other business segments. Summary details of the business segments are as follows:

(a) the leather processing segment processes raw leather to finished leather for use in the leather ware products manufacturing industry mainly in Mainland China;

(b) the property investment segment invests in residential and commercial properties in Mainland China for rental income purposes; and

(c) the corporate and others segment mainly comprises the Group's corporate income and expense items.

Intersegment transactions mainly represented management services provided and charged by the Company to its subsidiaries at the bases determined by the Group.

4. Segment Information (Continued)

Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Group

	Leather processing		Property investment		Corporate and others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	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	**419,975**	258,543	**—**	—	**—**	—	**—**	—	**419,975**	258,543
Intersegment sales	**—**	—	**—**	—	**—**	480	**—**	(480)	**—**	—
Other income	**2,520**	1,895	**337**	563	**—**	35	**—**	—	**2,857**	2,493
Total	**422,495**	260,438	**337**	563	**—**	515	**—**	(480)	**422,832**	261,036
Segment results	**37,717**	9,665	**124**	6,544	**(7,447)**	(8,313)	**—**	—	**30,394**	7,896
Interest income									**752**	708
Finance costs									**(5,726)**	(3,734)
Profit before tax									**25,420**	4,870
Tax									**(4,763)**	533
Profit for the year									**20,657**	5,403

4. Segment Information (Continued)

Business segments (Continued)

Group

	Leather processing		Property investment		Corporate and others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets and liabilities										
Segment assets	**323,849**	304,815	**9,026**	8,794	**121**	74	**(6,777)**	(6,427)	**326,219**	307,256
Interest in an associate	**—**	—	**1,219**	4,336	**—**	—	**—**	—	**1,219**	4,336
Unallocated assets									**54,424**	70,705
Total assets									**381,862**	382,297
Segment liabilities	**(95,904)**	(124,330)	**(602)**	(532)	**(6,366)**	(2,535)	**6,777**	6,427	**(96,095)**	(120,970)
Unallocated liabilities									**(86,046)**	(88,893)
Total liabilities									**(182,141)**	(209,863)
Other segment information:										
Capital expenditure	**6,525**	954	**—**	—	**—**	33	**—**	—	**6,525**	987
Changes in fair value of investment property	**—**	—	**95**	—	**—**	—	**—**	—	**95**	—
Depreciation	**11,776**	9,888	**—**	—	**13**	19	**—**	—	**11,789**	9,907
Provision for inventories	**2,576**	6,460	**—**	—	**—**	—	**—**	—	**2,576**	6,460
Recognition of prepaid land lease payments	**79**	93	**—**	—	**—**	—	**—**	—	**79**	93
Deficit on revaluation of buildings	**93**	80	**—**	—	**—**	—	**—**	—	**93**	80
Reversal of impairment of an amount due from an associate	**—**	—	**—**	(6,141)	**—**	—	**—**	—	**—**	(6,141)
Impairment of trade receivables	**184**	645	**—**	—	**—**	—	**—**	—	**184**	645
Other non-cash income, net	**—**	(36)	**—**	—	**—**	—	**—**	—	**—**	(36)

5. Revenue and Other Income

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and value-added tax, during the year.

An analysis of revenue and other income is as follows:

	2006 *HK$'000*	2005 *HK$'000*
Revenue		
Processing and sale of leather	419,975	258,543
Other income		
Gross rental income	805	774
Interest income	752	708
Others	2,052	1,719
	3,609	3,201

6. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2006 *HK$'000*	2005 *HK$'000*
Cost of inventories sold		380,669	228,511
Auditors' remuneration		990	780
Depreciation	*12*	11,789	9,907
Interest on:			
Bank loans and discounting bills receivable to banks		1,493	386
Loans from the immediate holding company		1,394	1,244
Loan from a fellow subsidiary		2,839	2,104
		5,726	3,734
Provision for inventories		2,576	6,460
Employee benefits expense (excluding directors' remuneration *(note 8)*):			
Wages and salaries		11,805	8,719
Pension scheme contributions (defined contributions scheme)*		1,273	778
Equity-settled share option expense		110	—
		13,188	9,497

6. Profit Before Tax (Continued)

The Group's profit before tax is arrived at after charging/(crediting): (Continued)

	Notes	**2006** **HK$'000**	2005 HK$'000
Minimum lease payments under operating leases in respect of land and buildings		**464**	374
Recognition of prepaid land lease payments	14	**79**	93
Other rental income		**(468)**	(211)
Gross rental income from investment properties		**(337)**	(563)
Less: Outgoings from investment properties		**—**	86
Net rental income		**(337)**	(477)
Changes in fair value of investment property	13	**95**	—
Deficit on revaluation of buildings	12	**93**	80
Write-off of items of property, plant and equipment	12	**31**	581
Gain on disposal of items of property, plant and equipment, net		**(393)**	(617)
Impairment of trade receivables		**184**	645
Foreign exchange differences, net		**(5)**	(65)

* At the balance sheet date, the Group had no forfeited contribution available to reduce its contributions to the pension scheme in future years.

7. Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2005: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Xuzhou Nanhai Leather Factory Co., Ltd. ("Xuzhou Tannery"), a wholly-owned PRC subsidiary of the Company, was exempt from PRC corporate income tax for the first two profit-making years, and is eligible for a 50%-relief from PRC corporate income tax for the following three years under the PRC tax laws. Starting from the year ended 31 December 2006, which is the third profitable year of Xuzhou Tannery, the applicable tax rate of Xuzhou Tannery, after the 50% reduction, was 15%.

7. Tax (Continued)

Certain other subsidiaries of the Company established in the PRC, were exempt from PRC corporate income tax for two years commencing from its first profit-making year of operations, and 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% for the years ended 31 December 2005 and 2006.

	2006	2005
	HK$'000	*HK$'000*
Group:		
Current — Mainland China	**4,793**	—
Deferred *(note 27)*	**(30)**	(533)
Total tax charge/(credit) for the year	**4,763**	(533)

A reconciliation of the tax expense/(credit) applicable to profit before tax using the statutory rates for the regions in which the Company and its subsidiaries are domiciled to the tax charge at the effective tax rates is as follows:

Group — 2006

	Hong Kong	**Mainland China**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Profit before tax	**3,740**	**21,680**	**25,420**
Tax at the statutory tax rate	**655**	**7,154**	**7,809**
Lower tax rate for specific provinces or local authority	**—**	**(4,141)**	**(4,141)**
Income not subject to tax	**(2,720)**	**—**	**(2,720)**
Expenses not deductible for tax	**762**	**683**	**1,445**
Tax losses utilised from previous periods	**—**	**(897)**	**(897)**
Tax losses not recognised	**1,303**	**1,964**	**3,267**
Tax charge at the Group's effective rate	**—**	**4,763**	**4,763**

7. Tax (Continued)

Group — 2005

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Profit/(loss) before tax	(4,975)	9,845	4,870
Tax at the statutory tax rate	(871)	3,249	2,378
Lower tax rate for specific provinces or local authority	—	(6,912)	(6,912)
Income not subject to tax	(1,153)	(902)	(2,055)
Expenses not deductible for tax	818	1,186	2,004
Tax losses not recognised	1,206	2,846	4,052
Tax credit at the Group's effective rate	—	(533)	(533)

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2006 HK$'000	2005 HK$'000
Fees	**278**	300
Other emoluments:		
Salaries, allowances and benefits in kind	**999**	1,698
Performance related bonuses*	**845**	904
Pension scheme contributions	**400**	459
	2,244	3,061
	2,522	3,361

* Certain executive directors of the Company are entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.

8. Directors' Remuneration (Continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006 HK$'000	2005 HK$'000
Mr. Cheng Hok Lai James	—	100
Mr. Fung Lak	100	100
Mr. Choi Kam Fai Thomas	100	100
Mr. Chan Cheong Tat	78	—
	278	300

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006					
Executive directors:					
Mr. Zhang Chunting	—	523	496	222	1,241
Mr. Deng Rongjun	—	476	349	178	1,003
	—	999	845	400	2,244
Non-executive directors:					
Mr. Xiong Guangyang	—	—	—	—	—
Mrs. Ho Lam Lai Ping Theresa	—	—	—	—	—
	—	999	845	400	2,244

8. Directors' Remuneration (Continued)

(b) Executive directors and non-executive directors (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2005					
Executive directors:					
Mr. Zhang Chunting	—	513	362	198	1,073
Mr. Deng Rongjun	—	426	253	159	838
Mr. Chen Hong	—	183	289	87	559
Mr. Hui Wai Man Lawrence	—	576	—	15	591
	—	1,698	904	459	3,061
Non-executive directors:					
Mr. Wu Jiesi	—	—	—	—	—
Mr. Xiong Guangyang	—	—	—	—	—
Mrs. Ho Lam Lai Ping Theresa	—	—	—	—	—
	—	1,698	904	459	3,061

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. Five Highest Paid Employees

The five highest paid employees of the Group during the year included two (2005: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2005: one) non-director, highest paid employees for the year are as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Salaries and allowances	**1,106**	455
Pension scheme contributions	**16**	16
	1,122	471

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

	Number of employees	
	2006 HK$'000	2005 HK$'000
Nil – HK$1,000,000	**3**	1

10. Profit for the Year

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of HK$6,360,000 (2005: HK$30,171,000) which has been dealt with in the financial statements of the Company (note 30(b)).

11. Earnings Per Share

The calculation of basic earnings per share amounts is based on the profit for the year and the number of ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year. The number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2006	2005
	HK$'000	*HK$'000*
Earnings		
Profit for the year, used in the basic earnings per share calculation	**20,657**	5,403

	Number of shares	
	2006	2005
Shares		
Number of ordinary shares in issue during the year used in the basic earnings per share calculation	**524,154,000**	524,154,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	**2,956,433**	294,383
	527,110,433	524,448,383

12. Property, Plant and Equipment

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Electronic equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2006								
At 1 January 2006:								
Cost or valuation	49,590	6,959	128,980	3,030	622	9,432	144	198,757
Accumulated depreciation and impairment	—	(4,949)	(101,382)	(2,541)	(574)	(8,998)	—	(118,444)
Net carrying amount	49,590	2,010	27,598	489	48	434	144	80,313
At 1 January 2006, net of accumulated depreciation and impairment	49,590	2,010	27,598	489	48	434	144	80,313
Additions	—	320	713	161	—	395	4,936	6,525
Disposal of subsidiaries *(note 31)*	(35,100)	(57)	(4,152)	(110)	—	—	—	(39,419)
Disposals	(2,966)	—	(13)	—	—	—	—	(2,979)
Write-off	—	—	—	(31)	—	—	—	(31)
Deficit on revaluation	(2,931)	—	—	—	—	—	—	(2,931)
Depreciation provided during the year	(2,583)	(261)	(8,578)	(118)	(16)	(233)	—	(11,789)
Transfers	—	89	736	94	—	—	(919)	—
Exchange realignment	1,320	28	1,389	27	—	57	90	2,911
At 31 December 2006, net of accumulated depreciation and impairment	7,330	2,129	17,693	512	32	653	4,251	32,600
At 31 December 2006:								
Cost or valuation	7,330	6,838	55,388	1,883	622	6,243	4,251	82,555
Accumulated depreciation and impairment	—	(4,709)	(37,695)	(1,371)	(590)	(5,590)	—	(49,955)
Net carrying amount	7,330	2,129	17,693	512	32	653	4,251	32,600
Analysis of cost or valuation:								
At cost	—	6,838	55,388	1,883	622	6,243	4,251	75,225
At 31 December 2006 valuation	7,330	—	—	—	—	—	—	7,330
	7,330	6,838	55,388	1,883	622	6,243	4,251	82,555

12. Property, Plant and Equipment (Continued)

Group

	Buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Electronic equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2005								
At 1 January 2005:								
Cost or valuation	48,840	6,608	125,486	2,927	570	10,173	739	195,343
Accumulated depreciation and impairment	—	(4,633)	(93,860)	(2,335)	(533)	(9,426)	—	(110,787)
Net carrying amount	48,840	1,975	31,626	592	37	747	739	84,556
At 1 January 2005, net of accumulated depreciation and impairment	48,840	1,975	31,626	592	37	747	739	84,556
Additions	—	101	297	9	33	—	547	987
Disposals	(2,869)	(14)	(98)	—	—	(10)	(168)	(3,159)
Write-off	(420)	(75)	(77)	(9)	—	—	—	(581)
Surplus on revaluation	1,796	—	—	—	—	—	—	1,796
Depreciation provided during the year	(3,233)	(284)	(5,879)	(148)	(22)	(341)	—	(9,907)
Transfers	—	124	833	27	—	—	(984)	—
Transfer from investment properties	4,492	—	—	—	—	—	—	4,492
Exchange realignment	984	183	896	18	—	38	10	2,129
At 31 December 2005, net of accumulated depreciation and impairment	49,590	2,010	27,598	489	48	434	144	80,313
At 31 December 2005:								
Cost or valuation	49,590	6,959	128,980	3,030	622	9,432	144	198,757
Accumulated depreciation and impairment	—	(4,949)	(101,382)	(2,541)	(574)	(8,998)	—	(118,444)
Net carrying amount	49,590	2,010	27,598	489	48	434	144	80,313
Analysis of cost or valuation:								
At cost	—	6,959	128,980	3,030	622	9,432	144	149,167
At 31 December 2005 valuation	49,590	—	—	—	—	—	—	49,590
	49,590	6,959	128,980	3,030	622	9,432	144	198,757

12. Property, Plant and Equipment (Continued)

Company

	Furniture, fixtures and equipment HK$'000
31 December 2006	
At 1 January 2006:	
Cost	**326**
Accumulated depreciation	**(281)**
Net carrying amount	**45**
At 1 January 2006, net of accumulated depreciation	**45**
Additions	**—**
Depreciation provided during the year	**(13)**
At 31 December 2006, net of accumulated depreciation	**32**
At 31 December 2006:	
Cost	**326**
Accumulated depreciation	**(294)**
Net carrying amount	**32**
31 December 2005	
At 1 January 2005:	
Cost	293
Accumulated depreciation	(262)
Net carrying amount	31
At 1 January 2005, net of accumulated depreciation	31
Additions	33
Depreciation provided during the year	(19)
At 31 December 2005, net of accumulated depreciation	45
At 31 December 2005:	
Cost	326
Accumulated depreciation	(281)
Net carrying amount	45

12. Property, Plant and Equipment (Continued)

As at 31 December 2006, the Group's buildings were individually revalued by Greater China Appraisal Limited, independent professionally qualified valuers, at an aggregate open market value of HK$7,330,000 (2005: HK$49,590,000) based on their existing use, with a net revaluation deficit of HK$2,931,000 (2005: surplus of HK$1,796,000), including a revaluation deficit of HK$2,838,000 (2005: surplus of HK$1,876,000) charged to property revaluation reserve (note 30) and a revaluation deficit of HK$93,000 (2005: HK$80,000) charged to the consolidated income statement (note 6) in the current year.

Had these buildings of the Group been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts as at 31 December 2006 would have been approximately HK$3,742,000 (2005: HK$37,231,000).

At 31 December 2006, certain of the plant and machinery of a subsidiary of the Group of HK$3,680,000 (2005: HK$5,245,000) was pledged to secure general banking facilities granted to the Group (note 36).

At 31 December 2005, certain of the buildings of a subsidiary of the Group of HK$7,590,000 were pledged to secure general banking facilities granted to the Group (note 36). During the year, the pledge over those buildings was released.

13. Investment Property

	Notes	**2006** ***HK$'000***	2005 *HK$'000*
Carrying amount at 1 January		**2,280**	6,740
Changes in fair value of investment property	*6*	**(95)**	—
Transfer to owner-occupied property	*12*	**—**	(4,492)
Exchange realignment		**—**	32
Carrying amount at 31 December		**2,185**	2,280

The Group's investment property is situated in Mainland China and is held under medium term leases. At 31 December 2006, an amount of HK$2,185,000 (2005: HK$2,280,000) included in the Group's investment property in respect of which the building ownership certificate was in the process of being obtained.

The Group's investment property was revalued on 31 December 2006 by Greater China Appraisal Limited at HK$2,185,000 (2005: HK$2,280,000) on an open market, existing use basis. The investment property is leased to third parties under operating leases, further summary details of which are included in note 33(a) to the financial statements.

14. Prepaid Land Lease Payments

	Group	
	2006	2005
	HK$'000	*HK$'000*
Carrying amount at 1 January	**3,825**	3,828
Recognised during the year *(note 6)*	**(79)**	(93)
Exchange realignment	**—**	90
Disposal of subsidiaries *(note 31)*	**(3,746)**	—
Carrying amount at 31 December	**—**	3,825
Current portion included in receivables, prepayments and deposits	**—**	(93)
Non-current portion	**—**	3,732

The leasehold land was held under a medium term lease and was situated in Mainland China.

15. Interests in Subsidiaries

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**173,428**	165,465
Loans to subsidiaries	**333,514**	327,457
Loans from subsidiaries	**(80,578)**	(72,694)
	426,364	420,228
Impairment	**(272,295)**	(271,581)
	154,069	148,647

Included in the loans to subsidiaries are unsecured loans of HK$85,198,000 (2005: HK$81,855,000), which bear interest at rates ranging from 4.15% to 8.5% (2005: 3.8% to 8.5%) per annum and have no fixed terms of repayment. The remaining loans to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries.

The loans from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

15. Interests in Subsidiaries (Continued)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Crown South (Hong Kong) Limited	Hong Kong	HK$2	—	100	Dormant
Gastor Enterprises Limited	British Virgin Islands	US$150	100	—	Investment holding
Gold Star Assets Limited	Hong Kong	HK$2	—	100	Investment holding
Harbour Hill International Limited	Hong Kong	HK$1,000,000	100	—	Dormant
Jadeford Investments Limited	British Virgin Islands	US$1	100	—	Dormant
Qingdao Nanhai Tannery Co., Ltd.#	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
Time Wise Profits Limited	British Virgin Islands	US$1	100	—	Dormant
Vermont Property Limited	British Virgin Islands	US$1	100	—	Investment holding
Xuzhou Gangwei Leather Co., Ltd.+	Mainland China	RMB18,000,000	100	—	Processing of cowhides, leather trading and lessor of plant and machinery
Xuzhou Nanhai Leather Factory Co., Ltd.+	Mainland China	RMB20,000,000	100	—	Processing of cowhides and leather trading

\+ Registered as wholly-foreign-owned enterprises under PRC law.

\# 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 Tannery") was solely contributed by the Company. The PRC joint venture partner contributed its plant and equipment for the operations of Qingdao Tannery. 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.

16. Interest in an Associate

	Group	
	2006	2005
	HK$'000	*HK$'000*
Share of net assets	**—**	—
Loan to an associate	**2,348**	5,465
	2,348	5,465
Impairment	**(1,129)**	(1,129)
	1,219	4,336

The loan to an associate is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of this amount approximates to its fair value.

The associate held interests in land use rights in the PRC. In prior years, the recoverable amount of the amount due from the associate was uncertain and a full provision for impairment was made as at 31 December 2004. In 2005, the associate, through its wholly-owned subsidiaries, entered into a sale and purchase agreement to dispose of its interests in land use rights. Accordingly, a reversal of provision for the loan to an associate of HK$6,141,000 was credited to the consolidated income statement during the year ended 31 December 2005.

Particulars of the associate, which is a corporation are as follows:

Name	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group	Principal activity
Essential Holdings Limited	Ordinary shares of US$1 each	British Virgin Islands	32%	Investment holding

The Group has discontinued the recognition of its share of losses of the associate because the share of losses of the associate exceeded the Group's interest in the associate. The Group's unrecognised share of losses of this associate cumulatively was HK$1,312,000 (2005: HK$1,129,000) as at 31 December 2006.

16. Interest in an Associate (Continued)

The following table illustrates the financial information of the Group's associate extracted from its unaudited management accounts:

	2006 HK$'000	2005 HK$'000
Assets	3,651	19,986
Liabilities	7,751	23,512
Revenues	—	—
(Loss)/profit	(557)	18,819

17. Inventories

	Group	
	2006 HK$'000	2005 HK$'000
Raw materials	70,885	45,752
Work in progress	108,470	51,306
Finished goods	30,721	25,410
	210,076	122,468

18. Receivables, Prepayments and Deposits

As at 31 December 2006, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK$65,880,000 (2005: HK$86,414,000) 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. Each customer has a maximum credit limit. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

18. Receivables, Prepayments and Deposits (Continued)

As at 31 December 2006, the aged analysis of the Group's trade and bills receivables, based on the payment due date, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 1 month	**62,097**	82,376
1 to 3 months	**2,401**	2,486
3 to 6 months	**553**	170
Over 6 months	**2,251**	4,373
	67,302	89,405
Impairment	**(1,422)**	(2,991)
	65,880	86,414

At 31 December 2005, bills receivable of approximately HK$22,485,000 was pledged to secure the general banking facilities granted to the Group (note 36). During the year, the pledge over those bills receivable was released.

19. Loan to an Officer

Loan to an officer, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, is as follows:

Group and Company

Name	Terms of the loan	31 December 2006 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2006 HK$'000
Ms. Chan Miu Ting (Former Company Secretary)	Secured by her property, bears interest at 5% per annum and is repayable by monthly instalments	**—**	873	873

The loan is a staff housing loan used by Ms. Chan Miu Ting, a former Company Secretary of the Group, to purchase a flat as her main residence. During the year, the interest income earned from the officer amounted to HK$18,000 (2005: HK$45,000) (note 35(a)(v)).

20. Cash and Cash Equivalents and Pledged and Frozen Bank Balances

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**41,536**	55,914	**9,941**	4,618
Time deposits	**12,888**	13,918	**—**	—
	54,424	69,832	**9,941**	4,618
Less: Pledged bank balances*	**(12,888)**	(4,900)	**—**	—
Frozen bank balances**	**—**	(9,018)	**—**	—
	(12,888)	(13,918)	**—**	—
Cash and cash equivalents	**41,536**	55,914	**9,941**	4,618

* These bank balances were pledged to banks for banking facilities granted (note 36).

** These bank balances held by a former subsidiary of the Company were frozen by the PRC authorities.

Cash at bank earns interest at floating rates based on daily bank deposits rates. The carrying amounts of the cash and bank balances and pledged and frozen bank balances approximate to their fair values.

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$43,575,000 (2005: HK$63,386,000). The RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

21. Trade and Bills Payables

As at 31 December 2006, the aged analysis of the Group's trade and bills payable, based on the payment due date, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 3 months	**25,420**	21,130
3 to 6 months	**21,776**	1,229
6 to 12 months	**796**	292
Over 12 months	**3,411**	3,472
	51,403	26,123

The trade and bills payable of the Group are non-interest-bearing and are normally settled on 60 to 90 day terms. Other payables and accruals of the Group and the Company are non-interest-bearing and have an average term of three months.

22. Interest-bearing Bank Borrowings

	2006			2005		
	Effective interest rate (%)	**Maturity**	**Amount *HK$'000***	Effective interest rate (%)	Maturity	Amount *HK$'000*
Current						
Bank loan, secured	**LIBOR+1.0%**	**2007**	**15,451**	N/A	N/A	—

As at 31 December 2006, the Group's bank loan is secured by certain of the Group's plant and machinery and the pledged bank deposits.

The carrying amount of the Group's bank borrowings approximate to its fair values.

23. Due to a PRC Joint Venture Partner

The Group's amount due to a PRC joint venture partner is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of this amount approximates to its fair value.

24. Loans from the Immediate Holding Company

The Group's and the Company's loans represented unsecured loans of RMB20,000,000 (2005: RMB20,000,000) (equivalent to approximately HK$19,908,000 (2005: HK$19,226,000)) and HK$10,350,000 (2005: HK$10,350,000) advanced from GDH Limited ("GDH"), the Company's immediate holding company. The loans bore interest at an annual rate of 4.15% for the period from 1 January to 30 June 2006 and three-to-five-year benchmark lending rate announced by the People's Bank of China minus 1% thereafter (2005: 4.15%), and 3.8% for the period from 1 January 2006 to 30 June 2006 and 3-month HIBOR + 1% (2005: 3.8%) per annum thereafter, respectively, and were not repayable within one year from 31 December 2006.

The carrying values of the loans approximate to their fair values.

25. Loan from a Fellow Subsidiary

The Group's loan represented an unsecured loan of US$7,000,000 (2005: US$7,000,000) (equivalent to approximately HK$54,600,000 (2005: HK$54,600,000)) advanced from Guangdong Assets Management Limited ("Guangdong Assets Management"), a fellow subsidiary of the Company. The loan bore interest at an annual rate of 3.8% for the period from 1 January 2006 to 30 June 2006 and 3-month LIBOR + 1% (2005: 3.8%) per annum thereafter and was repayable on 31 December 2007.

The carrying value of the loan approximates to its fair value.

26. Provisions

Group

	Tax claim and tax penalty by the PRC authorities	**Early termination of a joint venture agreement**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
	(Note a)	*(Note b)*	
At 1 January 2006	71,052	3,063	74,115
Disposal of subsidiaries *(note 31)*	(71,052)	—	(71,052)
Exchange realignment	—	99	99
At 31 December 2006	—	3,162	3,162

26. Provisions (Continued)

(a) Provision for tax claim and tax penalty by the PRC authorities

With respect to the tax claim of RMB36,989,000 (equivalent to approximately HK$35,526,000 as at 31 December 2005) made by the Anti-Smuggling Bureau of Guangzhou Customs (廣州海關緝私局) (the "Guangzhou Customs") to Foshan City Nanhai Tong Yuan Tanning Co., Ltd. ("Tongyuan Tannery"), a former wholly-owned subsidiary of the Company established in Mainland China, provisions of HK$71,052,000 in aggregate were made as at 31 December 2005 for (a) the tax claim of HK$35,526,000 made by the Guangzhou Customs; and (b) the tax penalty of HK$35,526,000 that may be imposed by the relevant PRC authorities, which were provided for by the directors with reference to a PRC legal opinion obtained by them.

During the year ended 31 December 2006, Tongyuan Tannery was disposed of as detailed in note 35(a)(vi) to the financial statements. On 28 March 2007, the Company obtained PRC legal opinion which advised that the Group should have no responsibility on the exposure of those tax claim and tax penalty upon the disposal of Tongyuan Tannery. Accordingly, such provision for tax claim and tax penalty and related contingency disclosures are no longer required to be reflected in the financial statements of the Group.

(b) Provisions for early termination of a joint venture agreement

With respect to the Group's decision in August 2001 to curtail the operations of Qingdao Tannery due to its continuous losses, provisions of HK$3,000,000 were made as at 31 December 2001 for (a) staff redundancy payments of HK$2,000,000; and (b) 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.

During the year ended 31 December 2004, the arbitration proceedings undertaken by the Group and the PRC joint venture partner were concluded by the China International Economic and Trade Arbitration Commissions in Shenzhen and Beijing. These proceedings determined that (i) the joint venture agreement of Qingdao Tannery was terminated with effect from 23 August 2001; (ii) Qingdao Tannery should be liquidated in accordance with the joint venture agreement and with the relevant laws and regulations in the PRC; and (iii) the PRC joint venture partner's claim against the Company for an economic loss of RMB15 million due to the termination of the joint venture agreement be revoked.

As the liquidation of Qingdao Tannery has not been completed, no payment for the provision, additional provision or reversal of provision was made during the year.

27. Deferred Tax Liabilities

The movements in deferred tax liabilities of the Group during the year are as follows:

	Accelerated tax depreciation *HK$'000*	Revaluation of properties *HK$'000*	Total *HK$'000*
At 1 January 2005	1,203	3,562	4,765
Deferred tax charged to the property revaluation reserve	—	485	485
Deferred tax credited to the consolidated income statement during the year *(note 7)*	—	(533)	(533)
At 31 December 2005 and 1 January 2006	1,203	3,514	4,717
Deferred tax credited to the property revaluation reserve	—	(767)	(767)
Deferred tax credited to the consolidated income statement during the year *(note 7)*	—	(30)	(30)
Disposal of subsidiaries *(note 31)*	(1,203)	(1,529)	(2,732)
At 31 December 2006	—	1,188	1,188

The Group has tax losses arising in Hong Kong of HK$83,113,000 (2005: HK$78,805,000), that is available for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in the PRC of HK$1,671,000 (2005: HK$46,023,000), that is available for a maximum of five years for offsetting against future taxable profits of the companies in which the losses arose. 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 and the directors considered not probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: 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.

28. Share Capital

	2006 ***HK$'000***	2005 *HK$'000*
Authorised:		
700,000,000 ordinary shares of HK$0.10 each	**70,000**	70,000
Issued and fully paid:		
524,154,000 ordinary shares of HK$0.10 each	**52,415**	52,415

29. Share Option Scheme

The Company has adopted a share option scheme (the "Scheme") since 31 May 2002 for the purpose of providing incentives and rewards to eligible participants who 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 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 Scheme, unless otherwise terminated or amended, will remain in force for 10 years from 13 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 Scheme and any other schemes of the Company may not exceed 30% of its shares in issue at any time. The total number of shares which may be issued upon exercise of all options to be granted under the 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 Scheme, but the Company may seek approval of its shareholders at a general meeting to refresh the 10% limit under the Scheme.

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 from the date of grant may not exceed 1% of the shares in issue at the date of grant. Any 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 grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval 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 10 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 highest of (i) the closing price of the Company's shares as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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.

29. Share Option Scheme (Continued)

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

	Number of share options								Price of the Company's shares***		
Name or category of participant	**At 1 January 2006**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**At 31 December 2006**	**Date of grant of share options* (dd/mm/yyyy)**	**Exercise period of share options (dd/mm/yyyy)**	**Exercise price of share options**** *HK$ per share*	**At grant date of options** *HK$ per share*	**Immediately before the exercise date** *HK$ per share*	**At exercise date of options** *HK$ per share*
Directors											
Zhang Chunting	2,500,000	—	(2,500,000)	—	—	09/06/2003	10/09/2003–09/09/2008	0.220	0.204	0.48	0.51
	2,000,000	—	(2,000,000)	—	—	11/02/2004	12/05/2004–11/05/2009	0.246	0.240	0.48	0.51
	4,500,000	—	(4,500,000)	—	—						
Deng Rongjun	1,500,000	—	(1,500,000)	—	—	11/02/2004	12/05/2004–11/05/2009	0.246	0.240	0.48	0.51
Xiong Guangyang	3,000,000	—	(3,000,000)	—	—	09/06/2003	10/09/2003–09/09/2008	0.220	0.204	0.48	0.51
	2,200,000	—	(2,200,000)	—	—	11/02/2004	12/05/2004–11/05/2009	0.246	0.240	0.48	0.51
	5,200,000	—	(5,200,000)	—	—						
Fung Lak	300,000	—	—	—	300,000	09/06/2003	10/09/2003–09/09/2008	0.220	0.204	—	—
	300,000	—	—	—	300,000	11/02/2004	12/05/2004–11/05/2009	0.246	0.240	—	—
	600,000	—	—	—	600,000						
Sub-total	11,800,000	—	(11,200,000)	—	600,000						
Former directors											
In aggregate	300,000	—	—	(300,000)	—	09/06/2003	10/09/2003–09/09/2008	0.220	0.204	—	—
	2,100,000	—	—	(2,100,000)	—	11/02/2004	12/05/2004–11/05/2009	0.246	0.240	—	—
Sub-total	2,400,000	—	—	(2,400,000)	—						
Other employees											
In aggregate	550,000	—	—	(300,000)	250,000	09/06/2003	10/09/2003–09/09/2008	0.220	0.204	—	—
	600,000	—	—	(300,000)	300,000	11/02/2004	12/05/2004–11/05/2009	0.246	0.240	—	—
	—	1,000,000	—	—	1,000,000	03/04/2006	04/07/2006–03/07/2011	0.196	0.191	—	—
Sub-total	1,150,000	1,000,000	—	(600,000)	1,550,000						
Total	15,350,000	1,000,000	(11,200,000)	(3,000,000)	2,150,000						

29. Share Option Scheme (Continued)

Notes to the reconciliation of share options outstanding during the year:

* 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 issue, 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 Stock Exchange's closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the Stock Exchange's closing price immediately before the date on which the options were exercised.

The fair value of the share options granted during the year was HK$110,000 of which the Group recognised an equity-settled share option expense of HK$110,000 during the year ended 31 December 2006.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2006:

Dividend yield (%)	Nil
Expected volatility (%)	61.73
Risk-free interest rate (%)	4.43
Expected life of option (year)	5.25
Closing share price at date of grant (HK$)	0.196

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the balance sheet date, the Company had 2,150,000 share options outstanding under the Scheme, which represented approximately 0.4% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 2,150,000 additional ordinary shares of the Company and additional share capital of HK$215,000 and share premium of HK$249,600 (before issue expenses).

During the year ended 31 December 2006, the exercise of a total of 11,200,000 share options by certain of the directors of the Company resulted in the issue of 11,200,000 additional ordinary shares of the Company on 9 January 2007.

30. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

The general reserve fund of the Group 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 was eliminated in the consolidated financial statements. In the year ended 31 December 2002, there was a release of goodwill of HK$133,349,000 in respect of impairment of an investment in a subsidiary related to the goodwill arising from acquisition of that subsidiary in 1996.

Pursuant to a special resolution passed in the Group'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 Group, a general reserve fund was credited in the books of account of the Group in the same amount for the purpose of setting off, in the consolidated financial statements of the Group and its subsidiaries, goodwill arising on consolidation in 1997. In 2000 and 2001, there was a release of goodwill of HK$12,478,000 and HK$21,919,000, respectively, in respect of impairment of investments in subsidiaries related to the goodwill arising from the acquisition of the subsidiaries in 1997.

Pursuant to the relevant PRC laws and regulations, a portion of the profits of the Group's subsidiary which is established in the PRC has been transferred to reserve funds which are restricted as to use.

30. Reserves (Continued)

(b) Company

	Notes	Share premium account HK$'000	General reserve fund HK$'000	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005		412,116	167,746	445	(538,956)	41,351
Profit for the year	10	—	—	—	30,171	30,171
At 31 December 2005 and 1 January 2006		412,116	167,746	445	(508,785)	71,522
Profit for the year	10	—	—	—	6,360	6,360
At 31 December 2006		412,116	167,746	445	(502,425)	77,882

The Company's general reserve fund represents an undistributable reserve and may not be treated as realised profits as detailed in note 30(a) to the financial statements.

31. Disposal of Subsidiaries

	2006 HK$'000	2005 HK$'000
Net liabilities disposed of:		
Property, plant and equipment	39,419	—
Prepaid land lease payments	3,746	—
Inventories	6,599	—
Receivables, prepayments and deposits	1,686	—
Tax recoverable	7,462	—
Frozen bank balances	9,145	—
Cash and bank balances	5,659	—
Trade and bills payables	(1,462)	—
Other payables and accruals	(621)	—
Provisions	(71,052)	—
Deferred tax liabilities	(2,732)	—
	(2,151)	—
Release of exchange translation reserve	(4,381)	—
Gain on disposal of subsidiaries	14,119	—
	7,587	—
Satisfied by:		
Cash (net of expenses of HK$913,000)	7,587	—

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

	2006 HK$'000	2005 HK$'000
Cash consideration	7,587	—
Cash and bank balances disposed of	(5,659)	—
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	1,928	—

32. Major Non Cash Transaction

During the year ended 31 December 2005, investment properties with a carrying value of HK$4,492,000 were transferred to owner-occupied property under property, plant and equipment.

33. Operating Lease Arrangements

(a) As lessor

The Group leases its investment property (note 13) and certain plant and machinery under operating lease arrangements, with leases negotiated for terms ranging from three to five years.

At 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with their lessees falling due as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**582**	645
In the second to fifth years, inclusive	**859**	196
	1,441	841

(b) As lessee

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

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**61**	20
In the second to fifth years, inclusive	**13**	—
	74	20

34. Commitments

In addition to the operating lease commitments detailed in note 33(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Leasehold improvements	**748**	—
Plant and machinery	**2,437**	—
	3,185	—

35. Related Party Transactions

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

		Group	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
Office rental paid to the immediate holding company	*(i)*	**128**	108
Computer system maintenance service fees paid to the immediate holding company	*(ii)*	**172**	211
Interest expense to the immediate holding company	*(iii)*	**1,394**	1,244
Interest expense to a fellow subsidiary	*(iv)*	**2,839**	2,104
Interest income from an officer	*(v)*	**18**	45
Gain on disposal of subsidiaries	*(vi)*	**14,119**	—

Notes:

(i) The office rental was charged by the immediate holding company at HK$7,730 per month up to 19 August 2006 and HK$15,460 per month from 20 August 2006 to 31 December 2006 in accordance with the terms of the rental agreement between the Group and the immediate holding company. At the balance sheet date, the Group had a rental deposit of HK$30,920 (2005: HK$27,828) with the immediate holding company.

(ii) The immediate holding company charged maintenance service fees at HK$14,314 per month for 2006 (2005: HK$16,069 per month for the first 4 months of 2005 and HK$18,303 per month for the remainder of 2005) for the computer system used by the Group.

(iii) The interest expense to the immediate holding company arose from the loans advanced from GDH. Further details of the loans, including the terms, are disclosed in note 24 to the financial statements.

(iv) The interest expense to a fellow subsidiary arose from a loan advanced from Guangdong Assets Management. Further details of the loan, including the terms, are disclosed in note 25 to the financial statements.

(v) The interest income from an officer of the Company arose from a loan advanced to the officer. Further details of the loan, including the terms, are disclosed in note 19 to the financial statements.

(vi) On 1 November 2006, the Group entered into an agreement with Guangdong Assets Management (BVI) No. 1 Limited, a subsidiary of GDH, and agreed to dispose of the entire interest of a wholly-owned subsidiary, Sun Perfect Limited, which is also the immediate holding company of Tongyuan Tannery, at a total consideration of HK$8.5 million, net of expenses of HK$913,000 (note 31).

35. Related Party Transactions (Continued)

(b) Outstanding balances with related parties:

(i) Details of the Group's and Company's loans from the immediate holding company and the Group's loan from its fellow subsidiary as at the balance sheet date are included in notes 24 and 25 to the financial statements, respectively.

(ii) Details of the Group's loan to its associate as at the balance sheet date are included in note 16 to the financial statements.

(iii) Details of the Group's and the Company's loan to an officer of the Company are included in note 19 to the financial statements.

(c) Compensation of key management personnel of the Group:

The key management personnel of the Company are its directors. Details of their remuneration are disclosed in note 8 to the financial statements.

The transaction in respect of item (a)(vi) above also constituted a discloseable and connected transaction as defined in Chapter 14 and 14A of the Listing Rules.

36. Pledge of Assets

As at 31 December 2006, assets of the Group pledged to bank to secure general banking facilities granted to the Group were as follows:

		Group	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
Buildings	*12*	**—**	7,590
Bills receivable	*18*	**—**	22,485
Bank balances	*20, 22*	**12,888**	4,900
Plant and machinery	*12, 22*	**3,680**	5,245
		16,568	40,220

37. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise interest-bearing bank borrowings, interest-bearing unsecured short term loans from the immediate holding company and fellow subsidiary of the Group, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

37. Financial Risk Management Objectives and Policies (Continued)

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. Details of credit policy of trade and bills receivables are set out in note 18 to the financial statements.

The credit risk of the Group's other financial assets, which comprises cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Details of terms and security for the interest-bearing short term loan to an officer of the Company are set out in note 19 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing loans. Management monitors the liquidity position of the Group on an on-going basis to ensure the availability of sufficient liquid funds to meet all obligations as they fall due and to make the most efficient use of the Group's financial resources.

38. Subsequent Event

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

39. Comparative Amounts

Certain comparative amounts have been reclassified to conform with the current year's presentation.

40. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 30 March 2007.