



粵海制革有限公司

GUANGDONG TANNERY LIMITED

(股份代號 Stock Code: 1058)



Annual Report 年報 **2009**

Contents



Corporate Information	02
Chairman's Statement	03
Management Discussion and Analysis	05
Biographical Details of Directors and Senior Management	08
Report of the Directors	11
Corporate Governance Report	22
Independent Auditors' Report	31
Audited Financial Statements	
Consolidated Income Statement	33
Consolidated Statement of Comprehensive Income	34
Consolidated Balance Sheet	35
Consolidated Statement of Changes in Equity	37
Consolidated Cash Flow Statement	38
Balance Sheet	40
Notes to Financial Statements	41

Corporate Information

BOARD OF DIRECTORS

Chen Hong (*Chairman*)
Sun Jun (*Managing Director*)
Xiong Guangyang[#]
Ho Lam Lai Ping, Theresa[#]
Qiao Jiankang[#]
Fung Lak^{*}
Choi Kam Fai, Thomas^{*}
Chan Cheong Tat^{*}

[#] *Non-Executive Director*

^{*} *Independent Non-Executive Director*

AUDIT COMMITTEE

Fung Lak (*Chairman*)
Choi Kam Fai, Thomas
Chan Cheong Tat

REMUNERATION COMMITTEE

Choi Kam Fai, Thomas (*Chairman*)
Fung Lak
Chan Cheong Tat

NOMINATION COMMITTEE

Chen Hong (*Chairman*)
Fung Lak
Choi Kam Fai, Thomas
Chan Cheong Tat

COMPANY SECRETARY

Lo Sze Sze

AUDITORS

Ernst & Young

REGISTERED OFFICE

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

Telephone: (852) 2308 1013
Facsimile: (852) 2789 0451
Website: <http://www.gdtann.com.hk>

SHARE REGISTRAR

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

SHARE INFORMATION

Place of Listing	:	Main Board of The Stock Exchange of Hong Kong Limited
Stock Code	:	1058
Board Lot	:	2,000 shares
Financial Year End	:	31 December

Chairman's Statement



RESULTS

I am pleased to report to the shareholders that the consolidated profit attributable to shareholders of Guangdong Tannery Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for 2009 was HK\$14,700,000 (2008: HK\$3,050,000), an increase of 382.0% over last year. The basic earnings per share was 2.73 HK cents (2008: 0.57 HK cents), representing an increase of 378.9% compared with last year.

DIVIDEND

The board of directors of the Company (the "Board") does not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: Nil).

REVIEW

In consolidating the existing scale of operation, the Group conducted researches on the growth trends of the tannery market during the year and carried out an indepth analysis on its own conditions. It continued to focus on the development of its dominant cowhides operations and made full use of the existing production capacity through strengthening its production management, optimising its product mix and reinforcing its sales network, meanwhile effectively controlled the operational risks so as to allow the Group to have stronger ability to control risks and to maintain its solid and sound operational capabilities in times of adversity. In terms of strategic development, construction of the production plant, warehouse and complex under the Relocation & Technical Renovation Project of Xuzhou Nanhai Leather Factory Co., Ltd. ("Xuzhou Tannery") was completed and the operation of the plant and facilities commenced during the year. That would provide a sound foundation for improving the synergy between the upstream and downstream processing activities of the Group.

The impacts of the global financial and economic crisis further extended in 2009, the tannery market experienced a new round of marked downward adjustments in the first half of the year primarily attributable to the fluctuation in the prices of raw materials, decline in overseas sales orders for tannery products in the downstream tannery manufacturing industry, shrinking domestic market demand and the deterioration of overseas sales of China-made tannery products as a result of Russia's two large-scale closures of China-made leather footwear product market. Besides, as the People's Republic of China ("PRC") Government imposed stricter regulations on environmental protection, the profitability of the enterprises was reduced despite that those enterprises with stronger capabilities were able to maintain normal production and sales. Facing the above difficulties, the Group continued to implement the strategies and measures such as "decreasing the inventory, reducing the receivables and increasing the market share" and endeavored to enhance the economic efficiency in the course of monitoring and controlling the operational risks at full scale, establishing a solid foundation for the profit contributions in this year and the years ahead.

Under severe austerity measures and unfavorable external market environment, the Group adopted a number of measures to maintain its sound operational and development capabilities. The Group consolidated the market share of direct sales to major footwear manufacturers and established a sound sales network in adherence to the pragmatic objectives of effective sales and risk management. Meanwhile, the Group conducted focused product development to utilise large quantities of obsolete and high-cost products whilst creating the historical record in production volume. During the year, the Group implemented a forward-looking strategy to purchase imported cowhides which maximised the competitive advantages of the Group over the costs of the products in the market.

Chairman's Statement

PROSPECTS

Under the backdrop of the PRC Government's macro policies on energy saving and emission reduction, the pressure of environmental protection on the tannery industry will increase gradually. The sizable operations with a set of comprehensive procedures established and that meet the sewage and emission standards are prerequisite conditions for and the basis of the survival and development of the tannery manufacturers. The Group refined its development strategies in a timely manner according to the land planning and development proposals issued by the People's Government of Xuzhou City in respect of the environmental polices and proposed to relocate the Jinsanqiao project to the specialised zone of Suining County for centralized development and construction. At the same time, it will continue to consolidate the existing scale of operations in a prudent manner focusing on "integration of resources and optimization of structure" and reintegrate the existing production capacity and gradually accelerate the energy saving and emission reduction efforts capitalizing on its innovation and creativity so as to break the bottleneck in the upstream processing activities. Moreover, the Group will constantly strengthen its own brand building and drive the globalization of genuine leather and eco-leather, diversify the domestic and overseas markets and consolidate the existing market share. In addition, it will conduct research on the industry development and respond swiftly to the changes in policies, and strengthen team building and policy development based on the core values of "credibility, integrity, fairness and profitability" with a view to enhancing its position in the overall industry and its operating results.

Chen Hong
Chairman

Hong Kong, 18 March 2010

Management Discussion and Analysis



RESULTS

The Group's consolidated profit attributable to shareholders for the year ended 31 December 2009 was HK\$14,700,000, representing an increase of HK\$11,650,000 or 382.0% as compared to the profit of HK\$3,050,000 for the same period of last year.

The net asset value of the Group as at 31 December 2009 was HK\$281,024,000, representing an increase of HK\$13,788,000 and HK\$17,290,000 as compared to the net asset value as at 31 December 2008 and 30 June 2009 respectively.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2009.

BUSINESS REVIEW

At the beginning of 2009, the PRC Government launched the RMB4 trillion investment plan to tackle the financial crisis. Despite the economy of China bottomed out gradually from financial breakdown in the second half of 2009, enterprises faced new challenges under the dual pressure of oversupply in the manufacturing industry and expected inflation. In consolidating the existing scale of operation, the Group focused on utilising its existing production capacity, activating the existing market to build up a stable supply and sales market adhering to the market-oriented approach through minimising the inventory, optimising the product mix and exploring cost efficiency enhancement, as well as making greater efforts to achieve the operational objectives and carry out budget management and effectively controlled the operational risks, enabling the Group to have stronger ability to resist risks and to maintain its solid and sound operational capabilities.

During the year, the total production volume of cowhides was 29,219,000 sq.ft., an increase of 3,724,000 sq.ft. or 14.6% from 25,495,000 sq.ft. for the same period of last year, whereas the production volume of grey hides was 10,667 tons, an increase of 5,423 tons or 103.4% from 5,244 tons for the same period of last year.

During the year, the consolidated turnover of the Group was HK\$467,259,000, representing a decrease of HK\$58,221,000 or 11.1% from HK\$525,480,000 for the same period of last year, of which, the turnover of cowhides amounted to HK\$439,170,000 (2008: HK\$493,787,000), representing a decrease of 11.1% and the turnover of grey hides and other products amounted to HK\$28,089,000 (2008: HK\$31,693,000), representing a decrease of 11.4%. The decline in turnover was primarily attributable to the combined effects of the increase in the sales volume, offset by the decrease in the selling price of cowhides. In response to the unfavorable conditions such as the shrinking sales in the footwear market and the falling prices of grey hides, the Group swiftly adjusted its marketing strategies; cultivated and consolidated the relationship with its strategic partners; and stepped up the efforts on direct sales to footwear manufacturers. In addition, the establishment of strategic supply-and-sales alliance relationship with major footwear manufacturers and the arrangement of designated personnel for follow-up with key customers which allowed both the footwear manufacturers and the Company to gain competitive advantages in the market. During the year, the Group closely monitored the market trends, and developed products and refined sales policies according to market feedbacks in a timely manner. At the same time, it strengthened the fundamental work of marketing management, expanded its market position leveraging on the values of honesty and integrity, and set up a comprehensive incentive and check mechanism, service mechanism and risk control and management mechanism in order to establish a sound sales network for the Group.

Management Discussion and Analysis

BUSINESS REVIEW (CONTINUED)

During the year, the price of raw materials fluctuated significantly. The Group closely monitored the changes in the domestic and overseas supply market and actively studied the market demand and price trends. In addition, it conducted forward-looking purchases according to the production schedule and change of patterns of the raw materials market and captured the opportunity to purchase low-cost cowhides, which effectively lowered the purchase cost, ensured the inventory of the raw materials required for production and established strategic inventory. In the meantime, it enhanced the competitive advantage of the Group in the market. During the year, the purchase volume of cowhides increased but the total purchase amount decreased by 13.1% to HK\$271,939,000.

As at 31 December 2009, the consolidated inventories of the Group amounted to HK\$106,373,000 (as at 31 December 2008: HK\$209,521,000), representing a decrease of HK\$103,148,000 or 49.2% as compared to the same as at 31 December 2008. The substantial decrease in inventories was mainly due to the effort in maintaining sufficient cash by minimising the inventory level through the development of obsolete products and the successful utilisation of obsolete inventory during the year. At the same time, the Group purchased large quantities of low-cost cowhides in a timely manner which lowered the total costs of purchase during the year, providing sufficient operating cash flow.

In terms of strategic development, the Relocation & Technical Renovation Project of Xuzhou Tannery completed its construction and commenced its production during the year. In addition, the Group has recently refined its growth strategies according to the land planning and development proposals issued by the People's Government of Xuzhou City in respect of the environmental policies. In February 2010, the Board approved to relocate the Jinsanqiao project to the specialised zone of Suining County for centralised development and construction. Currently, the preparatory work of the project is under way.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2009, the Group's cash and cash equivalents amounted to HK\$157,014,000 (as at 31 December 2008: HK\$97,653,000), representing an increase of HK\$59,361,000 or 60.8% as compared to the same as at 31 December 2008, which were denominated in Hong Kong dollars (6.1%), Renminbi (83.5%) and US dollars (10.4%) respectively. During the year, net cash inflow from operating activities was HK\$140,303,000, which was mainly due to the decrease in cash payment for the purchase of raw materials as a result of the decline in raw materials prices. The net cash outflow from financing activities was HK\$44,306,000, which was mainly used to repay loans of the Group's immediate holding company. The cash outflow from investing activities was HK\$35,127,000, which mainly represented the payment for the construction works of Relocation & Technical Renovation Project of Xuzhou Tannery and the acquisition of machinery and equipment.

As at 31 December 2009, the Group's interest-bearing borrowings amounted to HK\$140,706,000 (as at 31 December 2008: HK\$188,445,000), of which interest-bearing borrowings in Hong Kong dollars amounted to HK\$63,327,000 and interest-bearing borrowings in US dollars amounted to HK\$77,379,000. The Group's borrowings mainly consist of: (1) balances of long-term unsecured intra-group borrowings of HK\$77,379,000; and (2) balance of convertible notes held by the Group's immediate holding company of HK\$63,327,000. Other than the convertible notes, which was charged at 1% per annum, the above interest-bearing borrowings were charged at floating interest rate.

Management Discussion and Analysis



FINANCIAL REVIEW (CONTINUED)

Liquidity and Financial Resources (Continued)

As at 31 December 2009, the Group's gearing ratio of the interest-bearing borrowings to adjusted capital (including shareholders' equity and convertible notes) plus interest-bearing borrowings was 18.4% (as at 31 December 2008: 28.2%). During the year, the annual interest rate of the borrowings was approximately 1.3% to 4.0%. Of the Group's total borrowings, all are repayable within one year except for the loans from the immediate holding company and from a fellow subsidiary amounting to HK\$22,779,000 and HK\$54,600,000 respectively. The Group's interest expenses for the year amounted to HK\$6,731,000, representing a decrease of 49.1% from the same period of last year.

As at 31 December 2009, the total banking facilities of the Group was HK\$158,998,000 (as at 31 December 2008: HK\$78,239,000) and all of the facilities were unutilised. Taking into account of the existing cash resources and available credit facilities as well as the cash flow generated by the Group's operating business, the Group had adequate financial resources to meet its day-to-day operational requirements.

Capital Expenditure

As at 31 December 2009, the net value of non-current assets including prepaid land lease payments, property, machinery and equipment and investment property amounted to HK\$100,376,000, representing an increase of HK\$27,963,000 over the net value as at 31 December 2008 of HK\$72,413,000. The capital expenditure for the year amounted to HK\$36,095,000 (2008: HK\$28,122,000), which mainly represented the payment for the construction works of Relocation & Technical Renovation Project of Xuzhou Tannery and the acquisition of machinery and equipment for that project to cope with the production and development requirements of the Group.

Pledge of Assets

As at 31 December 2009, certain of the Group's bank deposits, plant and machinery with a total net book value of HK\$16,208,000 (2008: HK\$16,707,000) were pledged to secure general banking facilities granted to the Group.

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 and US dollars, the Group does not have material exposure to foreign exchange risk.

Remuneration Policy for Employees

As at 31 December 2009, a total of 932 employees (2008: 873) were employed by the Group. The remuneration policy is based on the Group's operating results and the employees' performance. The Group has adopted a performance-based evaluation scheme for its employees focusing on "accountability and performance". The incentive bonuses to the management, key officers and staff with outstanding performance under the incentive scheme are determined by reference to the Group's operating net cashflow and profits after tax calculated by various profit rankings and by applying a measure that links bonuses with the operating results of the Group and further taking into account of the individual performance of the staff concerned with an aim to motivate the contribution of its employees. In addition, the Group offered social and medical insurance and provident fund to all employees in different areas. The Company has adopted a new share option scheme in November 2008, with the purpose to provide incentives to the senior management 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.

Biographical Details of Directors and Senior Management

(A) EXECUTIVE DIRECTORS

Mr. Chen Hong (Age: 54)

Mr. Chen was appointed an Executive Director and the Chairman of the Company in October 2009. He is an economist in the People's Republic of China ("PRC"). He worked with the Company and its subsidiaries from 2003 to 2005 and was appointed the Managing Director of the Company during the period from February 2004 to May 2005. He was then appointed the chairman of 粵海(湛江)中纖板有限公司 (GD Zhang Jiang MDF Board Co., Ltd.) from June 2005 to September 2007. 粵海(湛江)中纖板有限公司 (GD Zhang Jiang MDF Board Co., Ltd.) was the then wholly-owned subsidiary of GDH Limited ("GDH"), the immediate controlling shareholder of the Company. Mr. Chen was also appointed a director and executive officer of certain subsidiaries of 廣東粵海控股有限公司 (Guangdong Holdings Limited), the ultimate controlling shareholder of the Company, from September 2007 to October 2009, including, inter alia, a director and the general manager of both GDH Real Estates (China) Ltd. (粵海房地產開發(中國)有限公司) and 廣東粵港投資開發有限公司 (Guangdong Yue Gang Investment Development Limited*). Mr. Chen currently acts as the Chairman of wholly-owned subsidiaries of the Company namely 徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.), 徐州港威皮革有限公司 (Xuzhou Gangwei Leather Co., Ltd.) and 粵海制革(徐州)有限公司 (Guangdong Tannery (Xuzhou) Limited).

Mr. Sun Jun (Age: 36)

Mr. Sun was appointed an Executive Director and the Managing Director of the Company in February 2010. He is an economist in the PRC. He graduated from 西安公路學院 (Xian Highway College*) (now known as 長安大學 (Chang'an University)) and obtained a bachelor degree in 工程機械與起重運輸 (Mechanical Engineering and Lifting Transportation Program*). Mr. Sun worked with certain companies of GDH from November 2002 to August 2003. He then worked with the Company and its subsidiaries in September 2003 and was appointed certain posts, including, inter alia, acting as assistant general manager and deputy general manager of the Company from March 2004 to December 2005 and from July 2007 to February 2010 respectively. Mr. Sun currently acts as certain posts of wholly-owned subsidiaries of the Company, including a director and the general manager of 徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.), 徐州港威皮革有限公司 (Xuzhou Gangwei Leather Co., Ltd.) and 粵海制革(徐州)有限公司 (Guangdong Tannery (Xuzhou) Limited); and an executive deputy project director of 粵海制革(徐州)有限公司 (Guangdong Tannery (Xuzhou) Limited) and relocation project of 徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.).

* *The English translation of the Chinese name of the company/the college/the program is prepared by the Company for reference only, and such translation may not be accurate and such company/college/program may not have an official English translation/version of these Chinese names.*

Biographical Details of Directors and Senior Management



(B) NON-EXECUTIVE DIRECTORS

Mr. Xiong Guangyang (Age: 56)

Mr. Xiong was appointed a Director of the Company in June 2002. He 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 development officer of GDH. Prior to joining GDH, Mr. Xiong was mainly engaged in management and operations works in banks. From 1986 to 1996, he was the assistant governor of The People's Bank of China, Guangdong Branch and the governor of The People's Bank of China, Shantou Branch. From 1996 to September 2000, Mr Xiong was with China Everbright Bank in a number of positions including deputy-managing governor of its Guangzhou Branch.

Mrs. Ho Lam Lai Ping, Theresa (Age: 54)

Mrs. Ho was appointed a Director of the Company in July 2000. She also acted as a director of Kingway Brewery Holdings Limited ("Kingway") during the period from 17 August 2000 to 24 July 2008. Kingway is a subsidiary of GDH and is listed on The Stock Exchange of Hong Kong Limited. Mrs. Ho has been the Company Secretary of Guangdong Investment Limited ("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.

Mr. Qiao Jiankang (Age: 45)

Mr. Qiao was appointed a Director of the Company in September 2009. He graduated from China University of Political Science and Law and obtained a master degree in Economical Law. He possesses the professional qualifications as both lawyer and enterprise legal adviser in the PRC. Since 2000, Mr. Qiao has acted as a director and in other positions of certain subsidiaries of GDH. He is the senior manager of the legal department of GDH and the deputy general manager of the legal department of GDI. He also acts as a director of 徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.) and 粵海制革(徐州)有限公司 (Guangdong Tannery (Xuzhou) Ltd.), both of which are subsidiaries of the Company. Mr. Qiao has over 13 years' experience in enterprise legal works.

Biographical Details of Directors and Senior Management

(C) INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fung Lak (Age: 62)

Mr. Fung was appointed an Independent Non-Executive Director of the Company in November 2002. He 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 Accountants, 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: 64)

Mr. Choi was appointed an Independent Non-Executive Director of the Company in October 2004. He is a Certified Management Accountant with the Society of Management Accountants 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: 60)

Mr. Chan was appointed an Independent Non-Executive Director of the Company in March 2006. He 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 director of a tax consultancy company and independent non-executive director of Noble Jewelry Holdings Limited (stock code: 00475).

(D) SENIOR MANAGEMENT

The senior management of the Group comprises the Executive Directors above (namely Mr. Chen Hong and Mr. Sun Jun) and Ms. Lee Wai Mei, the Chief Financial Officer of the Company.

Ms. Lee Wai Mei (Age: 35)

Ms. Lee was appointed the Chief Financial Officer of the Company in May 2005. She has over 14 years of experience in auditing and accounting. She is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Report of the Directors



The directors (the "Directors") of the Company herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2009.

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 of the Company are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 96.

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 2009.

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 policies. The summary does not form part of the audited financial statements.

Results

	Year ended 31 December				
	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	467,259	525,480	626,618	419,975	258,543
Profit from operating activities	33,084	20,898	28,301	31,146	8,604
Finance costs	(6,731)	(13,224)	(10,846)	(5,726)	(3,734)
Profit before tax	26,353	7,674	17,455	25,420	4,870
Income tax	(11,653)	(4,624)	(5,879)	(4,763)	533
Profit for the year	14,700	3,050	11,576	20,657	5,403

Report of the Directors

FINANCIAL SUMMARY (CONTINUED)

Assets and liabilities

	2009 HK\$'000	As at 31 December			
		2008 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000
Assets					
Property, plant and equipment, investment property and prepaid land lease payments	100,376	72,413	47,212	34,785	86,325
Interest in an associate	–	–	–	1,219	4,336
Current assets	436,421	455,954	544,153	345,858	291,636
Total assets	536,797	528,367	591,365	381,862	382,297
Liabilities					
Current liabilities	177,932	78,507	204,177	150,695	205,146
Long term liabilities	77,841	182,624	144,006	31,446	4,717
Total liabilities	255,773	261,131	348,183	182,141	209,863
Net assets	281,024	267,236	243,182	199,721	172,434

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the 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.

CONVERTIBLE NOTES

Details of the issue of the convertible notes of the Company are set out in note 25 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Company and the Group as at 31 December 2009 are set out in notes 20, 22 and 23 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's ordinary share capital during the year are set out in note 27 to the financial statements.

Report of the Directors



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 29 to the financial statements and in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2009, 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 (2008: Nil).

DIRECTORS

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

Chen Hong (<i>Chairman</i>)	(<i>appointed on 27 October 2009</i>)
Sun Jun (<i>Managing Director</i>)	(<i>appointed on 5 February 2010</i>)
Xiong Guangyang [#]	
Ho Lam Lai Ping, Theresa [#]	
Qiao Jiankang [#]	(<i>appointed on 8 September 2009</i>)
Fung Lak [*]	
Choi Kam Fai, Thomas [*]	
Chan Cheong Tat [*]	
Zhang Yaping	(<i>resigned on 10 June 2009</i>)
Ren Yingguo	(<i>resigned on 20 September 2009</i>)
Zhang Chunting	(<i>resigned on 27 October 2009</i>)

[#] *Non-Executive Director*

^{*} *Independent Non-Executive Director*

Mr. Chen Hong, Mr. Sun Jun and Mr. Qiao Jiankang, who were appointed as Directors of the Company after the last annual general meeting of the Company, will retire pursuant to Article 77 of the Company's Articles of Association at the forthcoming annual general meeting of the Company. Mr. Fung Lak will retire by rotation in accordance with Articles 82 to 84 of the Company's Articles of Association at the forthcoming annual general meeting of the Company. Being eligible, Mr. Chen Hong, Mr. Sun Jun, Mr. Qiao Jiankang and Mr. Fung Lak will offer themselves for re-election.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

No Director 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

None of the Directors had a material beneficial interest, whether directly or indirectly, in any significant contract to which the Company or any of its subsidiaries, its holding companies or a subsidiary of its holding companies was a party during the year or as at 31 December 2009.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2009, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive were taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange ("Listing Rules"), were as follows:

(I) INTERESTS AND SHORT POSITIONS IN THE COMPANY

(1) *Interests in ordinary shares*

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held <i>(Note)</i>
Fung Lak	Personal	600,000	Long position	0.11%
Choi Kam Fai, Thomas	Personal	60,000	Long position	0.01%

Note: The approximate percentage of interests held was calculated on the basis of 537,619,000 ordinary shares of the Company in issue as at 31 December 2009.

Report of the Directors



DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (CONTINUED)

(I) INTERESTS AND SHORT POSITIONS IN THE COMPANY (CONTINUED)

(2) Interests in share options relating to ordinary shares (long positions)

Name of Director	Number of share options				At 31 December 2009	Date of grant of share options (dd.mm.yyyy)	Total consideration paid for share options HK\$	Exercise price of share options* HK\$ (per share)	Price of ordinary shares at date immediately before date of grant** HK\$ (per share)	Price of ordinary shares immediately before the exercise date** HK\$ (per share)
	At 1 January 2009	Granted during the year	Exercised during the year	Cancelled/lapsed during the year						
Xiong Guangyang	1,150,000	-	-	-	1,150,000	24.11.2008	-	0.278	0.27	-
Zhang Yaping ⁽¹⁾	1,150,000	-	115,000	1,035,000	-	24.11.2008	-	0.278	0.27	0.32
Ren Yingguo ⁽²⁾	700,000	-	-	700,000	-	24.11.2008	-	0.278	0.27	-
Zhang Chunting ⁽³⁾	800,000	-	-	800,000	-	24.11.2008	-	0.278	0.27	-

Notes:

- (1) Mr. Zhang Yaping resigned as a Director on 10 June 2009.
- (2) Mr. Ren Yingguo resigned as a Director on 20 September 2009.
- (3) Mr. Zhang Chunting resigned as a Director on 27 October 2009.
- (4) Notes to the above share options granted pursuant to the share option scheme adopted by the Company on 24 November 2008 ("2008 Scheme"):
 - (a) The option period of all the share options is 5.5 years from the date of grant.
 - (b) Any share option is only exercisable during the option period after it has become vested.
 - (c) The normal vesting scale of the share options is as follows:

Date	Percentage vesting
The date two years after the date of grant	40%
The date three years after the date of grant	30%
The date four years after the date of grant	10%
The date five years after the date of grant	20%

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (CONTINUED)

(I) INTERESTS AND SHORT POSITIONS IN THE COMPANY (CONTINUED)

(2) *Interests in share options relating to ordinary shares (long positions) (Continued)*

Notes (Continued):

- (d) The vesting of the share options is further subject to the achievement of such performance targets as determined by the Board upon grant and stated in the offer of grant.
- (e) The leaver vesting scale of the share options that would apply in the event of the grantee ceasing to be an eligible person under certain special circumstances (less the percentage which has already vested under the normal vesting scale or lapsed) is as follows:

<u>Date on which event occurs</u>	<u>Percentage vesting</u>
On or before the date which is four months after the date of grant	0%
After the date which is four months after but on or before the date which is one year after the date of grant	10%
On or after the date which is one year after but before the date which is two years after the date of grant	25%
On or after the date which is two years after but before the date which is three years after the date of grant	40%
On or after the date which is three years after but before the date which is four years after the date of grant	70%
On or after the date which is four years after the date of grant	80%
	The remaining 20% also vests upon passing the overall performance appraisal for those four years

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

** The price of the Company's ordinary shares disclosed as "at date immediately before date of grant" of the share options is the closing price on the Hong Kong Stock Exchange on the business day prior to which the options were granted.

The price of the Company's ordinary shares disclosed as "immediately before the exercise date" of the share options is the weighted average of the Hong Kong Stock Exchange closing prices immediately before the dates on which the options were exercised by each of the directors or all other participants as an aggregate whole.

Report of the Directors



DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (CONTINUED)

(II) INTERESTS AND SHORT POSITIONS IN GUANGDONG INVESTMENT LIMITED ("GDI")

(1) Interests in ordinary shares

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held (Note)
Ho Lam Lai Ping, Theresa	Personal	800,000	Long position	0.01%

Note: The approximate percentage of interests held was calculated on the basis of 6,213,438,071 ordinary shares of GDI in issue as at 31 December 2009.

(2) Interests in share options relating to ordinary shares (long positions)

Name of Director	Number of share options				At 31 December 2009	Date of grant of share options (dd.mm.yyyy)	Total consideration paid for share options HK\$	Exercise price of share options* HK\$ (per share)	Price of ordinary shares at date immediately before date of grant** HK\$ (per share)	Price of ordinary shares immediately before the exercise date** HK\$ (per share)
	At 1 January 2009	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year						
Ho Lam Lai Ping, Theresa	2,400,000	-	-	-	2,400,000	24.10.2008	-	1.88	1.73	-

Notes to the above share options granted pursuant to the share option scheme adopted by GDI:

- (a) The option period of all the share options is 5.5 years from the date of grant.
- (b) Any share option is only exercisable during the option period after it has become vested.
- (c) The normal vesting scale of the share options is as follows:

Date	Percentage vesting
The date two years after the date of grant	40%
The date three years after the date of grant	30%
The date four years after the date of grant	10%
The date five years after the date of grant	20%

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (CONTINUED)

(II) INTERESTS AND SHORT POSITIONS IN GUANGDONG INVESTMENT LIMITED ("GDI") (CONTINUED)

(2) *Interests in share options relating to ordinary shares (long positions) (Continued)*

Notes to the above share options granted pursuant to the share option scheme adopted by GDI (Continued):

- (d) The vesting of the share options is further subject to the achievement of such performance targets as determined by the board of directors of GDI upon grant and stated in the offer of grant.
- (e) The leaver vesting scale of the share options that would apply in the event of the grantee ceasing to be an eligible person under certain special circumstances (less the percentage which has already vested under the normal vesting scale or lapsed) is as follows:

Date on which event occurs	Percentage vesting
On or before the date which is four months after the date of grant	0%
After the date which is four months after but on or before the date which is one year after the date of grant	10%
On or after the date which is one year after but before the date which is two years after the date of grant	25%
On or after the date which is two years after but before the date which is three years after the date of grant	40%
On or after the date which is three years after but before the date which is four years after the date of grant	70%
On or after the date which is four years after the date of grant	80%
	The remaining 20% also vests upon passing the overall performance appraisal for those four years

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

- ** The price of the ordinary shares of GDI disclosed as "at date immediately before date of grant" of the share options is the closing price on the Hong Kong Stock Exchange on the business day prior to which the options were granted.

The price of the ordinary shares of GDI disclosed as "immediately before the exercise date" of the share options is the weighted average of the Hong Kong Stock Exchange closing prices immediately before the dates on which the options were exercised by each of the directors of GDI or all other participants as an aggregate whole.

Report of the Directors



DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (CONTINUED)

(III) INTERESTS AND SHORT POSITIONS IN KINGWAY BREWERY HOLDINGS LIMITED ("KINGWAY")

Interests in ordinary shares

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held <i>(Note)</i>
Ho Lam Lai Ping, Theresa	Personal	98,000	Long position	0.01%

Note: The approximate percentage of interests held was calculated on basis of 1,711,536,850 ordinary shares of Kingway in issue as at 31 December 2009.

Save as disclosed above, as at 31 December 2009, to the knowledge of the Company, none of the directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executive are taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2009, so far as is known to any Directors or the chief executive of the Company, the following persons (other than a Director or the chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Derivative interests (Number of shares to be issued upon conversion of the HK\$61,500,000 convertible notes issued by the Company)	Approximate percentage of the Company's issued ordinary share capital (including derivative interests)
廣東粵海控股有限公司 (Guangdong Holdings Limited) <i>(Note)</i>	Interests of controlled corporation	375,100,000	Long position	32,368,421	75.80%
GDH Limited	Beneficial owner	375,100,000	Long position	32,368,421	75.80%

Note: The attributable interest which 廣東粵海控股有限公司 (Guangdong Holdings Limited) has in the Company is held through its 100% direct interest in GDH Limited.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS (CONTINUED)

Save as disclosed above, as at 31 December 2009, so far as is known to any Director or the chief executive of the Company, there were no other persons (other than a Director or the chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

SHARE OPTIONS OF THE COMPANY

As at 31 December 2009, save as disclosed in the section of "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES" of this report, certain eligible persons (other than Directors) had the following interests in rights to subscribe for shares of the Company granted under the 2008 Scheme. Each option gives the holder the right to subscribe for one share of par value HK\$0.1 each of the Company. Further details are set out in note 28 to the financial statements.

Category of participants	Number of share options				At 31 December 2009	Date of grant of share options (dd.mm.yyyy)	Total consideration paid for share options HK\$	Exercise price of share options* HK\$ (per share)	Price of ordinary shares at date immediately before date of grant** HK\$ (per share)	Price of ordinary shares immediately before the exercise date** HK\$ (per share)
	At 1 January 2009	Granted during the year	Exercised during the year	Cancelled/lapsed during the year						
Employees	1,550,000	-	-	700,000	850,000	24.11.2008	-	0.278	0.27	-

Note: Additional information regarding the above share options granted under the 2008 Scheme is set out in note (4) under "Interests in share options relating to ordinary shares (long positions)" in the "INTERESTS AND SHORT POSITIONS IN THE COMPANY" section of this report on pages 15 and 16.

SIGNIFICANT CONTRACTS WITH CONTROLLING SHAREHOLDER

Save as disclosed in notes 22, 23, 25 and 33 to the financial statements, the Company and the controlling shareholder of the Company and its subsidiaries had not entered into any other contracts of significance during the year.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES" and "SHARE OPTIONS OF THE COMPANY" of this report, and in note 28 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.

Report of the Directors



CONNECTED TRANSACTIONS

Details of the connected transactions are disclosed in note 33 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2009, the amount of purchases attributable to the Group's largest supplier represented 58% 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 70% of the Group's total purchases. In addition, the amount of turnover attributable to the Group's largest customer represented 10% of the Group's total turnover; and the aggregate amount of the turnover attributable to the Group's five largest customers represented 36% 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 issued share capital) had any beneficial interest in the Group's five largest suppliers or customers.

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 reappointment of Messrs. Ernst & Young as the auditors of the Company.

By order of the Board
Chen Hong
Chairman

Hong Kong, 18 March 2010

Corporate Governance Report

The Group recognises 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 on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules.

In the opinion of the Directors, the Company has met with the code provisions set out in the CG Code throughout 2009 except for the details stated in the section headed "CHAIRMAN AND MANAGING DIRECTOR" on page 23.

BOARD OF DIRECTORS

The Board comprises two Executive Directors, being Mr. Chen Hong and Mr. Sun Jun, three Non-Executive Directors, being Mr. Xiong Guangyang, Mrs. Ho Lam Lai Ping, Theresa, and Mr. Qiao Jiankang 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.

Six Board meetings were held during the financial year ended 31 December 2009. The attendances of the Directors at the Board meetings are as follows:

Directors		Number of Attendance
Chen Hong	<i>(appointed on 27 October 2009)</i>	1/1
Xiong Guangyang		2/6
Ho Lam Lai Ping, Theresa		6/6
Qiao Jiankang	<i>(appointed on 8 September 2009)</i>	2/2
Fung Lak		6/6
Choi Kam Fai, Thomas		6/6
Chan Cheong Tat		6/6
Zhang Yaping	<i>(resigned on 10 June 2009)</i>	0/2
Ren Yingguo	<i>(resigned on 20 September 2009)</i>	5/5
Zhang Chunting	<i>(resigned on 27 October 2009)</i>	5/5

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.

Corporate Governance Report



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 to 10 of this annual report, which demonstrate a diversity of skills, expertise, experience and qualifications.

CHAIRMAN AND MANAGING DIRECTOR

Under the CG Code, there should be a clear division of responsibilities for the roles of chairman and chief executive officer and these two roles should be performed by two persons (the Company regards that the term "chief executive officer" has the same meaning as the Managing Director of the Company). On 20 September 2009, Mr. Ren Yingguo resigned as an Executive Director and the Managing Director of the Company. The Chairman of the Company took up the duties of the Managing Director temporarily while the Company was in the process of identifying the new Managing Director. Such temporary arrangement ended once Mr. Sun Jun was appointed as the new Managing Director on 5 February 2010.

Currently, the Chairman of the Board is Mr. Chen Hong and the Managing Director is Mr. Sun Jun. Their roles are clearly defined and segregated to ensure independence and proper checks and balances. Mr. Chen Hong 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. Sun Jun 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 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.

Corporate Governance Report

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 authorized by the Board to investigate any 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 Remuneration Committee.
2. The Remuneration 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 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 officer 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.
9. To consider other topics as defined by the Board.

Corporate Governance Report



REMUNERATION OF DIRECTORS (CONTINUED)

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

During the financial year ended 31 December 2009, the Remuneration Committee held two meetings to review and approve the annual remuneration package and the 2008 performance bonuses for the Executive Directors and senior management of the Company. The attendance of each member of the Remuneration Committee is set out as follows:

Directors	Number of Attendance
Choi Kam Fai, Thomas	2/2
Fung Lak	2/2
Chan Cheong Tat	2/2

Details of the amount of Directors' remuneration 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 authorized by the Board to investigate any 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 Nomination Committee.
2. The Nomination 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 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 reappointment of Directors and succession planning for Directors in particular the Chairman and the Managing Director.
5. To consider other topics as defined by the Board.

Corporate Governance Report

NOMINATION OF DIRECTORS (CONTINUED)

The Nomination Committee comprises one Executive Director, being Mr. Chen Hong and three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat. Mr. Chen Hong 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 2009, the Nomination Committee held three meetings (i) to review the structure, size and composition of the Board; (ii) to recommend to the Board the proposed re-election of Mr. Xiong Guangyang and Mr. Chan Cheong Tat as Directors at 2009 annual general meeting of the Company; and (iii) to recommend to the Board the appointment of Mr. Chen Hong as an Executive Director and the Chairman of the Company and Mr. Qiao Jiankang as a Non-Executive Director of the Company respectively. The attendance of each member of the Nomination Committee is set out as follows:

Directors		Number of Attendance
Chen Hong	<i>(appointed on 27 October 2009)</i>	0/0
Fung Lak		3/3
Choi Kam Fai, Thomas		3/3
Chan Cheong Tat		3/3
Zhang Chunting	<i>(resigned on 27 October 2009)</i>	2/2

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.
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.

Corporate Governance Report



AUDIT COMMITTEE (CONTINUED)

Duties

1. To be primarily responsible for making recommendation 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.
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 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 and senior management and the Audit Committee must meet, at least once a year, with the Company's auditor; 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 staff responsible for the accounting and financial reporting function, compliance officer or auditor.

Corporate Governance Report

AUDIT COMMITTEE (CONTINUED)

Duties (Continued)

6. To review the Company's financial controls, internal control and risk management systems.
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 including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.
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 control 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 code provisions in relation to Audit Committee under Appendix 14 of the Listing Rules.
14. To consider other topics, as defined by the Board.

The Audit Committee comprises 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.

Corporate Governance Report



AUDIT COMMITTEE (CONTINUED)

During the financial year ended 31 December 2009, the Audit Committee held two meetings. It reviewed the 2008 annual results and the 2009 interim results of the Company before their submission to the Board and monitored the integrity of such financial statements. The Audit Committee oversees matters concerning the external auditors including making recommendations to the Board regarding the appointment of the external auditors, reviewing the scope of their audit and work and approving their fees. In addition to its two meetings as aforesaid, the Audit Committee also has a private meeting with the external auditors at least once every year without the presence of the management to discuss any area of concern. The Audit Committee further ensures that the management has put in place an effective system of internal control. It maintains an overview of the Group's risk assessment, control and management processes. In addition, it reviews the internal audit schedules of the Group, considers the Group's internal audit reports and monitors the effectiveness of the internal audit function. The attendance of each member of the Audit Committee is set out as follows:

Directors	Number of Attendance
Fung Lak	2/2
Choi Kam Fai, Thomas	2/2
Chan Cheong Tat	2/2

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 <i>HK\$'000</i>
Audit of Final Results	1,085
Review of Interim Results	250

ACCOUNTABILITY AND AUDIT

The Board is responsible for overseeing the preparation of financial statements for the year ended 31 December 2009, 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 2009, 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.

Corporate Governance Report

INTERNAL CONTROL

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.

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 reasonably effective and adequate.

Independent Auditors' Report



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 33 to 96, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, 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.

Independent Auditors' Report

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 2009 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

18 March 2010

Consolidated Income Statement

Year ended 31 December 2009



	Notes	2009 HK\$'000	2008 HK\$'000
REVENUE	5	467,259	525,480
Cost of sales		(417,795)	(493,095)
Gross profit		49,464	32,385
Other income and gains	5	10,256	9,306
Selling and distribution costs		(2,505)	(2,046)
Administrative expenses		(24,131)	(18,747)
Finance costs	6	(6,731)	(13,224)
PROFIT BEFORE TAX	6	26,353	7,674
Income tax expense	7	(11,653)	(4,624)
PROFIT FOR THE YEAR	10	14,700	3,050
EARNINGS PER SHARE	11		
– Basic		2.73 HK cents	0.57 HK cents
– Diluted		2.73 HK cents	0.57 HK cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	2009 HK\$'000	2008 HK\$'000
PROFIT FOR THE YEAR	14,700	3,050
OTHER COMPREHENSIVE INCOME		
Surplus/(deficit) on revaluation of buildings	(4)	57
Deferred tax	1	(14)
	(3)	43
Exchange differences on translation of foreign operations	(1,051)	20,926
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	(1,054)	20,969
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	13,646	24,019

Consolidated Balance Sheet

31 December 2009



	Notes	2009 HK\$'000	2008 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	90,423	64,371
Investment property	13	1,990	2,120
Prepaid land lease payments	14	7,963	5,922
Total non-current assets		100,376	72,413
CURRENT ASSETS			
Inventories	16	106,373	209,521
Receivables, prepayments and deposits	17	165,435	138,009
Pledged deposits	18	1,353	10,771
Restricted bank balance	18	6,246	–
Cash and cash equivalents	18	157,014	97,653
Total current assets		436,421	455,954
CURRENT LIABILITIES			
Trade payables	19	54,596	42,768
Other payables and accruals		49,021	23,192
Interest-bearing bank and other borrowings	20	–	6,801
Due to a PRC joint venture partner	21	1,131	1,131
Provision	24	3,622	3,617
Convertible notes	25	63,327	–
Tax payable		6,235	998
Total current liabilities		177,932	78,507
NET CURRENT ASSETS		258,489	377,447
TOTAL ASSETS LESS CURRENT LIABILITIES		358,865	449,860

Consolidated Balance Sheet

31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
NON-CURRENT LIABILITIES			
Loans from the immediate holding company	22	22,779	67,118
Loan from a fellow subsidiary	23	54,600	54,600
Convertible notes	25	–	59,926
Deferred tax liabilities	26	462	980
Total non-current liabilities		77,841	182,624
Net assets		281,024	267,236
EQUITY			
Issued capital	27	53,762	53,750
Reserves	29(a)	227,262	213,486
Total equity		281,024	267,236

Chen Hong
Director

Sun Jun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2009



Notes	Equity component											Total HK\$'000
	Issued capital HK\$'000	Share premium account HK\$'000	of convertible notes HK\$'000	General reserve fund HK\$'000 (Note 29(a))	Reserve funds HK\$'000 (Note 29(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		
At 1 January 2008	53,750	413,968	5,545	167,746	6,887	-	445	38,135	1,562	(444,856)	243,182	
Total comprehensive income for the year	-	-	-	-	-	-	-	20,926	43	3,050	24,019	
Equity-settled share option arrangements	-	-	-	-	-	35	-	-	-	-	35	
Transfer from retained profits of a subsidiary established in the PRC	-	-	-	-	2,562	-	-	-	-	(2,562)	-	
At 31 December 2008 and 1 January 2009	53,750	413,968*	5,545*	167,746*	9,449*	35*	445*	59,061*	1,605*	(444,368)*	267,236	
Total comprehensive income for the year	-	-	-	-	-	-	-	(1,051)	(3)	14,700	13,646	
Issue of shares	27	12	27	-	-	(6)	-	-	-	-	33	
Equity-settled share option arrangements	28	-	-	-	-	109	-	-	-	-	109	
Transfer from retained profits of a subsidiary established in the PRC	-	-	-	-	2,671	-	-	-	-	(2,671)	-	
At 31 December 2009	53,762	413,995*	5,545*	167,746*	12,120*	138*	445*	58,010*	1,602*	(432,339)*	281,024	

* These reserve accounts comprise the consolidated reserves of HK\$227,262,000 (2008: HK\$213,486,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		26,353	7,674
Adjustments for:			
Finance costs	6	6,731	13,224
Interest income	5	(1,103)	(1,104)
Depreciation	6	7,564	6,119
Provision/(reversal of provision) for inventories	6	4,043	(894)
Loss on disposal of items of property, plant and equipment	6	469	–
Impairment/(reversal of impairment) of trade and other receivables	6	990	(204)
Changes in fair value of an investment property	6	130	160
Deficit/(surplus) on revaluation of buildings	6	2,067	(36)
Recognition of prepaid land lease payments	6	138	122
Write-off of items of property, plant and equipment	6	78	117
Equity-settled share option expense	28	109	35
		47,569	25,213
Decrease in inventories		99,349	147,267
Increase in receivables, prepayments and deposits		(28,172)	(4,275)
Increase/(decrease) in trade payables		11,751	(18,254)
Increase/(decrease) in other payables and accruals		25,782	(2,813)
Decrease in trust receipt loans		(6,801)	(44,803)
		149,478	102,335
Cash generated from operations		149,478	102,335
Interest received		1,103	1,104
Interest paid		(3,330)	(10,039)
Tax paid		(6,948)	(4,287)
		140,303	89,113
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	12	(36,095)	(28,122)
Purchases of prepaid land lease payments	14	(2,213)	–
Increase in restricted bank balance		(6,246)	–
Decrease in pledged deposits		9,427	9,510
		(35,127)	(18,612)
Net cash flows used in investing activities		(35,127)	(18,612)

Consolidated Cash Flow Statement

Year ended 31 December 2009



	Notes	2009 HK\$'000	2008 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		–	33,329
Repayment of bank loans		–	(84,103)
Increase/(decrease) in advances from the immediate holding company		(44,339)	14,052
Proceeds from issue of shares	27	33	–
Net cash flows used in financing activities		(44,306)	(36,722)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		97,653	60,995
Effect of foreign exchange rate changes, net		(1,509)	2,879
CASH AND CASH EQUIVALENTS AT END OF YEAR		157,014	97,653
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	18	157,014	97,653

Balance Sheet

31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	28	47
Interests in subsidiaries	15	320,605	382,846
Total non-current assets		320,633	382,893
CURRENT ASSETS			
Prepayments and deposits		160	143
Cash and bank balances	18	9,689	3,658
Total current assets		9,849	3,801
CURRENT LIABILITIES			
Other payables and accruals		1,090	1,171
Convertible notes	25	63,327	–
Total current liabilities		64,417	1,171
NET CURRENT ASSETS/(LIABILITIES)		(54,568)	2,630
TOTAL ASSETS LESS CURRENT LIABILITIES		266,065	385,523
NON-CURRENT LIABILITIES			
Loans from the immediate holding company	22	22,779	67,118
Loans from subsidiaries	15	5,123	4,842
Convertible notes	25	–	59,926
Total non-current liabilities		27,902	131,886
Net assets		238,163	253,637
EQUITY			
Issued capital	27	53,762	53,750
Reserves	29(b)	184,401	199,887
Total equity		238,163	253,637

Chen Hong
Director

Sun Jun
Director

Notes to Financial Statements

31 December 2009



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 principally engaged in the processing and sale of semi-finished and finished leather.

In the opinion of the directors, the ultimate holding company of the Company is Guangdong Holdings Limited (廣東粵海控股有限公司), a company established in 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 include all Hong Kong Financial Reporting Standards, 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 an 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 ("HK\$") 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 (collectively referred to as the "Group") for the year ended 31 December 2009. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Notes to Financial Statements

31 December 2009

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 <i>Revenue – Determining whether an entity is acting as a principal or as an agent</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement – Embedded Derivatives</i>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers</i> (adopted from 1 July 2009)
Improvements to HKFRSs** (October 2008)	Amendments to a number of HKFRSs

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*, which are effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKFRS 7 Amendments, HKFRS 8 and HKAS 1 (Revised), the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

Notes to Financial Statements

31 December 2009



2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

(a) Amendments to HKFRS 7 *Financial Instruments: Disclosures*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balances is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures and the revised liquidity risk disclosures are presented in the note 36 to the financial statements.

(b) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segment determined in accordance with HKFRS 8 is the same as the business segment previously identified under HKAS 14. The adoption of the standard has no effect on the financial position or results of operations of the Group and on the presentation and disclosures of financial statements because over 90% of the Group's revenue, results and assets was related to the processing and sale of semi-finished and finished leather in Mainland China.

(c) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

Notes to Financial Statements

31 December 2009

2.3 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.

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i> ¹
HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i> ²
HKFRS 1 Amendment	<i>Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters</i> ⁴
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Group Cash-settled Share-based Payment Transactions</i> ²
HKFRS 3 (Revised)	<i>Business Combinations</i> ¹
HKFRS 9	<i>Financial Instruments</i> ⁶
HKAS 24 (Revised)	<i>Related Party Disclosures</i> ⁵
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> ¹
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> ³
HKAS 39 Amendment	Amendment to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i> ¹
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> ⁵
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i> ¹
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ⁴
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	Amendments to HKFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a Subsidiary</i> ¹
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i> ²

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

- ¹ Effective for annual periods beginning on or after 1 July 2009
- ² Effective for annual periods beginning on or after 1 January 2010
- ³ Effective for annual periods beginning on or after 1 February 2010
- ⁴ Effective for annual periods beginning on or after 1 July 2010
- ⁵ Effective for annual periods beginning on or after 1 January 2011
- ⁶ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that except for the adoption of HKAS 24 (Revised) and HKAS 27 (Revised), these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

Notes to Financial Statements

31 December 2009



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.

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.

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 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 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.

Notes to Financial Statements

31 December 2009

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 an 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, but 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 an impairment loss is credited to the 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.

Notes to Financial Statements

31 December 2009



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 income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Valuations are performed frequent 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 income statement. Any subsequent revaluation surplus is credited to the 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 the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised 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 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.

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.

Notes to Financial Statements

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties are interests in land and buildings (including leasehold interest under an operating lease for a property which otherwise meet the definition of an investment property) 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 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 income statement in the year of the retirement or disposal.

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 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. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to Financial Statements

31 December 2009



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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 there is objective evidence that an impairment loss 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to administrative expenses in the income statement.

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 when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Notes to Financial Statements

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Convertible notes

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

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 income statement.

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, 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.

Notes to Financial Statements

31 December 2009



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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.

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, 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.

Notes to Financial Statements

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

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, 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. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by 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.

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.

Notes to Financial Statements

31 December 2009



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 for grants after 7 November 2002 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 28 to the financial statements.

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. 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 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 equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based transaction, 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. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. 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. All cancellations of equity-settled transaction awards are treated equally.

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

Notes to Financial Statements

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (Continued)

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 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 income statement as they become payable in accordance with the rules of the PRC Scheme.

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 recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates 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 the 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 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 recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the 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.

Notes to Financial Statements

31 December 2009



3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the property which is leased out on an operating lease.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Provision for 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. 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 assets. 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.

Notes to Financial Statements

31 December 2009

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

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 2009 was HK\$61,364,000 (2008: HK\$52,602,000). Further details are contained in note 26 to the financial statements.

4. OPERATING SEGMENT INFORMATION

No separate analysis of segment information is presented by the Group as over 90% of the Group's revenue, results and assets related to the processing and sale of semi-finished and finished leather in Mainland China.

Information about a major customer

During the year, revenue of approximately HK\$45,030,000 is derived from sales to a single customer, which is approximately 10% of the total revenue. There was no sales to a single customer, which was 10% of the total revenue in the year ended 31 December 2008.

5. REVENUE, OTHER INCOME AND GAINS

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, other income and gains is as follows:

	2009 HK\$'000	2008 HK\$'000
Revenue		
Processing and sale of leather	467,259	525,480
Other income		
Gross rental income	367	733
Interest income	1,103	1,104
Sale of scrap materials	1,651	1,246
Others	6,893	2,483
	10,014	5,566
Gains		
Surplus on revaluation of buildings	–	36
Foreign exchange gain	242	3,704
	242	3,740
	10,256	9,306

Notes to Financial Statements

31 December 2009



6. PROFIT BEFORE TAX

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

	Notes	2009 HK\$'000	2008 HK\$'000
Cost of inventories sold		413,752	493,989
Auditors' remuneration		1,085	1,120
Depreciation	12	7,564	6,119
Interest on:			
Bank loans and discounting bills receivable to banks		253	3,013
Convertible notes		4,016	3,800
Loans from the immediate holding company		1,145	3,900
Loan from a fellow subsidiary		1,317	2,511
		6,731	13,224
Employee benefit expense (excluding directors' remuneration (<i>note 8</i>)):			
Wages and salaries		22,424	21,912
Pension scheme contributions (defined contribution scheme)*		2,074	2,424
Equity-settled share option expense		48	9
		24,546	24,345
Provision/(reversal of provision) for inventories		4,043	(894)
Minimum lease payments under operating leases in respect of land and buildings		683	662
Recognition of prepaid land lease payments	14	138	122
Rental income on investment properties less direct operating expenses of HK\$103,000 (2008: HK\$129,000)		(264)	(397)
Other rental income		–	(336)
Fair value loss on an investment property	13	130	160
Deficit/(surplus) on revaluation of buildings	12	2,067	(36)
Write-off of items of property, plant and equipment	12	78	117
Loss on disposal of items of property, plant and equipment		469	–
Impairment/(reversal of impairment) of trade and other receivables		990	(204)

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

Notes to Financial Statements

31 December 2009

7. INCOME 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 (2008: Nil). Taxes on profits assessable in Mainland China have been calculated at the rate of tax prevailing in Mainland China in which the Group operates.

Xuzhou Nanhai Leather Factory Co., Ltd. ("Xuzhou Tannery"), a wholly-owned PRC subsidiary of the Company, was exempt from the PRC corporate income tax for the first two profit-making years, and is eligible for a 50%-relief from the PRC corporate income tax for the following three years under the PRC tax laws. For the year ended 31 December 2008, which is the fifth profitable year for Xuzhou Tannery, the applicable tax rate of Xuzhou Tannery, after the 50% reduction, was 12.5%. For the year ended 31 December 2009, the applicable tax rate of Xuzhou Tannery was 25%.

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Group:		
Current – Mainland China	12,170	4,615
Deferred (<i>note 26</i>)	(517)	9
Total tax charge for the year	11,653	4,624

Notes to Financial Statements

31 December 2009



7. INCOME TAX (CONTINUED)

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

Group – 2009

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Profit/(loss) before tax	(15,975)	42,328	26,353
Tax at the statutory tax rate	(2,636)	10,582	7,946
Income not subject to tax	(314)	(797)	(1,111)
Expenses not deductible for tax	1,508	1,621	3,129
Tax losses utilised from previous periods	–	(60)	(60)
Tax losses not recognised	1,442	307	1,749
Tax charge at the Group's effective rate	–	11,653	11,653

Group – 2008

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Profit/(loss) before tax	(16,014)	23,688	7,674
Tax at the statutory tax rate	(2,642)	5,922	3,280
Lower tax rate for specific provinces or enacted by local authority	–	(2,982)	(2,982)
Income not subject to tax	(76)	(40)	(116)
Expenses not deductible for tax	1,474	1,815	3,289
Tax losses utilised from previous periods	–	(91)	(91)
Tax losses not recognised	1,244	–	1,244
Tax charge at the Group's effective rate	–	4,624	4,624

Notes to Financial Statements

31 December 2009

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	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	450	450
Other emoluments:		
Salaries, allowances and benefits in kind	1,029	1,176
Performance related bonuses*	793	622
Equity-settled share option expense	61	26
Pension scheme contributions	378	429
	2,261	2,253
	2,711	2,703

* 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.

In 2008, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Group, further details of which are set out in note 28 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

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

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Mr. Fung Lak	150	150
Mr. Choi Kam Fai, Thomas	150	150
Mr. Chan Cheong Tat	150	150
	450	450

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

Notes to Financial Statements

31 December 2009



8. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors and non-executive directors

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Equity- settled share option benefits HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2009						
<i>Executive directors:</i>						
Mr. Chen Hong	-	128	-	-	19	147
Mr. Zhang Chunting	-	499	497	(5)	201	1,192
Mr. Ren Yingguo	-	402	296	(5)	158	851
	-	1,029	793	(10)	378	2,190
<i>Non-executive directors:</i>						
Mr. Xiong Guangyang	-	-	-	72	-	72
Mr. Zhang Yaping	-	-	-	(1)	-	(1)
Ms. Ho Lam Lai Ping, Theresa	-	-	-	-	-	-
Mr. Qiao Jiankang	-	-	-	-	-	-
	-	-	-	71	-	71
	-	1,029	793	61	378	2,261
2008						
<i>Executive directors:</i>						
Mr. Zhang Chunting	-	553	362	5	219	1,139
Mr. Ren Yingguo	-	454	-	5	149	608
Mr. Deng Rongjun	-	169	260	-	61	490
	-	1,176	622	10	429	2,237
<i>Non-executive directors:</i>						
Mr. Xiong Guangyang	-	-	-	8	-	8
Mr. Zhang Yaping	-	-	-	8	-	8
Ms. Ho Lam Lai Ping, Theresa	-	-	-	-	-	-
	-	-	-	16	-	16
	-	1,176	622	26	429	2,253

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

Notes to Financial Statements

31 December 2009

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two (2008: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2008: two) non-directors, highest paid employees for the year are as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Salaries and allowances	1,498	952
Pension scheme contributions	41	26
	1,539	978

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

	Number of employees	
	2009	2008
Nil to HK\$1,000,000	3	2

10. PROFIT/(LOSS) FOR THE YEAR

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2009 includes a loss of HK\$15,616,000 (2008: profit of HK\$7,862,000) which has been dealt with in the financial statements of the Company (note 29(b)).

11. EARNINGS PER SHARE

The calculation of basic earnings per share amount is based on the profit for the year and the weighted average number of ordinary shares of 537,539,918 (2008: 537,504,000) in issue during the year.

The calculation of diluted earnings per share amount is based on the profit for the year, adjusted to reflect the interest on the convertible notes, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of 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.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the impact of the convertible notes outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

Notes to Financial Statements

31 December 2009



11. EARNINGS PER SHARE (CONTINUED)

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

	2009 HK\$'000	2008 HK\$'000
Earnings		
Profit for the year, used in the basic earnings per share calculation	14,700	3,050
Interest on convertible notes	4,016*	3,800*
Profit for the year, before interest on convertible notes	18,716	6,850
	Number of shares	
	2009	2008
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	537,539,918	537,504,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	313,881	16,597
Convertible notes	32,368,421*	32,368,421*
	570,222,220	569,889,018

* Because the diluted earnings per share amount is increased when taking convertible notes into account, the convertible notes had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share. Therefore, diluted earnings per share amount is based on the profit for the year of HK\$14,700,000 and the weighted average number of ordinary shares of 537,853,799 in issue during the year.

Notes to Financial Statements

31 December 2009

12. PROPERTY, PLANT AND EQUIPMENT

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 2009								
At 1 January 2009:								
Cost or valuation	7,510	10,430	71,947	1,875	656	6,934	27,668	127,020
Accumulated depreciation and impairment	-	(5,924)	(48,467)	(1,296)	(609)	(6,353)	-	(62,649)
Net carrying amount	7,510	4,506	23,480	579	47	581	27,668	64,371
At 1 January 2009, net of accumulated depreciation and impairment	7,510	4,506	23,480	579	47	581	27,668	64,371
Additions	10,297	-	1,226	164	-	596	23,812	36,095
Disposal	-	-	(432)	(19)	-	(18)	-	(469)
Write-off	-	(3)	-	(2)	-	(73)	-	(78)
Deficit on revaluation	(2,071)	-	-	-	-	-	-	(2,071)
Depreciation provided during the year	(1,216)	(408)	(5,397)	(203)	(20)	(320)	-	(7,564)
Transfers	25,822	-	8,021	496	-	1,030	(35,369)	-
Exchange realignment	37	9	54	2	-	3	34	139
At 31 December 2009, net of accumulated depreciation and impairment	40,379	4,104	26,952	1,017	27	1,799	16,145	90,423
At 31 December 2009:								
Cost or valuation	40,379	10,439	77,019	2,342	656	7,548	16,145	154,528
Accumulated depreciation and impairment	-	(6,335)	(50,067)	(1,325)	(629)	(5,749)	-	(64,105)
Net carrying amount	40,379	4,104	26,952	1,017	27	1,799	16,145	90,423
Analysis of cost or valuation:								
At cost	-	10,439	77,019	2,342	656	7,548	16,145	114,149
At 31 December 2009 valuation	40,379	-	-	-	-	-	-	40,379
	40,379	10,439	77,019	2,342	656	7,548	16,145	154,528

Notes to Financial Statements

31 December 2009



12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	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 2008								
At 1 January 2008:								
Cost or valuation	7,520	9,823	64,898	1,911	656	6,631	2,749	94,188
Accumulated depreciation and impairment	-	(5,283)	(41,796)	(1,362)	(586)	(5,922)	-	(54,949)
Net carrying amount	7,520	4,540	23,102	549	70	709	2,749	39,239
At 1 January 2008, net of accumulated depreciation and impairment	7,520	4,540	23,102	549	70	709	2,749	39,239
Additions	-	-	1,833	185	-	-	26,104	28,122
Write-off	-	-	(6)	(45)	-	-	(66)	(117)
Surplus on revaluation	93	-	-	-	-	-	-	93
Depreciation provided during the year	(340)	(428)	(4,955)	(150)	(23)	(223)	-	(6,119)
Transfers	-	-	1,594	-	-	-	(1,594)	-
Exchange realignment	237	394	1,912	40	-	95	475	3,153
At 31 December 2008, net of accumulated depreciation and impairment	7,510	4,506	23,480	579	47	581	27,668	64,371
At 31 December 2008:								
Cost or valuation	7,510	10,430	71,947	1,875	656	6,934	27,668	127,020
Accumulated depreciation and impairment	-	(5,924)	(48,467)	(1,296)	(609)	(6,353)	-	(62,649)
Net carrying amount	7,510	4,506	23,480	579	47	581	27,668	64,371
Analysis of cost or valuation:								
At cost	-	10,430	71,947	1,875	656	6,934	27,668	119,510
At 31 December 2008 valuation	7,510	-	-	-	-	-	-	7,510
	7,510	10,430	71,947	1,875	656	6,934	27,668	127,020

Notes to Financial Statements

31 December 2009

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Furniture, fixtures and equipment <i>HK\$'000</i>
31 December 2009	
At 1 January 2009:	
Cost	376
Accumulated depreciation	(329)
Net carrying amount	47
At 1 January 2009, net of accumulated depreciation	47
Additions	–
Depreciation provided during the year	(19)
At 31 December 2009, net of accumulated depreciation	28
At 31 December 2009:	
Cost	376
Accumulated depreciation	(348)
Net carrying amount	28
31 December 2008	
At 1 January 2008:	
Cost	376
Accumulated depreciation	(306)
Net carrying amount	70
At 1 January 2008, net of accumulated depreciation	70
Additions	–
Depreciation provided during the year	(23)
At 31 December 2008, net of accumulated depreciation	47
At 31 December 2008:	
Cost	376
Accumulated depreciation	(329)
Net carrying amount	47

Notes to Financial Statements

31 December 2009



12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Certain of the Group's buildings were revalued individually at the balance sheet date by Asset Appraisal Limited, independent professionally qualified valuers, at an aggregate open market value of HK\$40,379,000 (2008: HK\$7,510,000) based on their existing use, with a net revaluation deficit of HK\$2,071,000 (2008: Net revaluation surplus: HK\$93,000), consisting of a revaluation deficit of HK\$4,000 (2008: Revaluation surplus: HK\$57,000) charged to other comprehensive income and a revaluation deficit of HK\$2,067,000 (2008: Revaluation surplus: HK\$36,000) charged to the income statement (note 6).

Had these buildings of the Group been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts as at 31 December 2009 would have been approximately HK\$38,494,000 (2008: HK\$3,555,000).

At 31 December 2009, certain of the plant and machinery of a subsidiary of the Group of HK\$14,855,000 (2008: HK\$5,936,000) were pledged to secure general banking facilities granted to the Group (note 34).

13. INVESTMENT PROPERTY

	<i>Note</i>	2009 HK\$'000	2008 <i>HK\$'000</i>
Carrying amount at 1 January		2,120	2,280
Fair value loss of an investment property	6	(130)	(160)
Carrying amount at 31 December		1,990	2,120

The Group's investment property is situated in Mainland China and is held under a medium term lease. At 31 December 2009, the related land use right and building ownership certificates were in the process of being obtained.

The Group's investment property was revalued on 31 December 2009 by Asset Appraisal Limited at HK\$1,990,000 (2008: HK\$2,120,000) on an open market, existing use basis. The investment property is leased to third parties under an operating lease, further details of which are included in note 31(a) to the financial statements.

Notes to Financial Statements

31 December 2009

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2009 HK\$'000	2008 HK\$'000
Carrying amount at 1 January	6,045	5,809
Additions	2,213	–
Recognised during the year (note 6)	(138)	(122)
Exchange realignment	11	358
Carrying amount at 31 December	8,131	6,045
Current portion included in receivables, prepayments and deposits	(168)	(123)
Non-current portion	7,963	5,922

The Group's leasehold land is held under medium term leases and is situated in Mainland China.

The Group had applied for but had not received the land use right certificate in respect of a leasehold land situated in Mainland China with net carrying amount of HK\$2,200,000 as at the balance sheet date. Notwithstanding this, the directors are of the opinion that the Group has obtained the legal right to use this land as at 31 December 2009 and that the land use right certificate can be received.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2009 HK\$'000	2008 HK\$'000
Unlisted shares, at cost	305,184	305,184
Loans to subsidiaries	249,443	310,287
Impairment#	554,627 (234,022)	615,471 (232,625)
	320,605	382,846

Impairments were recognised for certain unlisted investments and loans to subsidiaries with a total carrying amount of HK\$265,724,000 (before deducting the impairments) (2008: HK\$232,625,000) because certain of the subsidiaries had persistently been making losses.

Notes to Financial Statements

31 December 2009



15. INTERESTS IN SUBSIDIARIES (CONTINUED)

Movements in the impairment of interests in subsidiaries are as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
At 1 January	232,625	249,038
Impairment losses recognised	1,397	–
Impairment losses reversed	–	(16,413)
At 31 December	234,022	232,625

During the year ended 31 December 2008, a reversal of impairment losses on loans to subsidiaries was recognised as the Group assigned those loans to be borne by profit-making subsidiaries.

The loans to subsidiaries are unsecured, interest-free and are not repayable within one year from 31 December 2009. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries.

The loans from subsidiaries of HK\$5,123,000 (2008: HK\$4,842,000) are unsecured, interest-free and are not repayable within one year from 31 December 2009.

Notes to Financial Statements

31 December 2009

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		Principal activities
			Direct (%)	Indirect (%)	
Gastor Enterprises Limited	British Virgin Islands	US\$150	100	–	Investment holding
Gold Star Assets Limited	Hong Kong	HK\$2	–	100	Investment holding
Qingdao Nanhai Tannery Co., Ltd. [#]	PRC/Mainland China	US\$2,500,000	100	–	Under liquidation
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
Xuzhou Gangwei Leather Co., Ltd. ⁺	PRC/Mainland China	RMB18,000,000	100	–	Processing of cowhides and leather trading
Xuzhou Nanhai Leather Factory Co., Ltd. ⁺	PRC/Mainland China	US\$10,450,000	100	–	Processing of cowhides and leather trading
Guangdong Tannery (Xuzhou) Limited ⁺	PRC/Mainland China	US\$9,000,000	100	–	Dormant

⁺ Registered as wholly-foreign-owned enterprises under the 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 thereafter will vest with the Company.

Notes to Financial Statements

31 December 2009



16. INVENTORIES

	Group	
	2009 HK\$'000	2008 HK\$'000
Raw materials	37,996	32,859
Work in progress	39,964	113,599
Finished goods	28,413	63,063
	106,373	209,521

17. RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 31 December 2009, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK\$162,157,000 (2008: HK\$131,328,000) 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.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the payment due date, is as follows:

	Group	
	2009 HK\$'000	2008 HK\$'000
Current	158,157	127,780
Less than 3 months	4,037	1,852
3 to 6 months	309	471
Over 6 months	417	1,685
	162,920	131,788
Impairment	(763)	(460)
	162,157	131,328

Notes to Financial Statements

31 December 2009

17. RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

Movements in the provision for impairment of trade receivables are as follows:

	Group	
	2009 HK\$'000	2008 HK\$'000
At 1 January	460	1,703
Impairment losses recognised	484	221
Impairment losses reversed	(181)	(425)
Amount written off as uncollectible	–	(1,039)
At 31 December	763	460

The above provision for impairment of trade receivables is individually fully impaired. The individually impaired trade receivables relate to customers that were in default or delinquency payments. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade and bills receivables, that are not considered to be impaired is as follows:

	Group	
	2009 HK\$'000	2008 HK\$'000
Neither past due nor impaired	158,156	127,780
Less than 1 month past due	3,522	1,104
1 to 3 months past due	417	748
Over 3 months past due	62	1,696
	162,157	131,328

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Notes to Financial Statements

31 December 2009



18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Cash and bank balances	164,613	86,022	9,689	3,658
Time deposits	–	22,402	–	–
	164,613	108,424	9,689	3,658
Less: Pledged bank balances*	(1,353)	(3,969)	–	–
Pledged time deposits*	–	(6,802)	–	–
Restricted bank balance (note 37)	(6,246)	–	–	–
	(7,599)	(10,771)	–	–
Cash and cash equivalents	157,014	97,653	9,689	3,658

* These bank balances and time deposits were pledged to banks for banking facilities granted (note 34).

At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in Renminbi (“RMB”) amounted to HK\$138,755,000 (2008: HK\$88,728,000). 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.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits were made for varying periods of between one day and six months depending on the immediate cash requirements of the Group, and earned interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Notes to Financial Statements

31 December 2009

19. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the payment due date, is as follows:

	Group	
	2009 HK\$'000	2008 HK\$'000
Within 3 months	24,836	19,227
3 to 6 months	22,487	16,900
6 to 12 months	3,098	2,111
Over 12 months	4,175	4,530
	54,596	42,768

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

20. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2009			2008		
	Effective Interest rate (%)	Maturity	Amount HK\$'000	Effective interest rate (%)	Maturity	Amount HK\$'000
Current						
Trust receipt loans, secured	-	-	-	LIBOR+1.4	2009	6,801
Convertible notes, unsecured (note 25)	6.63	2010	63,327	-	-	-
			63,327			6,801
Non-current						
Convertible notes, unsecured (note 25)	-	-	-	6.63	2010	59,926
			63,327			66,727

Notes to Financial Statements

31 December 2009



20. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Company	2009			2008		
	Effective Interest rate (%)	Maturity	Amount HK\$'000	Effective interest rate (%)	Maturity	Amount HK\$'000
Current						
Convertible notes, unsecured (note 25)	6.63	2010	63,327	-	-	-
Non-current						
Convertible notes, unsecured (note 25)	-	-	-	6.63	2010	59,926

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Analysed into:				
Bank loans repayable within one year	-	6,801	-	-
Other borrowings repayable within one year	63,327	-	63,327	-
Other borrowings repayable:				
In the second year	-	59,926	-	59,926
	63,327	66,727	63,327	59,926

Notes:

- (a) The Group's trust receipt loan facilities amounting to HK\$158,998,000 (2008: HK\$78,239,000), of which nil (2008: HK\$6,801,000) had been utilised, are secured by the pledge of certain of the Group's plant and machinery and bank deposits, and supported by corporate guarantees executed by the Company and a subsidiary of the Company.

Details of pledge of assets are included in note 34 to the financial statements.

- (b) The trust receipt loans and the convertible notes are denominated in Euros and Hong Kong dollars, respectively.

The carrying amounts of the Group's current borrowings approximate to their fair values. At 31 December 2009, the fair value of the Group's and the Company's convertible notes with a carrying amount of HK\$63,327,000 (2008: HK\$59,926,000) was HK\$68,674,000 (2008: HK\$58,708,000).

The fair value of the liability portion of the convertible notes is estimated using an equivalent market interest rate for a similar note without a conversion option.

Notes to Financial Statements

31 December 2009

21. 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.

22. LOANS FROM THE IMMEDIATE HOLDING COMPANY

The following table illustrates the loans from GDH Limited ("GDH"), the Company's immediate holding company:

	Notes	Group		Company	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Non-current	(a)	–	10,350	–	10,350
	(b)	–	11,138	–	11,138
	(c)	22,779	45,630	22,779	45,630
		22,779	67,118	22,779	67,118

Notes:

- (a) The loan was unsecured, bore interest at 3-month HIBOR+ 1% per annum and was not repayable within one year from 31 December 2008.
- (b) The loan was unsecured, bore interest at 3-month HIBOR+ 1.5% per annum and was not repayable within one year from 31 December 2008.
- (c) The balance represents an unsecured loan of USD2,920,000 (2008: USD5,850,000), which bears interest at 3-month LIBOR + 1% (2008: 3-month LIBOR + 1%) and is not repayable within one year from 31 December 2009 (2008: not repayable within one year from 31 December 2008).

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

Notes to Financial Statements

31 December 2009



23. LOAN FROM A FELLOW SUBSIDIARY

The Group's loan represents an unsecured loan of US\$7,000,000 (2008: US\$7,000,000) (equivalent to approximately HK\$54,600,000 (2008: HK\$54,600,000)) advanced from Guangdong Assets Management Limited ("Guangdong Assets Management"), a fellow subsidiary of the Company. The loan bears interest at 3-month LIBOR + 1.5% (2008: 3-month LIBOR + 1%) per annum and is not repayable within one year from 31 December 2009 (2008: not repayable within one year from 31 December 2008).

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

24. PROVISION

Group

	Early termination of a joint venture agreement HK\$'000
At 1 January 2009	3,617
Exchange realignment	5
At 31 December 2009	3,622

With respect to the Group's decision in August 2001 to curtail the operations of Qingdao Tannery due to its continuous losses, provisions of RMB3,000,000 were made as at 31 December 2001 for (a) staff redundancy payments of RMB2,000,000; and (b) compensation of RMB1,000,000 to the PRC joint venture partner for early termination of the joint venture agreement with 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 was 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.

Notes to Financial Statements

31 December 2009

25. CONVERTIBLE NOTES

On 13 August 2007, the Company issued 61,500,000 1% convertible notes with a nominal value of HK\$61,500,000 to GDH, with maturity date on the third anniversary of the date of issue of the convertible notes (the "Maturity Date"). GDH has the right to convert the whole or part of the principal amount of the convertible notes into shares at any time and from time to time, from the 7th day after the date of the issue of the convertible notes up to the day which is 7 days prior to the Maturity Date, on the basis of one ordinary share for every 1.9 HK\$1 notes held. There was no movement in the number of these convertible notes during the year. Any convertible notes not converted will be redeemed on the Maturity Date at a price of HK\$1.0623 per HK\$1 note. The notes carry interest at a rate of 1% per annum, which is payable semi-annually in arrears on 13 February and 13 August.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar note without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible notes issued have been split as to the liability and equity components as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Nominal value of convertible notes	61,500	61,500
Equity component	(5,599)	(5,599)
Direct transaction costs attributable to the liability component	(537)	(537)
Liability component at the issuance date	55,364	55,364
Interest expense	9,193	5,177
Interest paid	(1,230)	(615)
Liability component at 31 December (<i>note 20</i>)	63,327	59,926

Notes to Financial Statements

31 December 2009



26. DEFERRED TAX LIABILITIES

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

	Revaluation of properties HK\$'000
At 1 January 2008	957
Deferred tax charged to the property revaluation reserve	14
Deferred tax charged to the income statement during the year (<i>note 7</i>)	9
At 31 December 2008 and 1 January 2009	980
Deferred tax credited to the property revaluation reserve	(1)
Deferred tax credited to the income statement during the year (<i>note 7</i>)	(517)
At 31 December 2009	462

The Group has tax losses arising in Hong Kong of HK\$61,364,000 (2008: HK\$52,602,000), that are available for offsetting against future taxable profits of the companies in which the losses arose. As at 31 December 2009, the Group has no tax losses (2008: Nil) arising in the PRC that will expire in one to five years for offsetting against future taxable profit. 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.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2009, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$2,617,000 at 31 December 2009 (2008: HK\$1,281,000).

Notes to Financial Statements

31 December 2009

27. SHARE CAPITAL

Shares

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Authorised: 700,000,000 ordinary shares of HK\$0.10 each	70,000	70,000
Issued and fully paid: 537,619,000 (2008: 537,504,000), ordinary shares of HK\$0.10 each	53,762	53,750

A summary of the transactions in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2008, 31 December 2008 and 1 January 2009	537,504,000	53,750	413,968	467,718
Share options exercised	115,000	12	27	39
At 31 December 2009	537,619,000	53,762	413,995	467,757

Share Options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.

28. SHARE OPTION SCHEME

On 24 November 2008, the Company terminated its then share option scheme adopted on 31 May 2002 and adopted a new share option scheme (the "2008 Scheme").

The purpose of the 2008 Scheme is to provide incentives to selected employees, officers and directors to contribute to the Group and to provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to such employees, officers and directors or to serve such other purposes as the board of directors of the Company (the "Board") may approve from time to time. Eligible persons of the 2008 Scheme include the employees, officers or directors of a member of the Group. The 2008 Scheme, unless otherwise terminated or amended, will remain in force for 10 years from 24 November 2008.

Notes to Financial Statements

31 December 2009



28. SHARE OPTION SCHEME (CONTINUED)

The total number of Ordinary Shares which may be issued upon exercise of all share options to be granted under the 2008 Scheme (excluding any which have lapsed) and any other schemes of the Company must not, in aggregate, exceed 10% of the Ordinary Shares in issue as at the date of the adoption of the 2008 Scheme.

The total number of Ordinary Shares issued and to be issued upon exercise of the share options granted and to be granted under the 2008 Scheme to each eligible person (including both exercised, cancelled and outstanding options) in any 12-month period up to and including the date of grant of share options must not exceed 1% of the Ordinary Shares in issue at such date. Any further grant of share options under the 2008 Scheme in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

Share options granted to a director or chief executive of the Company, or any of their respective associates, under the 2008 Scheme must be approved by the independent non-executive directors of the Company. In addition, for any share options granted to an independent non-executive director of the Company, or any of their respective associates, which would result in the Ordinary Shares issued and to be issued upon exercise of all share options already granted or to be granted under the 2008 Scheme (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (i) representing in aggregate over 0.1% of the Ordinary Shares in issue; and (ii) having an aggregate value (based on the closing price of the Ordinary Shares at the date of grant) in excess of HK\$5 million, such grant of options by the Board must be approved by shareholders in a general meeting.

An offer of grant of a share option under the 2008 Scheme may be accepted by the grantee within the period of the time stipulated by the Board, but no later than 14 days from the date of such offer. All share options under the 2008 Scheme will be unvested share options upon grant which will, subject to a grantee continuing to be an eligible person, vest with the grantee in accordance with the vesting schedules specified in their respective offer of grant. Subject to the rules of the 2008 Scheme and the relevant offer of the grant of a share option, a vested share option may be exercised in accordance with the terms of the rules of the 2008 Scheme at any time during the period to be determined and notified by the Directors to each grantee, which period may commence on the date which is 2 years from the date of grant of the share option but shall end in any event not later than 10 years from the aforesaid date of grant. The exercise of any share option under the 2008 Scheme may be subject to the achievement of performance targets which may be determined by the Board at its absolute discretion on a case by case basis upon the grant of the relevant share option and stated in the offer of grant of such share option.

The exercise price of the share options under the 2008 Scheme is determinable by the Board and shall not be less than the highest of (i) the closing price of the Ordinary 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; (ii) the average closing price of the Company's Ordinary Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the share options; and (iii) the nominal value of the Ordinary Shares.

No dividends (including distributions made upon the liquidation of the Company) will be payable and no voting rights will be exercisable in relation to any share option that has not been exercised.

Notes to Financial Statements

31 December 2009

28. SHARE OPTION SCHEME (CONTINUED)

The following share options were outstanding during the year:

	2009		2008	
	Weighted average exercise price per share HK\$	Number of options '000	Weighted average exercise price per share HK\$	Number of options '000
At 1 January	0.278	5,350	–	–
Granted during the year	–	–	0.278	5,350
Exercised during the year	0.278	(115)	–	–
Lapsed during the year	0.278	(3,235)	–	–
At 31 December	0.278	2,000	0.278	5,350

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2009 was HK\$0.31.

The exercise prices and exercise periods of the share options outstanding as at 31 December 2009 are as follows:

Number of options '000	Exercise price per share * HK\$	Exercise period (dd.mm.yyyy)
800	0.278	24.11.2010 – 23.05.2014
600	0.278	24.11.2011 – 23.05.2014
200	0.278	24.11.2012 – 23.05.2014
400	0.278	24.11.2013 – 23.05.2014
<u>2,000</u>		

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

Notes to Financial Statements

31 December 2009



28. SHARE OPTION SCHEME (CONTINUED)

The fair value of the share options granted under the 2008 Scheme in 2008 was HK\$940,000 of which the Group recognised an equity-settled share option expense of HK\$109,000 during the year ended 31 December 2009.

The fair value of equity-settled share options granted under the 2008 Scheme in 2008 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:

	2008
Dividend yield (%)	Nil
Expected volatility (%)	91.26
Risk-free interest rate (%)	1.39
Expected life of options (year)	5.5
Closing share price at date of grant (HK\$)	0.27

The expected life of the options is based on the historical data over the past 5.5 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.

The 115,000 share options under the 2008 Scheme exercised during the year ended 31 December 2009 resulted in the issue of 115,000 Ordinary Shares and new share capital of HK\$12,000 and share premium of HK\$27,000 (before issue expenses), as further detailed in note 27 to the financial statements.

As at 31 December 2009, the Company had 2,000,000 share options outstanding under the 2008 Scheme, which represented approximately 0.37% of Ordinary Shares in issue at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 2,000,000 additional ordinary shares of the Company and additional share capital of HK\$200,000 and share premium of HK\$356,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 2,000,000 share options outstanding under the 2008 Scheme, which represented approximately 0.37% of the Company's shares in issue as at that date.

The total number of Ordinary Shares which may be issued upon exercise of share options yet to be granted under the 2008 Scheme (and thus not including those Ordinary Shares for share options already granted but yet to be exercised) was 48,400,400 which represented approximately 9% of the issued share capital of the Company as at the date of this annual report.

Notes to Financial Statements

31 December 2009

29. 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.

Notes to Financial Statements

31 December 2009



29. RESERVES (CONTINUED)

(b) Company

	Note	Share premium account HK\$'000	Equity component of convertible notes HK\$'000	General reserve fund HK\$'000	Share option reserve HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2008		413,968	5,545	167,746	-	445	(395,714)	191,990
Equity-settled share option arrangements		-	-	-	35	-	-	35
Profit for the year	10	-	-	-	-	-	7,862	7,862
At 31 December 2008 and 1 January 2009		413,968	5,545	167,746	35	445	(387,852)	199,887
Equity-settled share option arrangements		-	-	-	109	-	-	109
Issue of shares		27	-	-	(6)	-	-	21
Loss for the year	10	-	-	-	-	-	(15,616)	(15,616)
At 31 December 2009		413,995	5,545	167,746	138	445	(403,468)	184,401

The Company's general reserve fund represents an undistributable reserve and may not be treated as realised profits as detailed in note 29(a) to the financial statements.

30. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Guarantees given to banks for banking facilities granted to a subsidiary	-	-	158,998	131,532
Banking facilities with the Company's guarantees utilised by a subsidiary	-	-	-	6,801

Notes to Financial Statements

31 December 2009

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 13) and certain plant and machinery under an operating lease arrangement, with the lease negotiated for a term of three years (2008: from three to four years).

At 31 December 2009, the Group had total future minimum lease receivables under the non-cancellable operating lease with its lessee falling due as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Within one year	64	733
In the second to fifth years, inclusive	–	570
	64	1,303

(b) As lessee

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

At 31 December 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2009	2008
	HK\$'000	HK\$'000
Within one year	337	72
In the second to fifth years, inclusive	96	–
	433	72

Notes to Financial Statements

31 December 2009



32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31(b) above, the Group had the following capital commitments at the balance sheet date:

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Contracted, but not provided for:				
Land and buildings	9,207	28,731	–	–
Leasehold improvements	397	397	–	–
Plant and machinery	913	7,958	–	–
	10,517	37,086	–	–
Authorised, but not contracted for:				
Land and buildings	87,752	87,753	–	–
Plant and machinery	77,091	81,629	–	–
Capital contributions payable to a subsidiary	–	–	39,000	124,800
	164,843	169,382	39,000	124,800
	175,360	206,468	39,000	124,800

33. 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:

	Notes	Group	
		2009 HK\$'000	2008 HK\$'000
Office rental paid to a fellow subsidiary	(i)	291	276
Computer system maintenance service fees paid to the immediate holding company	(ii)	159	171
Interest expenses to the immediate holding company	(iii)	5,161	7,700
Interest expense to a fellow subsidiary	(iv)	1,317	2,511

Notes to Financial Statements

31 December 2009

33. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes:

- (i) The office rental was charged by a fellow subsidiary at HK\$23,467 per month (2008: HK\$23,040 per month) commencing from 6 February 2009 in accordance with the terms of the rental agreement between the Group and the fellow subsidiary company. At the balance sheet date, the Group had a rental deposit of HK\$84,480 (2008: HK\$69,120) with the fellow subsidiary.
 - (ii) The immediate holding company charged maintenance service fees at HK\$13,265 per month for the year ended 31 December 2009 (2008: HK\$14,222 per month) for the computer system used by the Group.
 - (iii) The interest expenses to the immediate holding company arose from the loans advanced from GDH and convertible notes to GDH. Further details of the loans and convertible notes, including the terms, are disclosed in notes 22 and 25, respectively, 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 23 to the financial statements.
- (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 a fellow subsidiary as at the balance sheet date are included in notes 22 and 23 to the financial statements, respectively.
 - (ii) Details of the Group's convertible notes to GDH as at the balance sheet date are included in note 25 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 transactions in respect of item (b)(ii) above also constituted connected transactions as defined in Chapter 14A of the Listing Rules.

34. PLEDGE OF ASSETS

As at 31 December 2009, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

		Group	
	Notes	2009 HK\$'000	2008 HK\$'000
Plant and machinery	12	14,855	5,936
Bank balances and deposits	18	1,353	10,771
		16,208	16,707

Notes to Financial Statements

31 December 2009



35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Financial assets

	Group	
	2009	2008
	Loans and receivables	Loans and receivables
	HK\$'000	HK\$'000
Trade and bills receivables	162,157	131,328
Financial assets included in prepayments, deposits and other receivables	490	176
Pledged deposits	1,353	10,771
Restricted bank balance	6,246	–
Cash and cash equivalents	157,014	97,653

Financial liabilities

	Group	
	2009	2008
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK\$'000	HK\$'000
Trade payables	54,596	42,768
Financial liabilities included in other payables and accruals	27,156	16,605
Interest-bearing bank and other borrowings	–	6,801
Due to a PRC joint venture partner	1,131	1,131
Loans from the immediate holding company	22,779	67,118
Loan from a fellow subsidiary	54,600	54,600
Convertible notes	63,327	59,926

Notes to Financial Statements

31 December 2009

35. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial assets

	Company	
	2009	2008
	Loans and	Loans and
	receivables	receivables
	HK\$'000	HK\$'000
Financial assets included in prepayments, deposits and other receivables	21	21
Cash and bank balances	9,689	3,658

Financial liabilities

	Company	
	2009	2008
	Financial	Financial
	liabilities at	liabilities at
	amortised cost	amortised cost
	HK\$'000	HK\$'000
Financial liabilities included in other payables and accruals	1,090	1,171
Loans from the immediate holding company	22,779	67,118
Convertible notes	63,327	59,926

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, interest-bearing unsecured loans from the immediate holding company and a fellow subsidiary of the Group, convertible notes, 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 payables, which arise directly from its operations.

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's certain debt obligations with floating interest rates except for convertible notes with a fixed interest rate.

The Group's policy is to manage its interest cost using an appropriate mix of fixed and floating rate borrowings. Despite the fact that the Group had its debts obligations at floating interest rates, in the opinion of the directors, the Group had no significant concentration of interest rate risk.

Notes to Financial Statements

31 December 2009



36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk (Continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK\$'000
2009		
Hong Kong dollar	100	–
United States dollar ("US\$")	100	(774)
Hong Kong dollar	(20)	–
US\$	(20)	155
2008		
Hong Kong dollar	200	(430)
US\$	200	(2,005)
Hong Kong dollar	(15)	32
US\$	(15)	150

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from purchases by operating units in currencies other than the units' functional currency. Approximately 59% (2008: 61%) of the Group's purchases are denominated in currencies other than the functional currency of the operating units making the purchases, whilst all sales are denominated in the units' functional currency.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in US\$-RMB exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the equity of the Group.

Notes to Financial Statements

31 December 2009

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (Continued)

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax HK\$'000
2009		
If RMB weakens against US\$	(1)	(1,610)
If RMB strengthens against US\$	3	4,831
2008		
If RMB weakens against US\$	(2)	(3,823)
If RMB strengthens against US\$	2	3,823

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 17 to the financial statements.

The credit risk of the Group's other financial assets, which comprises cash and cash equivalents, pledged deposits and trade and bills receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. As the Group's exposure is spread over a diversified portfolio of customers, there are no significant concentrations of credit risk within the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 17 to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, convertible notes and other interest-bearing loans. The Group's policy is that not more than 50% of interest-bearing borrowings should mature in any 12-month period. At 31 December 2009, 29% (2008: 3%) of the Group's total financial liabilities would mature in less than one year based on the carrying value of borrowings reflected in the financial statements.

Notes to Financial Statements

31 December 2009



36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, was as follows:

Group

	2009				
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	Over 1 year HK\$'000	Total HK\$'000
Trade payables	29,760	24,836	-	-	54,596
Other payables	27,156	-	-	-	27,156
Due to a PRC joint venture partner	1,131	-	-	-	1,131
Loan from the immediate holding company	-	-	-	22,779	22,779
Loan from a fellow subsidiary	-	-	-	54,600	54,600
Convertible notes	-	-	65,331	-	65,331
	58,047	24,836	65,331	77,379	225,593

	2008				
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	Over 1 year HK\$'000	Total HK\$'000
Trade payables	23,541	19,227	-	-	42,768
Other payables	16,605	-	-	-	16,605
Interest-bearing bank and other borrowings, excluding convertible notes	-	6,801	-	-	6,801
Due to a PRC joint venture partner	1,131	-	-	-	1,131
Loans from the immediate holding company	-	-	-	67,118	67,118
Loan from a fellow subsidiary	-	-	-	54,600	54,600
Convertible notes	-	-	-	65,331	65,331
	41,277	26,028	-	187,049	254,354

Notes to Financial Statements

31 December 2009

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

Company

	2009				Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	Over 1 year HK\$'000	
Other payables	1,090	-	-	-	1,090
Loan from the immediate holding company	-	-	-	22,779	22,779
Convertible notes	-	-	65,331	-	65,331
	1,090	-	65,331	22,779	89,200

	2008				Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	Over 1 year HK\$'000	
Other payables	1,171	-	-	-	1,171
Loans from the immediate holding company	-	-	-	67,118	67,118
Convertible notes	-	-	-	65,331	65,331
	1,171	-	-	132,449	133,620

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder's value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 2008.

Notes to Financial Statements

31 December 2009



36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (Continued)

The Group monitors capital using a gearing ratio, which is total debt divided by the adjusted capital plus total debt. Total debt includes interest-bearing bank and other borrowings, loans from the immediate holding company, and a loan from a fellow subsidiary. Capital includes the liability component of convertible notes and equity attributable to equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

	2009 HK\$'000	2008 HK\$'000
Interest-bearing bank and other borrowings, excluding convertible notes (note 20)	–	6,801
Loans from the immediate holding company (note 22)	22,779	67,118
Loan from a fellow subsidiary (note 23)	54,600	54,600
Total debt	77,379	128,519
Convertible notes, the liability component (note 25)	63,327	59,926
Equity attributable to equity holders of the parent	281,024	267,236
Adjusted capital	344,351	327,162
Adjusted capital and total debt	421,730	455,681
Gearing ratio	18%	28%

37. LITIGATION

In December 2009, Xuzhou Tannery received a writ summons from an independent PRC construction contractor (the "PRC Contractor") claiming outstanding construction cost of approximately RMB5,100,000 (equivalent to HK\$5,792,000) and related interest of RMB270,000 (equivalent to HK\$307,000) in respect of three construction contracts entered by Xuzhou Tannery and the PRC Contractor (the "Claim"). The PRC Contractor has also applied a court order to freeze a bank account of Xuzhou Tannery with a balance of RMB5,500,000 (equivalent to HK\$6,246,000) (note 18). In January 2010, Xuzhou Tannery filed a counter claim stating that the PRC Contractor had delayed the construction work resulting in loss of business in Xuzhou Tannery, and Xuzhou Tannery demanded for the PRC Contractor to pay damages of RMB2,738,000 (equivalent to HK\$3,110,000) and economic losses of RMB3,006,000 (equivalent to HK\$3,414,000). Taken into consideration of the Group's legal advice, the Directors of the Company are of the opinion that Xuzhou Tannery has valid ground to defend the Claim, and adequate provision had been accrued as at the balance sheet date to cover the exposure of this litigation.

Notes to Financial Statements

31 December 2009

38. EVENT AFTER THE REPORTING PERIOD

On 5 November 2007, the Group entered into an investment agreement with the Xuzhou Economic Development Management Committee ("Committee") for the establishment of a new subsidiary in the Xuzhou city ("Jinsanqiao Factory"), with registered capital of US\$9 million. The authorised but not contracted for commitment of Jinsanqiao Factory was approximately HK\$80,760,000. On 7 February 2010, the Group entered into a new investment agreement with Committee. Due to the Xuzhou City Peoples Government's recent notice aiming to encourage and facilitate the development of the leather products industry in a specialised zone, Jinsanqiao Factory will be situated in such specialised zone in Xuzhou City. Its authorised but not contracted for commitment of Jinsanqiao Factory had been amended to HK\$67,990,000.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 March 2010.

