ANNUAL REPORT 年報 2011

粵海制革有限公司
GUANGDONG TANNERY LIMITED

(股份代號 Stock Code: 1058)

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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

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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 would like to present 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 2011 was HK$1,189,000 (2010: HK$6,212,000), representing a decrease of 80.9% over last year. Basic earnings per share was HK0.22 cent (2010: HK1.16 cents), representing a decrease of 81.0% 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 2011 (2010: Nil).

REVIEW

Since 2011, the competition in tannery industry has been heating up in the wake of the economic downturn and the deepening effects of the domestic macroeconomic policies, which has imposed adverse impacts on the operating results of the Group. Upholding the core value of the corporate culture, the Group proactively strengthened the construction of hardware indices in response to the domestic and international macroeconomic trends and industrial changes, with an aim of defying actual corporate difficulties. Guided by the strategic direction of "comprehensive rationalisation of all production relationships for practical expansion of development foundation", the Group implemented comprehensive budget management, effectively exercised cost control and enhanced energy saving and emission reduction. Such initiatives enabled the Group to pass the environmental protection approval of the new plant of the Relocation & Technical Renovation Project of Xuzhou Nanhai Leather Factory Co., Ltd., and the clean production verification approval in relation to key enterprises, thus laying a solid foundation for the long-term, stable operation and expansion of the Company.

During the year, amidst the adverse environment of the dramatic plunge in sales of footwear leather in both domestic and international markets, together with the surge in raw material prices and increasing labour costs, the Group closely monitored the market of imported cowhides, and carefully analysed the impact of the appreciation of Renminbi and increasing pressure of domestic inflation on raw material prices. Based on such analysis, the Group conducted forecasts on prices of cowhides, determined optimal production plans in line with economies of scale, and formulated a prudent operating strategy of matching production with demand and linking purchase with production, allowing the Group to avoid the soaring prices of cowhides and to mitigate the risks of substantial fluctuations in prices of cowhides. Meanwhile, capitalising on the opportunity brought by the industrial pattern that the increase in prices of hides will push up the prices of finished products, the Group further optimised its inventory composition through active disposal of obsolete stocks and improvement of receivables structure, which led to the achievement of comparative advantages under the unfavourable market condition. Furthermore, through the establishment of strategic supply-and-sales relationship with large footwear manufacturers and customers with strong financial background, the Group sustained the production and sales volume and secured the growth in selling prices, resulting in an increase of 12.7% in consolidated turnover, thus ensuring the operating efficiency of the business.

Chairman's Statement

REVIEW (CONTINUED)

During the year, efforts had been put into painstaking budget management, strengthened internal control management, enhanced risk control management and refined on-site management. As a result, the Group managed to reduce its operating risks by rebuilding technical system, restructuring management team, sharpening competitive advantage and reinforcing awareness of safe production.

PROSPECTS

The Company's overall operation prospects become uncertain in 2012 given the possibility of downturn in Mainland China's macro-economy and highly unpredictable situations of global economy. On top of scale development of footwear leather, the Group will continue to implement stable operating strategies, forge ahead with all of its scheduled tasks and strive to realise various operating targets by tapping into the improvement of basic management. In terms of production and sales, the Group will closely monitor the trend of leather's end market and link purchase with production in order to reduce the exposure to soaring prices of cowhides; keep enhancing direct sales with renowned brand footwear manufacturers to safeguard the balance of distribution network, and meanwhile, step up efforts for research and development of new products and marketing. In terms of internal control management and corporate governance, the Group will continue to optimise and improve internal control management system; promote team building and constantly enrich its talent pool; strengthen the systems of legal risk management and safety production management and implement "people-oriented" philosophy of corporate governance with an aim to establish a solid foundation for the healthy sustainable development of the Group.

Chen Hong
Chairman

Hong Kong, 13 March 2012

Management Discussion and Analysis

RESULTS

The Group's consolidated profit attributable to shareholders for the year ended 31 December 2011 was HK$1,189,000, representing a decrease of HK$5,023,000 or 80.9% as compared to the profit of HK$6,212,000 for last year.

The net asset value of the Group as at 31 December 2011 was HK$328,410,000, representing an increase of HK$25,289,000 and HK$13,245,000, as compared to the net asset values as at 31 December 2010 and 30 June 2011, respectively.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2011.

BUSINESS REVIEW

Currently the macro-economic control policies adopted by Mainland China, which aims at curbing inflation, has adversely affected the survival and development capabilities of various light industries as well as small and medium sized enterprises. The increasing prices of various raw materials for production and the overall downturn of tannery industry, coupled with the sluggish growth in peak season in 2011, had adverse impacts on the Group's operating results. During the year, guided by the direction of "comprehensive rationalisation of all production relationships for practical expansion of development foundation", the Group implemented strict control over the procurement and production cycles, carried out comprehensive budget control while striving for technical innovation, strengthening the mechanism of internal control management and optimising team building, in a view to adapting to the changing economic conditions and pursuing stable operations, thus tide over economic ups and downs of the year.

During the year, the total production volume of cowhides was 26,393,000 sq. ft., representing a decrease of 1,447,000 sq. ft. or 5.2% over 27,840,000 sq. ft. for the same period of last year; the production volume of greyhides was 13,933 tons, representing an increase of 1,229 tons or 9.7% over 12,704 tons for the same period of last year.

During the year, the consolidated turnover of the Group was HK$587,020,000, representing an increase of HK$66,283,000 or 12.7% over HK$520,737,000 for the same period of last year, of which cowhides amounted to HK$510,038,000 (2010: HK$463,968,000), representing an increase of 9.9% and greyhides and other products amounted to HK$76,982,000 (2010: HK$56,769,000), representing an increase of 35.6%. Since 2011, apart from the continuous decrease in the sales market of footwear leather in Mainland China, the purchase orders from the overseas market had also plummeted due to the economic downturn in European and American countries, as well as the surge in prices of raw materials. Moreover, the pressure of collecting receivables spurred on by the stringent monetary policies and the increasing costs of leather and labour have intensified the competition in end markets. During the year, in light of the unfavourable conditions in the industry, the Group resolutely initiated the prudent operating strategies in response to the adverse conditions of changing markets. Given the fact that the overall increment of sales prices did not catch up with the increase in costs of raw materials, the Group determined optimal production plans in line with economies of scale and enhanced product research and development. By leveraging on its unique advantage of branding, the Group forged alliances with renowned footwear manufacturers and strategic customers with strong financial background, which led to the establishment of a stable sales network and sustained the steady production for the Group. Meanwhile, the Group persisted in carrying on the sales service according to the credit policy, and strictly adhered to "cash on delivery" policy for customers without credit ranking. While many footwear factories closed due to break of the funding chain during the year, the Group had not been affected and ensured the safety of its assets.

Management Discussion and Analysis

BUSINESS REVIEW (CONTINUED)

Facing with the problem of soaring costs of raw materials, the Group paid close attention to the macro-economic situation, strictly monitored the markets movement of imported cowhides and chemical materials, constantly kept a watchful eye on the fluctuation of exchange rates and the demands for leather in end markets, and conducted detailed analysis on the effects of increasing domestic inflation upon the prices of raw materials. Based on such analysis, the Group actively conducted forecasts on prices of cowhides, and adopted a balanced procurement strategy of matching production with demand and linking purchase with production. In particular, the Group conducted purchase of cowhides step by step in line with actual production needs in order to avoid the risk of purchasing at high prices while ensuring sufficient inventories were maintained, which had substantially mitigated the adverse effects of the increasing price of cowhides upon the operating efficiency of the business. During the year, the total purchase amounted to HK$553,490,000, representing an increase of 15.6% as compared to that of the same period of last year.

As at 31 December 2011, the Group's consolidated inventory amounted to HK$185,092,000 (31 December 2010: HK$151,878,000), representing an increase of HK$33,214,000 or 21.9% over that of 31 December 2010, mainly due to the increase in purchase price of cowhides. During the year, the Group strengthened the disposal of inventories when there was surge in prices of cowhides through multiple sales channels and diversified technical methods, leading to effective depletion of obsolete inventories. Inventories over a year fell from 17.1% of the total inventories at the end of 2010 to 4.8% as at 31 December 2011, substantially reducing the obsolete inventories and further optimising the inventory composition.

On 1 February 2011, the reduction of the credit standing to the share premium account of the Company to the extent of HK$393,345,845, and the application of the credit arising from such reduction to eliminate the accumulated losses by the same amount (the "Share Premium Reduction") were passed by shareholders at the extraordinary general meeting. The purpose of the Share Premium Reduction is to bring the Company to a position that might permit the payment of dividends in the future if and when allowed by the Company's financial position and considered appropriate by the Board. The Share Premium Reduction was confirmed by an order made by the High Court of Hong Kong Special Administrative Region of the People's Republic of China on 22 March 2011 and took effect on 29 March 2011.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2011, the Group's cash and cash equivalents amounted to HK$81,672,000 (31 December 2010: HK$107,718,000), representing a decrease of HK$26,046,000 or 24.2% as compared to the same as at 31 December 2010, of which 3.8%, 93.7% and 2.5% were denominated in Hong Kong dollars, Renminbi and United States dollars, respectively. During the year, net cash outflow from operating activities was HK$22,303,000, which was mainly attributed to the increase in trade and bills receivables as compared to that of last year. The net cash outflow from investing activities was HK$8,528,000, which was mainly attributed to the purchase of fixed assets and prepaid land lease payments.

As at 31 December 2011, the Group's interest-bearing borrowings amounted to HK$232,736,000 (31 December 2010: HK$181,390,000), of which, interest-bearing borrowings of HK$65,000,000 were denominated in Hong Kong dollars and interest-bearing borrowings of HK$167,736,000 were denominated in United States dollars. The Group's borrowings mainly consist of: (1) balances of short-term loans provided by the banks of HK$90,357,000, which were secured by bank deposits of RMB27,151,000 and (2) balances of short-term unsecured inter-group borrowings of HK$142,379,000. The above interest-bearing borrowings were charged at floating interest rates.

FINANCIAL REVIEW (CONTINUED)

Liquidity and Financial Resources (Continued)

As at 31 December 2011, the gearing ratio of the Group's interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 41.5% (31 December 2010: 37.4%). During the year, the annual interest rate of the borrowings was approximately 1.2% to 5.2%. All of the Group's borrowings are repayable within one year. The Group's interest expenses for the year amounted to HK$5,385,000, representing an increase of 12.6% over last year.

As at 31 December 2011, the total banking facilities of the Group were HK$251,160,000 (31 December 2010: HK$135,148,000), of which banking facilities of HK$90,357,000 (31 December 2010: HK$39,011,000) were utilised and HK$160,803,000 were unutilised (31 December 2010: HK$96,137,000). In view of the existing cash resources and available credit facilities as well as the cash flow generated from the Group's operations, the Group had adequate financial resources to meet its day-to-day operation requirements.

Capital Expenditure

As at 31 December 2011, the net value of non-current assets such as prepaid land lease payments, property, plant and equipment, amounted to HK$123,533,000, representing an increase of HK$11,881,000 over the net value of HK$111,652,000 as at 31 December 2010. The total capital expenditure for the year amounted to HK$9,625,000 (2010: HK$17,732,000), primarily for the payments of the construction works and the acquisition of machinery and equipment to cope with the production requirements of the Group.

Pledge of Assets

As at 31 December 2011, the total bank deposits of the Group of HK$33,490,000 (31 December 2010: HK$32,314,000) were pledged to secure the 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, United States dollars or Renminbi. During the year, the exchange rates of Hong Kong dollars and United States dollars were relatively stable and did not constitute any material foreign exchange risk to the Group. As to the influence of the appreciation of Renminbi, as all of the Group's sales are settled in Renminbi, and the purchases are mainly settled in Renminbi and United States dollars, the Group did not have any material foreign exchange risk.

Remuneration Policy for Employees

As at 31 December 2011, a total of 759 employees (31 December 2010: 849) were employed by the Group. Our remuneration policy is based on the Group's operating results and the employees' performance. The Group has adopted a performance-based appraisal 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 net operating cash flow and profit after tax, calculated by various profit rankings and by applying a measure that links bonuses with operating results of the Group and further taking into account of the individual performance of the staff concerned, with an aim to motivate the contributions 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 for 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: 56)

Mr. Chen Hong 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 June 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) ("Guangdong Holdings"), 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*). He was appointed the chairman of Supertime Development Limited, a wholly-owned subsidiary of GDH, in May 2011. 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: 38)

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.*

(B) NON-EXECUTIVE DIRECTORS

Mr. Xiong Guangyang (Age: 58)

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 Economics 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 also the chief strategic development officer and the general manager of the strategic development department 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 executive deputy president of its Guangzhou Branch.

Mrs. Ho Lam Lai Ping, Theresa (Age: 56)

Mrs. Ho was appointed a Director of the Company in July 2000. She has been the Company Secretary of Guangdong Investment Limited ("GDI") since December 1992 and was appointed the deputy general manager of GDI in September 2011. GDI, a subsidiary of GDH, is listed on The Stock Exchange of Hong Kong Limited. Mrs. Ho 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 Chartered Secretaries.

Mr. Qiao Jiankang (Age: 47)

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 currently the deputy general manager of the legal departments of Guangdong Holdings and GDH respectively. 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) Limited), both of which are subsidiaries of the Company. Mr. Qiao has over 15 years' experience in enterprise legal works.

(C) INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fung Lak (Age: 64)

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.

(C) INDEPENDENT NON-EXECUTIVE DIRECTORS (CONTINUED)

Mr. Choi Kam Fai, Thomas (Age: 66)

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 organised 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: 62)

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 Chartered Secretaries. Mr. Chan obtained his master's degree in Financial Management from Central Queensland University. He served in the Inland Revenue Department of the Hong Kong Government for 33 years and left the government service in early 2005. Mr. Chan is now a director of a tax consultancy company. He had acted as an independent non-executive director of Noble Jewelry Holdings Limited (stock code: 00475) and resigned in December 2011.

(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: 37)

Ms. Lee was appointed the Chief Financial Officer of the Company in May 2005. She has over 16 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 Guangdong Tannery Limited (the "Company") herein present their report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2011.

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 principal 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 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 92.

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 2011.

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				
	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**587,020**	520,737	467,259	525,480	626,618
Profit from operating activities	**10,592**	19,061	33,084	20,898	28,301
Finance costs	**(5,385)**	(4,781)	(6,731)	(13,224)	(10,846)
Profit before tax	**5,207**	14,280	26,353	7,674	17,455
Income tax expense	**(4,018)**	(8,068)	(11,653)	(4,624)	(5,879)
Profit for the year	**1,189**	6,212	14,700	3,050	11,576

Report of the Directors

FINANCIAL SUMMARY (CONTINUED)

Assets and liabilities

	As at 31 December				
	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Property, plant and equipment, investment property and prepaid land lease payments	**123,533**	111,652	100,376	72,413	47,212
Current assets	**522,978**	468,771	436,421	455,954	544,153
Total assets	**646,511**	580,423	536,797	528,367	591,365
Liabilities					
Current liabilities	**317,468**	221,985	177,932	78,507	204,177
Long term liabilities	**633**	55,317	77,841	182,624	144,006
Total liabilities	**318,101**	277,302	255,773	261,131	348,183
Net assets	**328,410**	303,121	281,024	267,236	243,182

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 12 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 2011 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.

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.

Report of the Directors

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 2011, 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 (2010: Nil).

DIRECTORS

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

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*

Mr. Xiong Guangyang and Mr. Chan Cheong Tat 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. Xiong Guangyang and Mr. Chan Cheong Tat will offer themselves for re-election.

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 holding companies, subsidiaries or fellow subsidiaries was a party during the year or as at 31 December 2011.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2011, none of the Directors was interested in any business, apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2011, 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 *(Note)*
Sun Jun	Personal	40,000	Long position	0.01%
Xiong Guangyang	Personal	230,000	Long position	0.04%
Ho Lam Lai Ping, Theresa	Personal	200,000	Long position	0.04%
Fung Lak	Personal	1,380,000	Long position	0.26%
Choi Kam Fai, Thomas	Personal	60,000	Long position	0.01%

Note: The approximate percentage of interests held was calculated on the basis of 538,019,000 ordinary shares of the Company in issue as at 31 December 2011.

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

		Number of share options									
Name of Director	Date of grant of share options *(dd.mm.yyyy)*	At date of grant	At 1 January 2011	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2011	Total consideration paid for share options granted *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 at date immediately before the exercise date** *HK$ (per share)*
Chen Hong	14.07.2010	5,110,000	5,110,000	–	–	–	5,110,000	–	0.435	0.435	–
Sun Jun	24.11.2008	200,000	160,000	–	(40,000)	(60,000)	60,000	–	0.278	0.27	0.39
	14.07.2010	1,260,000	1,260,000	–	–	–	1,260,000	–	0.435	0.435	–
Xiong Guangyang	24.11.2008	1,150,000	920,000	–	(230,000)	(345,000)	345,000	–	0.278	0.27	0.39
	14.07.2010	4,320,000	4,320,000	–	–	–	4,320,000	–	0.435	0.435	–
Qiao Jiankang	14.07.2010	1,780,000	1,780,000	–	–	–	1,780,000	–	0.435	0.435	–

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 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%

(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:

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 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

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 to the above share options granted pursuant to the share option scheme adopted by the Company on 24 November 2008 ("2008 Scheme") (Continued):

* 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 "at date 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.

(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	1,760,000	Long position	0.03%

Note: The approximate percentage of interests held was calculated on the basis of 6,232,998,071 ordinary shares of GDI in issue as at 31 December 2011.

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

Name of Director	Date of grant of share options *(dd.mm.yyyy)*	Number of share options: At date of grant	At 1 January 2011	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2011	Total consideration paid for share options granted *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 at date immediately before the exercise date** *HK$ (per share)*
Ho Lam Lai Ping, Theresa	24.10.2008	2,400,000	1,440,000	–	–	–	1,440,000	–	1.88	1.73	–

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 :

(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%

(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 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

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):

* 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 "at date 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.

(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 *(Note)*
Ho Lam Lai Ping, Theresa	Personal	98,000	Long position	0.01%

Note: The approximate percentage of interests held was calculated on the basis of 1,711,536,850 ordinary shares of Kingway in issue as at 31 December 2011.

Save as disclosed above, as at 31 December 2011, 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 2011, so far as is known to any Director 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	Approximate percentage of interests held *(Note 1)*
廣東粵海控股有限公司 (Guangdong Holdings Limited) *(Note 2)*	Interests of controlled corporation	383,820,000	Long position	71.34%
GDH Limited	Beneficial owner	383,820,000	Long position	71.34%

Notes:

1. The approximate percentage of interests held was calculated on the basis of 538,019,000 ordinary shares of the Company in issue as at 31 December 2011.

2. 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.

Save as disclosed above, as at 31 December 2011, 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 2011, 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$0.10 each of the Company. Further details are set out in note 28 to the financial statements.

		Number of share options									
Category of participants	Date of grant of share options *(dd.mm.yyyy)*	At date of grant	At 1 January 2011	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2011	Total consideration paid for share options granted *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 at date immediately before the exercise date** *HK$ (per share)*
Senior management	24.11.2008	650,000	520,000	–	(130,000)	(195,000)	195,000	–	0.278	0.27	0.39
	14.07.2010	2,980,000	2,980,000	–	–	–	2,980,000	–	0.435	0.435	–
Employee	14.07.2010	570,000	570,000	–	–	–	570,000	–	0.435	0.435	–
Other participant	14.07.2010	2,040,000	2,040,000	–	–	–	2,040,000	–	0.435	0.435	–

Notes: Additional information regarding the above share options granted under the 2008 Scheme is set out in the notes 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 to 16.

SIGNIFICANT CONTRACTS WITH CONTROLLING SHAREHOLDER

Save as disclosed in notes 22, 23 and 33 to the financial statements, the Company, its controlling shareholders and its fellow 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 or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONNECTED TRANSACTIONS

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

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2011, the amount of purchases attributable to the Group's largest supplier represented 41% 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 63% of the Group's total purchases. In addition, the amount of turnover attributable to the Group's largest customer represented 19% of the Group's total turnover; and the aggregate amount of the turnover attributable to the Group's five largest customers represented 56% of the Group's total turnover. None of the Directors 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, 13 March 2012

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 is 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In the opinion of the directors of the Company (the "Director"), the Company has complied with the code provisions set out in the CG Code throughout the year ended 31 December 2011.

BOARD OF DIRECTORS

The 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 is 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 2011. The attendances of the Directors at the Board meetings are as follows:

Directors	Number of Attendance
Chen Hong	6/6
Sun Jun	6/6
Xiong Guangyang	4/6
Ho Lam Lai Ping, Theresa	5/6
Qiao Jiankang	6/6
Fung Lak	6/6
Choi Kam Fai, Thomas	6/6
Chan Cheong Tat	6/6

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 Company has assessed their independence and concluded that all the Independent Non-Executive Directors are independent within the definition of the Listing Rules.

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.

Corporate Governance Report

CHAIRMAN AND MANAGING DIRECTOR

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

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "Remuneration Committee") in June 2005. Details of the authority and duties of the Remuneration Committee are available on the Company's website.

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 2011, the Remuneration Committee held two meetings to review and approve the remuneration packages and 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.

Corporate Governance Report

NOMINATION COMMITTEE

The Company established a nomination committee (the "Nomination Committee") in June 2005. Details of the authority and duties of the Nomination Committee are available on the Company's website.

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 identifies suitable and qualified individuals 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 2011, the Nomination Committee held one meeting (i) to review the structure, size and composition of the Board; and (ii) to recommend to the Board the proposed re-election of Mrs. Ho Lam Lai Ping, Theresa and Mr. Choi Kam Fai, Thomas as Directors at 2011 annual general meeting of the Company. The attendance of each member of the Nomination Committee is set out as follows:

Directors	Number of Attendance
Chen Hong	1/1
Fung Lak	1/1
Choi Kam Fai, Thomas	1/1
Chan Cheong Tat	1/1

AUDIT COMMITTEE

An audit committee of the Company (the "Audit Committee") was established in September 1998. Details of the authority and duties of the Audit Committee are available on the Company's website.

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.

During the financial year ended 31 December 2011, the Audit Committee held three meetings. It reviewed the 2010 annual results and the 2011 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 three meetings as aforesaid, the Audit Committee also had a private meeting with the external auditors 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 and maintains an overview of the Group's risk assessment, control and management processes. It reviews the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function and their training programmes and budget. 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:

AUDIT COMMITTEE (CONTINUED)

Directors	Number of Attendance
Fung Lak	3/3
Choi Kam Fai, Thomas	3/3
Chan Cheong Tat	3/3

AUDITORS' REMUNERATION

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

Services rendered	Fee paid/payable *HK$'000*
Audit of Final Results	1,150
Review of Interim Results	280

ACCOUNTABILITY AND AUDIT

The Board is responsible for overseeing the preparation of financial statements for the year ended 31 December 2011, 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 2011, 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 3 months and 2 months respectively after the end of the relevant periods in accordance with the Listing Rules.

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.

INTERNAL CONTROL (CONTINUED)

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

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

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

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

By order of the Board
Chen Hong
Chairman

Hong Kong, 13 March 2012

Independent Auditors' Report

ERNST & YOUNG
安 永

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

We have audited the consolidated financial statements of Guangdong Tannery Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 29 to 92, which comprise the consolidated and company balance sheets as at 31 December 2011, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, 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
22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

13 March 2012

Consolidated Income Statement

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
REVENUE	5	**587,020**	520,737
Cost of sales		**(558,823)**	(488,857)
Gross profit		**28,197**	31,880
Other income and gains	5	**6,843**	12,561
Selling and distribution costs		**(1,956)**	(2,192)
Administrative expenses		**(22,492)**	(23,188)
Finance costs	6	**(5,385)**	(4,781)
PROFIT BEFORE TAX	6	**5,207**	14,280
Income tax expense	7	**(4,018)**	(8,068)
PROFIT FOR THE YEAR	10	**1,189**	6,212
EARNINGS PER SHARE	11		
– Basic		**HK0.22 cent**	HK1.16 cents
– Diluted		**HK0.22 cent**	HK1.15 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
PROFIT FOR THE YEAR		**1,189**	6,212
OTHER COMPREHENSIVE INCOME			
Surplus on revaluation of buildings	12	**184**	123
Income tax effect	26	**(46)**	(31)
		138	92
Exchange differences on translation of foreign operations		**22,404**	15,026
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**22,542**	15,118
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**23,731**	21,330

Consolidated Balance Sheet

31 December 2011

	Notes	**2011 HK$'000**	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**108,967**	103,519
Prepaid land lease payments	14	**14,566**	8,133
Total non-current assets		**123,533**	111,652
CURRENT ASSETS			
Inventories	16	**185,092**	151,878
Receivables, prepayments and deposits	17	**220,874**	168,121
Tax recoverable		**–**	514
Pledged deposits	18	**33,490**	32,314
Restricted bank balances	18	**1,850**	8,226
Cash and cash equivalents	18	**81,672**	107,718
Total current assets		**522,978**	468,771
CURRENT LIABILITIES			
Trade payables	19	**48,722**	46,539
Other payables and accruals		**30,149**	43,777
Interest-bearing bank and other borrowings	20	**90,357**	39,011
Due to a PRC joint venture partner	21	**1,131**	1,131
Loans from the immediate holding company	20, 22	**142,379**	87,779
Provision	24	**3,934**	3,748
Tax payable		**796**	–
Total current liabilities		**317,468**	221,985
NET CURRENT ASSETS		**205,510**	246,786
TOTAL ASSETS LESS CURRENT LIABILITIES		**329,043**	358,438
NON-CURRENT LIABILITIES			
Loan from a fellow subsidiary	20, 23	**–**	54,600
Deferred tax liabilities	26	**633**	717
Total non-current liabilities		**633**	55,317
Net assets		**328,410**	303,121
EQUITY			
Issued capital	27	**53,802**	53,762
Reserves	29(a)	**274,608**	249,359
Total equity		**328,410**	303,121

Chen Hong
Director

Sun Jun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

	Notes	Issued capital HK$'000	Share premium account HK$'000	Equity component of convertible notes HK$'000	General reserve fund HK$'000 (Note 29(a)(i))	Reserve funds HK$'000 (Note 29(a)(iii))	Share option reserve HK$'000 (Note 29(a)(iv))	Capital redemption reserve HK$'000	Exchange translation reserve HK$'000	Property revaluation reserve HK$'000	Special capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010		53,762	413,995	5,545	167,746	12,120	138	445	58,010	1,602	–	(432,339)	281,024
Profit for the year		–	–	–	–	–	–	–	–	–	–	6,212	6,212
Other comprehensive income for the year:													
Changes in fair value of buildings, net of tax		–	–	–	–	–	–	–	–	92	–	–	92
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	15,026	–	–	–	15,026
Total comprehensive income for the year		–	–	–	–	–	–	–	15,026	92	–	6,212	21,330
Equity-settled share option arrangements	28	–	–	–	–	–	767	–	–	–	–	–	767
Transfer from retained profits of a subsidiary established in the PRC		–	–	–	–	2,024	–	–	–	–	–	(2,024)	–
At 31 December 2010 and 1 January 2011		53,762	413,995*	5,545*	167,746*	14,144*	905*	445*	73,036*	1,694*	–*	(428,151)*	303,121
Profit for the year		–	–	–	–	–	–	–	–	–	–	1,189	1,189
Other comprehensive income for the year:													
Changes in fair value of buildings, net of tax		–	–	–	–	–	–	–	–	138	–	–	138
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	22,404	–	–	–	22,404
Total comprehensive income for the year		–	–	–	–	–	–	–	22,404	138	–	1,189	23,731
Issue of shares	27	40	136	–	–	–	(65)	–	–	–	–	–	111
Equity-settled share option arrangements	28	–	–	–	–	–	1,447	–	–	–	–	–	1,447
Share premium reduction	29(a)(ii)	–	(393,346)	–	–	–	–	–	–	–	–	393,346	–
Transfer from accumulated losses in accordance with the undertaking	29(a)(ii)	–	–	–	–	–	–	–	–	–	2,415	(2,415)	–
Transfer to accumulated losses upon issue of new ordinary shares	29(a)(ii)	–	–	–	–	–	–	–	–	–	(71)	71	–
Transfer from retained profits of subsidiaries established in the PRC		–	–	–	–	1,843	–	–	–	–	–	(1,843)	–
At 31 December 2011		53,802	20,785*	5,545*	167,746*	15,987*	2,287*	445*	95,440*	1,832*	2,344*	(37,803)*	328,410

* These reserve accounts comprise the consolidated reserves of HK$274,608,000 (2010: HK$249,359,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**5,207**	14,280
Adjustments for:			
Finance costs	6	**5,385**	4,781
Interest income	5	**(1,066)**	(937)
Depreciation	6	**8,542**	8,277
Provision/(reversal of provision) for inventories	6	**(12,667)**	345
Gain on disposal of items of property, plant and equipment	6	**(38)**	(365)
Gain on disposal of an investment property	5	**–**	(1,570)
Impairment of trade and other receivables, net	6	**331**	258
Deficit/(surplus) on revaluation of buildings	6	**521**	(895)
Recognition of prepaid land lease payments	6	**232**	172
Equity-settled share option expense	28	**1,447**	767
		7,894	25,113
Increase in inventories		**(12,405)**	(41,145)
Decrease/(increase) in receivables, prepayments and deposits		**(43,623)**	2,697
Decrease in trade payables		**(186)**	(9,780)
Decrease in other payables and accruals		**(15,783)**	(6,435)
Increase in interest-bearing bank borrowings		**48,293**	38,092
Cash generated from/(used in) operations		**(15,810)**	8,542
Interest received		**1,066**	937
Interest paid		**(4,726)**	(2,776)
Tax paid		**(2,833)**	(14,637)
Net cash flows used in operating activities		**(22,303)**	(7,934)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	12	**(9,625)**	(17,732)
Purchases of prepaid land lease payments	14	**(6,250)**	(69)
Decrease/(increase) in restricted bank balances		**6,464**	(1,721)
Decrease/(increase) in pledged deposits		**418**	(30,185)
Proceeds from disposal of an investment property		**–**	3,560
Proceeds from disposal of items of property, plant and equipment		**465**	1,005
Net cash flows used in investing activities		**(8,528)**	(45,142)

Consolidated Cash Flow Statement

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of convertible notes	25	–	(65,332)
Increase in loans from the immediate holding company		54,600	65,000
Decrease in a loan from a fellow subsidiary		(54,600)	–
Proceeds from issue of shares	27	111	–
Net cash flows from/(used in) financing activities		111	(332)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(30,720)	(53,408)
Cash and cash equivalents at beginning of year		107,718	157,014
Effect of foreign exchange rate changes, net		4,674	4,112
CASH AND CASH EQUIVALENTS AT END OF YEAR		81,672	107,718
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	18	81,672	107,718

Balance Sheet

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	8	22
Interests in subsidiaries	15	319,373	328,739
Total non-current assets		319,381	328,761
CURRENT ASSETS			
Prepayments and deposits		163	161
Cash and bank balances	18	3,328	1,956
Total current assets		3,491	2,117
CURRENT LIABILITIES			
Other payables and accruals		1,180	1,759
Loans from the immediate holding company	20, 22	142,379	87,779
Total current liabilities		143,559	89,538
NET CURRENT LIABILITIES		(140,068)	(87,421)
Net assets		179,313	241,340
EQUITY			
Issued capital	27	53,802	53,762
Reserves	29(b)	125,511	187,578
Total equity		179,313	241,340

Chen Hong
Director

Sun Jun
Director

Notes to Financial Statements

31 December 2011

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 廣東粵海控股有限公司 (Guangdong Holdings Limited), 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 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 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

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.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendment to HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 33 to the consolidated financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendment most applicable to the Group are as follows:

- HKAS 27 *Consolidated and Separate Financial Statements:* The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

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 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial & Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Asset*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

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 1 Amendments and HKAS 27 (2011), these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial positions.

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 and the basis on which the assets are to be realised upon its dissolution. The profits or 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) a subsidiary, if the Group/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 the joint venture's financial and operating policies;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (Continued)

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.

An assessment is made at each balance sheet 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 is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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 depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the 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. It 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 when completed and ready for use.

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.

Operating 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 income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under 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.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances and receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Subsequent measurement

The subsequent measurement of loans and receivables is as follows:

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 by 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 finance costs for loans and in other operating expenses for receivables.

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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset, when it 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that 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 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.

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.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to a PRC joint venture partner, and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Provisions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 jurisdictions 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:

- when 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, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

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.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

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 exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

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 payment 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit 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 scheme (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 arising on settlement or translation of monetary items 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 gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange translation 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.

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 balance sheet 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.

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 described 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 the 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

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.

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 2011 was HK$76,068,000 (2010: HK$68,392,000). Further details are contained in note 26 to the financial statements.

4. OPERATING SEGMENT INFORMATION

No separate analysis of operating 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 during the year.

Information about a major customer

Revenue of approximately HK$111,570,000 (2010: HK$103,200,000) was derived from sales to a single customer, which constituted 19% (2010: 20%) of total revenue, during the year ended 31 December 2011.

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:

	2011	2010
	HK$'000	*HK$'000*
Revenue		
Processing and sale of leather	**587,020**	520,737
Other income		
Gross rental income	**–**	97
Interest income	**1,066**	937
Sale of scrap materials	**2,761**	2,084
Others	**1,088**	6,514
	4,915	9,632
Gains		
Surplus on revaluation of buildings	**–**	895
Foreign exchange gain, net	**1,890**	99
Gain on disposal of an investment property	**–**	1,570
Gain on disposal of items of property, plant and equipment	**38**	365
	1,928	2,929
	6,843	12,561

6. PROFIT BEFORE TAX

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

	Notes	**2011** **HK$'000**	2010 HK$'000
Cost of inventories sold		**571,490**	488,512
Auditors' remuneration		**1,150**	1,128
Depreciation	12	**8,542**	8,277
Interest on:			
Bank loans and discounting bills receivable to banks		**2,314**	225
Convertible notes		**–**	2,620
Loans from the immediate holding company		**1,798**	917
Loan from a fellow subsidiary		**1,273**	1,019
		5,385	4,781
Employee benefit expense (excluding directors' remuneration *(note 8)*):			
Wages and salaries		**29,917**	26,743
Pension scheme contributions (defined contribution schemes)*		**2,331**	2,694
Equity-settled share option expense		**447**	239
		32,695	29,676
Provision/(reversal of provision) for inventories		**(12,667)**	345
Minimum lease payments under operating leases in respect of land and buildings		**756**	675
Amortisation of prepaid land lease payments	14	**232**	172
Rental income on an investment property less direct operating expenses (2010: HK$26,000)		**–**	(71)
Deficit/(surplus) on revaluation of buildings	12	**521**	(895)
Gain on disposal of items of property, plant and equipment		**(38)**	(365)
Impairment of trade and other receivables, net		**331**	258

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

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 (2010: 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.

	2011	2010
	HK$'000	*HK$'000*
Group:		
Current – Mainland China		
Charge for the year	**3,668**	7,844
Underprovision in prior years	**480**	–
Deferred *(note 26)*	**(130)**	224
Total tax charge for the year	**4,018**	8,068

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

Group – 2011

	Hong Kong	**Mainland China**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Profit/(loss) before tax	**(11,445)**	**16,652**	**5,207**
Tax at the statutory tax rate	**(1,888)**	**4,163**	**2,275**
Adjustments in respect of current tax of previous periods	**–**	**480**	**480**
Income not subject to tax	**(5)**	**(3,665)**	**(3,670)**
Expenses not deductible for tax	**607**	**1,387**	**1,994**
Tax losses utilised from previous periods	**–**	**(50)**	**(50)**
Tax losses not recognised	**1,286**	**1,703**	**2,989**
Tax charge at the Group's effective rate	**–**	**4,018**	**4,018**

7. INCOME TAX (CONTINUED)

Group – 2010

	Hong Kong *HK$'000*	Mainland China *HK$'000*	Total *HK$'000*
Profit/(loss) before tax	(11,959)	26,239	14,280
Tax at the statutory tax rate	(1,973)	6,560	4,587
Income not subject to tax	(430)	(344)	(774)
Expenses not deductible for tax	1,173	1,660	2,833
Tax losses not recognised	1,230	192	1,422
Tax charge at the Group's effective rate	–	8,068	8,068

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 **2011** ***HK$'000***	 2010 *HK$'000*
Fees	**450**	450
Other emoluments:		
Salaries, allowances and benefits in kind	**963**	844
Performance related bonuses*	**211**	1,221
Equity-settled share option expense	**1,000**	528
Pension scheme contributions	**262**	259
	2,436	2,852
	2,886	3,302

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

8. DIRECTORS' REMUNERATION (CONTINUED)

In 2010, 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:

	2011 *HK$'000*	2010 *HK$'000*
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 (2010: Nil).

(b) Executive directors and non-executive directors

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Performance related bonuses *HK$'000*	Equity-settled share option expense *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
2011						
Executive directors:						
Mr. Chen Hong	–	603	115	425	239	1,382
Mr. Sun Jun	–	360	96	99	23	578
	–	963	211	524	262	1,960
Non-executive directors:						
Mr. Xiong Guangyang	–	–	–	328	–	328
Mrs. Ho Lam Lai Ping, Theresa	–	–	–	–	–	–
Mr. Qiao Jiankang	–	–	–	148	–	148
	–	–	–	476	–	476
	–	963	211	1,000	262	2,436

8. DIRECTORS' REMUNERATION (CONTINUED)

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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2010						
Executive directors:						
Mr. Chen Hong	–	573	675	198	246	1,692
Mr. Sun Jun	–	271	546	55	13	885
	–	844	1,221	253	259	2,577
Non-executive directors:						
Mr. Xiong Guangyang	–	–	–	206	–	206
Mrs. Ho Lam Lai Ping, Theresa	–	–	–	–	–	–
Mr. Qiao Jiankang	–	–	–	69	–	69
	–	–	–	275	–	275
	–	844	1,221	528	259	2,852

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two (2010: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2010: three) non-director, highest paid employees for the year are as follows:

	Group 2011 HK$'000	Group 2010 HK$'000
Salaries and allowances	**1,410**	1,427
Pension scheme contributions	**43**	34
Equity-settled share option expense	**170**	79
	1,623	1,540

9. FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

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

	Number of employees	
	2011	2010
Nil to HK$1,000,000	**3**	3

In prior years, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures 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 non-director, highest paid employees' remuneration disclosures.

10. PROFIT/(LOSS) FOR THE YEAR

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2011 includes a loss of HK$63,585,000 (2010: profit of HK$2,410,000) 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 amounts is based on the profit for the year and the weighted average number of ordinary shares of 537,829,411 (2010: 537,619,000) in issue during the year.

The calculation of diluted earnings per share amounts 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.

11. EARNINGS PER SHARE (CONTINUED)

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

	2011 **HK$'000**	2010 *HK$'000*
Earnings		
Profit for the year, used in the basic earnings per share calculation	**1,189**	6,212
Interest on convertible notes	**–**	2,620*
Profit for the year, before interest on convertible notes	**1,189**	8,832

	Number of shares **2011**	2010
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**537,829,411**	537,619,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**503,943**	3,020,316
Convertible notes	**–**	19,864,456*
	538,333,354	560,503,772

* Because the diluted earnings per share amount is increased when taking the convertible notes into account, the convertible notes had an anti-dilutive effect on the basic earnings per share for the prior 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 prior year of HK$6,212,000 and the weighted average number of ordinary shares of 540,639,316 in issue in the prior year.

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 2011								
At 1 January 2011:								
Cost or valuation	42,168	12,362	84,670	2,745	666	7,999	20,741	171,351
Accumulated depreciation and impairment	–	(6,974)	(52,484)	(1,672)	(643)	(6,059)	–	(67,832)
Net carrying amount	42,168	5,388	32,186	1,073	23	1,940	20,741	103,519
At 1 January 2011, net of accumulated depreciation and impairment	42,168	5,388	32,186	1,073	23	1,940	20,741	103,519
Additions	516	943	591	139	–	6	7,430	9,625
Disposals	–	–	(286)	–	–	(141)	–	(427)
Deficit on revaluation	(337)	–	–	–	–	–	–	(337)
Depreciation provided during the year	(2,110)	(727)	(4,604)	(530)	(14)	(557)	–	(8,542)
Transfers	7,271	1,794	12,661	955	–	–	(22,681)	–
Exchange realignment	2,091	409	1,787	67	–	99	676	5,129
At 31 December 2011, net of accumulated depreciation and impairment	49,599	7,807	42,335	1,704	9	1,347	6,166	108,967
At 31 December 2011:								
Cost or valuation	49,599	15,776	98,979	3,994	666	6,784	6,166	181,964
Accumulated depreciation and impairment	–	(7,969)	(56,644)	(2,290)	(657)	(5,437)	–	(72,997)
Net carrying amount	49,599	7,807	42,335	1,704	9	1,347	6,166	108,967
Analysis of cost or valuation:								
At cost	–	15,776	98,979	3,994	666	6,784	6,166	132,365
At 31 December 2011 valuation	49,599	–	–	–	–	–	–	49,599
	49,599	15,776	98,979	3,994	666	6,784	6,166	181,964

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 2010								
At 1 January 2010:								
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
At 1 January 2010, net of accumulated depreciation and impairment	40,379	4,104	26,952	1,017	27	1,799	16,145	90,423
Additions	–	1,523	4,845	165	10	519	10,670	17,732
Disposals	–	–	(609)	–	–	(31)	–	(640)
Surplus on revaluation	1,018	–	–	–	–	–	–	1,018
Depreciation provided during the year	(1,716)	(473)	(5,273)	(298)	(14)	(503)	–	(8,277)
Transfers	1,265	–	5,235	152	–	79	(6,731)	–
Exchange realignment	1,222	234	1,036	37	–	77	657	3,263
At 31 December 2010, net of accumulated depreciation and impairment	42,168	5,388	32,186	1,073	23	1,940	20,741	103,519
At 31 December 2010:								
Cost or valuation	42,168	12,362	84,670	2,745	666	7,999	20,741	171,351
Accumulated depreciation and impairment	–	(6,974)	(52,484)	(1,672)	(643)	(6,059)	–	(67,832)
Net carrying amount	42,168	5,388	32,186	1,073	23	1,940	20,741	103,519
Analysis of cost or valuation:								
At cost	–	12,362	84,670	2,745	666	7,999	20,741	129,183
At 31 December 2010 valuation	42,168	–	–	–	–	–	–	42,168
	42,168	12,362	84,670	2,745	666	7,999	20,741	171,351

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Furniture, fixtures and equipment HK$'000
31 December 2011	
At 1 January 2011:	
Cost	384
Accumulated depreciation	(362)
Net carrying amount	22
At 1 January 2011, net of accumulated depreciation	22
Depreciation provided during the year	(14)
At 31 December 2011, net of accumulated depreciation	8
At 31 December 2011:	
Cost	384
Accumulated depreciation	(376)
Net carrying amount	8
31 December 2010	
At 1 January 2010:	
Cost	376
Accumulated depreciation	(348)
Net carrying amount	28
At 1 January 2010, net of accumulated depreciation	28
Additions	8
Depreciation provided during the year	(14)
At 31 December 2010, net of accumulated depreciation	22
At 31 December 2010:	
Cost	384
Accumulated depreciation	(362)
Net carrying amount	22

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$49,599,000 (2010: HK$42,168,000) based on their existing use, with a net revaluation deficit of HK$337,000 (2010: Net revaluation surplus: HK$1,018,000), consisting of a revaluation surplus of HK$184,000 (2010: Revaluation surplus: HK$123,000) credited to other comprehensive income and a revaluation deficit of HK$521,000 (2010: Revaluation surplus: HK$895,000) included in the income statement (note 6).

Had these buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts as at 31 December 2011 would have been approximately HK$47,012,000 (2010: HK$39,257,000).

13. INVESTMENT PROPERTY

	Group	
	2011	2010
	HK$'000	*HK$'000*
Carrying amount at 1 January	**–**	1,990
Disposal	**–**	(1,990)
Carrying amount at 31 December	**–**	–

In the prior year, the Group disposed of the investment property for a consideration of HK$3,560,000 and resulted in a gain of HK$1,570,000 (note 5). Prior to the disposal, the investment property was leased to third parties under an operating lease.

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2011	2010
	HK$'000	*HK$'000*
Carrying amount at 1 January	**8,308**	8,131
Additions	**6,250**	69
Recognised during the year *(note 6)*	**(232)**	(172)
Exchange realignment	**552**	280
Carrying amount at 31 December	**14,878**	8,308
Current portion included in receivables, prepayments and deposits	**(312)**	(175)
Non-current portion	**14,566**	8,133

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$6,341,000 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 2011 and that the land use right certificate can be received.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2011	2010
	HK$'000	*HK$'000*
Unlisted shares, at cost	**220,008**	220,008
Loans to subsidiaries	**305,014**	259,249
	525,022	479,257
Impairments#	**(205,649)**	(150,518)
	319,373	328,739

Impairments were recognised for certain unlisted investments and loans to subsidiaries with a total carrying amount of HK$240,080,000 (before deducting the impairments) (2010: HK$183,322,000) because these subsidiaries had been making losses persistently.

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

	2011	2010
	HK$'000	*HK$'000*
At 1 January	**150,518**	234,022
Impairment losses recognised	**55,131**	1,672
Impairment losses written off on disposal of a subsidiary	**–**	(85,176)
At 31 December	**205,649**	150,518

The loans to subsidiaries are unsecured, interest-free and are not repayable within one year from 31 December 2011. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries.

15. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries are as follows:

Name	Place of registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct (%)	Indirect (%)	Principal activities
徐州港威皮革有限公司 (Xuzhou Gangwei Leather Co., Ltd.) +	PRC/Mainland China	RMB18,000,000	100	–	Processing of cowhides and leather trading
徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.) + ("Xuzhou Tannery")	PRC/Mainland China	US$10,450,000	100	–	Processing of cowhides and leather trading
粵海制革(徐州)有限公司 (Guangdong Tannery (Xuzhou) Limited) +	PRC/Mainland China	US$9,000,000	100	–	Leather trading

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year and formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

16. INVENTORIES

	Group 2011 HK$'000	2010 HK$'000
Raw materials	46,075	54,148
Work in progress	99,447	67,013
Finished goods	39,570	30,717
	185,092	151,878

17. RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 31 December 2011, included in the Group's receivables, prepayments and deposits were trade and bills receivables with a net balance of HK$216,780,000 (2010: HK$161,109,000) 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	Group	
	2011	2010
	HK$'000	*HK$'000*
Current	**216,042**	160,771
Less than 3 months	**1,096**	902
3 to 6 months	**409**	115
Over 6 months	**695**	375
	218,242	162,163
Impairment	**(1,462)**	(1,054)
	216,780	161,109

17. RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

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

	Group	
	2011	2010
	HK$'000	*HK$'000*
At 1 January	**1,054**	763
Impairment losses recognised	**1,051**	567
Impairment losses reversed	**(703)**	(309)
Exchange realignment	**60**	33
At 31 December	**1,462**	1,054

The above provision for impairment of trade receivables is a provision for individually fully impaired trade receivables. The individually impaired trade receivables relate to customers that were in default or delinquency payments.

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

	Group	
	2011	2010
	HK$'000	*HK$'000*
Neither past due nor impaired	**216,042**	160,771
Less than 1 month past due	**629**	236
1 to 3 months past due	**109**	102
	216,780	161,109

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 the credit quality and the balances are still considered fully recoverable.

18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**117,012**	120,018	**3,328**	1,956
Time deposits	**–**	28,240	**–**	–
	117,012	148,258	**3,328**	1,956
Less: Pledged bank balances*	**(33,490)**	(19,351)	**–**	–
Pledged time deposits*	**–**	(12,963)	**–**	–
Restricted bank balances	**(1,850)**	(8,226)	**–**	–
	(35,340)	(40,540)	**–**	–
Cash and cash equivalents	**81,672**	107,718	**3,328**	1,956

* These bank balances and time deposits were pledged to banks for banking facilities granted to the Group (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$111,807,000 (2010: HK$145,402,000). 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 are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn 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.

The restricted bank balances represented bank balances frozen by court orders in relation to a pending litigation for which adequate provision had been accrued as at the balance sheet date to cover the exposure.

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	
	2011	2010
	HK$'000	*HK$'000*
Within 3 months	**24,486**	23,481
3 to 6 months	**20,234**	18,691
Over 6 months	**4,002**	4,367
	48,722	46,539

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

	2011			2010		
	Effective interest rate (%)	**Maturity**	**Amount *HK$'000***	Effective interest rate (%)	Maturity	Amount *HK$'000*
Current						
Trust receipt loans, secured	**3.10 – 5.24**	**2012**	**90,357**	2.63 – 3.60	2011	39,011
Loans from the immediate holding company *(note 22)*	**1.30 – 2.58**	**2012**	**142,379**	1.25 – 2.34	2011	87,779
			232,736			126,790
Non-current						
Loan from a fellow subsidiary *(note 23)*			**–**	1.75 – 2.03	2012	54,600
			232,736			181,390
Company						
Current						
Loans from the immediate holding company *(note 22)*	**1.30 – 2.58**	**2012**	**142,379**	1.25 – 2.34	2011	87,779

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Analysed into:				
Trust receipt loans repayable within one year	**90,357**	39,011	**–**	–
Other borrowings repayable within one year	**142,379**	87,779	**142,379**	87,779
Other borrowings not repayable within one year	**–**	54,600	**–**	–
	232,736	181,390	**142,379**	87,779

The Group's trust receipt loan facilities which are denominated in United States dollars and amounted to HK$251,160,000 (2010: HK$135,148,000) are secured by the pledge of certain of the Group's bank deposits and supported by corporate guarantees executed by the Company (2010: pledge of certain of the Group's bank deposits and supported by corporate guarantees executed by the Company and a subsidiary of the Company). HK$90,357,000 (2010: HK$39,011,000) had been utilised at 31 December 2011.

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

The carrying amounts of the Group's interest-bearing bank and other borrowings approximate to their fair values.

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:

	Group		Company	
	2011	2010	**2011**	2010
Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
(a)	**22,779**	22,779	**22,779**	22,779
(b)	**65,000**	65,000	**65,000**	65,000
(c)	**54,600**	–	**54,600**	–
	142,379	87,779	**142,379**	87,779

Notes:

(a) The balance represents an unsecured loan of US$2,920,000 (2010: US$2,920,000), which bears interest at 3-month LIBOR + 1% (2010: 3-month LIBOR + 1%) and is repayable within one year from 31 December 2011 (2010: repayable within one year from 31 December 2010).

(b) The balance represents an unsecured loan of HK$65,000,000 (2010: HK$65,000,000), which bears interest at 3-month HIBOR + 2% (2010: 3-month HIBOR + 2%) and is repayable on 9 August 2012 (2010: repayable on 9 August 2011).

(c) The balance represents an unsecured loan of US$7,000,000, which bears interest at 3-month LIBOR + 2% and is repayable on 30 December 2012.

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

23. LOAN FROM A FELLOW SUBSIDIARY

The balance at 31 December 2010 represented an unsecured loan of US$7,000,000 (equivalent to approximately HK$54,600,000) advanced from Guangdong Assets Management Limited ("Guangdong Assets Management"), a fellow subsidiary of the Company. The loan bore interest at 3-month LIBOR +1.5% and was not repayable within one year from 31 December 2010. The loan from a fellow subsidiary was fully repaid during the year.

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

24. PROVISION

Group

	Early termination of a joint venture agreement *HK$'000*
At 1 January 2011	3,748
Exchange realignment	186
At 31 December 2011	3,934

With respect to the Group's decision in August 2001 to curtail the operations of 青島南海皮廠有限公司 (Qingdao Nanhai Tannery Co., Ltd.) ("Qingdao Tannery"), a subsidiary of the Group, due to its continuous losses, provisions of RMB3,000,000 were made 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.

Qingdao Tannery is a Sino-foreign co-operative joint venture. Pursuant to the joint venture agreement, the registered capital of 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.

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 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.

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 a maturity date on the third anniversary of the date of issue of the convertible notes (the "Maturity Date"). GDH had 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. Any convertible notes not converted would be redeemed on the Maturity Date at a price of HK$1.0623 per HK$1 note. The notes carried interest at a rate of 1% per annum, payable semi-annually in arrears on 13 February and 13 August.

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

	2010 *HK$'000*
Nominal value of convertible notes	61,500
Equity component	(5,599)
Direct transaction costs attributable to the liability component	(537)
Liability component at the issuance date	55,364
Interest expense	11,813
Interest paid	(1,845)
Redeemed during the year	(65,332)
Liability component at 31 December	–

No convertible notes were converted, and the Company redeemed in full, the convertible notes on the Maturity Date, i.e., 12 August 2010, at a price of HK$1.0623 per HK$1 note.

26. DEFERRED TAX LIABILITIES

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

	Revaluation of properties HK$'000
At 1 January 2010	462
Deferred tax debited to the property revaluation reserve	31
Deferred tax debited to the income statement during the year *(note 7)*	224
At 31 December 2010 and 1 January 2011	**717**
Deferred tax debited to the property revaluation reserve	**46**
Deferred tax credited to the income statement during the year *(note 7)*	**(130)**
At 31 December 2011	**633**

The Group has tax losses arising in Hong Kong of HK$76,068,000 (2010: HK$68,392,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and the directors considered it is not probable that taxable profits will be available against which the tax losses can be utilised. As at 31 December 2011, the Group had no tax losses (2010: Nil) arising in the Mainland China that will expire in one to five years for offsetting against future taxable profits.

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 for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2011, 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$4,422,000 at 31 December 2011 (2010: HK$3,629,000).

27. SHARE CAPITAL

Shares

	2011 HK$'000	2010 HK$'000
Authorised:		
700,000,000 ordinary shares of HK$0.10 each	70,000	70,000
Issued and fully paid:		
538,019,000 (2010: 537,619,000) ordinary shares of HK$0.10 each	53,802	53,762

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

	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2010, 31 December 2010 and 1 January 2011	537,619,000	53,762	413,995	467,757
Share premium reduction *(note 29(a)(ii))*	–	–	(393,346)	(393,346)
Share options exercised	400,000	40	136	176
At 31 December 2011	538,019,000	53,802	20,785	74,587

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 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 who 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.

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 has 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.

28. SHARE OPTION SCHEME (CONTINUED)

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.

28. SHARE OPTION SCHEME (CONTINUED)

The following share options were outstanding during the year:

	2011 Weighted average exercise price per share HK$	2011 Number of options '000	2010 Weighted average exercise price per share HK$	2010 Number of options '000
At 1 January	0.422	19,660	0.278	2,000
Granted during the year	–	–	0.435	18,060
Exercised during the year	0.278	(400)	–	–
Lapsed during the year	0.278	(600)	0.278	(400)
At 31 December	0.430	18,660	0.422	19,660

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.51 (2010: no share options were exercised).

The exercise prices and exercise periods of the share options outstanding as at 31 December 2011 and 2010 are as follows:

2011

Number of options '000	Exercise price per share* HK$	Exercise period (dd.mm.yyyy)
200	0.278	24.11.2012 – 23.5.2014
400	0.278	24.11.2013 – 23.5.2014
7,224	0.435	14.7.2012 – 13.1.2016
5,418	0.435	14.7.2013 – 13.1.2016
1,806	0.435	14.7.2014 – 13.1.2016
3,612	0.435	14.7.2015 – 13.1.2016
18,660		

28. SHARE OPTION SCHEME (CONTINUED)

2010

Number of options '000	Exercise price per share* HK$	Exercise period (dd.mm.yyyy)
400	0.278	24.11.2010 – 23.5.2014
600	0.278	24.11.2011 – 23.5.2014
200	0.278	24.11.2012 – 23.5.2014
400	0.278	24.11.2013 – 23.5.2014
7,224	0.435	14.7.2012 – 13.1.2016
5,418	0.435	14.7.2013 – 13.1.2016
1,806	0.435	14.7.2014 – 13.1.2016
3,612	0.435	14.7.2015 – 13.1.2016
19,660		

* 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.

The fair values of the share options granted in the years 2008 and 2010 were HK$940,000 and HK$4,225,000 respectively of which the Group recognised an equity-settled share option expense of HK$1,447,000 (2010: HK$767,000) during the year ended 31 December 2011.

The fair value of equity-settled share options granted under 2008 scheme in 2010 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:

	2010
Dividend yield (%)	Nil
Expected volatility (%)	70.261
Risk-free interest rate (%)	1.64
Expected life of options (year)	5.5
Closing share price at date of grant (HK$)	0.435

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.

During the year ended 31 December 2011, 600,000 share options were lapsed and 400,000 share options were exercised under the 2008 Scheme.

The 400,000 share options exercised during the year resulted in the issue of 400,000 ordinary shares of the Company and new share capital of HK$40,000 and the share premium of HK$136,000 (before issue expenses), as further detailed in note 27 to the financial statements.

28. SHARE OPTION SCHEME (CONTINUED)

As at 31 December 2011 and at the date of approval of these financial statements, the Company had 18,660,000 share options outstanding under the 2008 scheme, which represented approximately 3.47% 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 18,660,000 additional ordinary shares of the Company and additional share capital of HK$1,866,000 and share premium of HK$6,157,000 (before issue expenses).

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 30,340,000, which represented approximately 5.64% of the issued share capital of the Company as at the date of this annual report.

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.

(i) 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 relating 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 Special Administrative Region of the PRC (the "Court") 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 accounts 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 relating to the goodwill arising from the acquisition of the subsidiaries in 1997.

29. RESERVES (CONTINUED)

(a) Group (Continued)

(ii) On 1 February 2011, a special resolution was passed by the shareholders of the Company for approving the reduction in share premium of the Company (the "Share Premium Reduction"). The purpose of the Share Premium Reduction is to reduce the credit standing to the share premium account of the Company to the extent of HK$393,345,845 and to apply the credit arising from such reduction to eliminate the accumulated losses of the Company by the same amount.

On 22 March 2011, the Court made an order (the "Order") confirming the Share Premium Reduction. An office copy of the Order was registered with the Registrar of the Companies on 29 March 2011 (the "Effective Date") in accordance with Section 61 of the Companies Ordinance. Accordingly, the Share Premium Reduction became effective immediately following the registration of the Order of the Court and the accumulated losses of the Company of HK$393,345,845 were eliminated against the Company's share premium account.

In connection with the application for the Share Premium Reduction (the "Application"), the Company undertakes that in the event of the Company making any future recoveries of the assets identified in the Application for which provision for impairment in value or amortisation was made in the accounts of the Company between 31 December 2000 and 30 June 2010 (the "Assets"), beyond their written down value in the Company's accounts as at 30 June 2010, all such recoveries beyond that written down value up to an amount of HK$150,345,170 (the "Limit"), will be credited to a special capital reserve in the accounting records of the Company (the "Special Capital Reserve") and that so long as there shall remain outstanding any debt of or claim against the Company which, if the Effective Date was the date of the commencement of the winding up of the Company, would be admissible to proof in such winding up and the persons entitled to the benefit of such debts or claims shall not have agreed otherwise, such reserve shall not be treated as realised profits for the purposes of section 79B of the Hong Kong Companies Ordinance and shall (for so long as the Company shall remain a listed company) be treated as an undistributable reserve of the Company for the purposes of section 79C of the Hong Kong Companies Ordinance, or any statutory re-enactments or modifications thereof provided that:

(1) the Company shall be at liberty to apply the Special Capital Reserve for the same purposes as a share premium account may be applied;

(2) the Limit in respect of the Special Capital Reserve may be reduced by the amount of any increase, after the Effective Date, in the amount standing to the credit of the share premium account of the Company as the result of the paying up of shares by the receipt of new consideration or the capitalisation of distributable profits;

29. RESERVES (CONTINUED)

(a) Group (Continued)

(ii) (Continued)

(3) the Limit in respect of the Special Capital Reserve may be reduced upon the disposal or other realisation, after the Effective Date, of the Assets by the amount of the impairment in value and amortisation made in relation to such asset as at 30 June 2010 less such amount (if any) as is credited to the Special Capital Reserve as a result of such disposal or realisation; and

(4) in the event that the amount standing to the credit of the Special Capital Reserve exceeds the Limit thereof after any reduction of such Limit pursuant to provisos (2) and/or (3) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution.

During the year ended 31 December 2011, recovery of the Assets by way of release of provision was HK$2,415,000. This resulted in a transfer of HK$2,415,000 from accumulated losses to the Special Capital Reserve of the Group.

During the period from the Effective Date to 31 December 2011, the share premium account was increased by HK$71,000 (before issue expenses), as a result of the issue of the Company's ordinary shares. Accordingly, the Special Capital Reserve was reduced by HK$71,000, and correspondingly, the same amount was capitalised to accumulated losses. In effecting the reduction and the capitalisation, the amount transferred from the Special Capital Reserve is kept to an amount not exceeding the balance of the Special Capital Reserve before such transfer.

As a result of the foregoing, the Limit, as adjusted, was HK$150,273,970 and the amount standing to the credit of the Group's Special Capital Reserve was HK$2,344,000 as at 31 December 2011.

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

(iv) The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or to retained profits should the related options expire or forfeited.

29. RESERVES (CONTINUED)

(b) Company

	Notes	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$'000	Special capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010		413,995	5,545	167,746	138	445	–	(403,468)	184,401
Equity-settled share option arrangements		–	–	–	767	–	–	–	767
Total comprehensive income for the year	10	–	–	–	–	–	–	2,410	2,410
At 31 December 2010 and 1 January 2011		**413,995**	**5,545**	**167,746**	**905**	**445**	**–**	**(401,058)**	**187,578**
Issue of shares		**136**	**–**	**–**	**(65)**	**–**	**–**	**–**	**71**
Equity-settled share option arrangements		**–**	**–**	**–**	**1,447**	**–**	**–**	**–**	**1,447**
Share premium reduction	29(a)(ii)	**(393,346)**	**–**	**–**	**–**	**–**	**–**	**393,346**	**–**
Transfer from accumulated losses in accordance with the undertaking	29(a)(ii)	**–**	**–**	**–**	**–**	**–**	**2,415**	**(2,415)**	**–**
Transfer to accumulated losses upon issue of new ordinary shares	29(a)(ii)	**–**	**–**	**–**	**–**	**–**	**(71)**	**71**	**–**
Total comprehensive loss for the year	10	**–**	**–**	**–**	**–**	**–**	**–**	**(63,585)**	**(63,585)**
At 31 December 2011		**20,785**	**5,545**	**167,746**	**2,287**	**445**	**2,344**	**(73,641)**	**125,511**

The Company's general reserve fund and special capital reserve represent undistributable reserves 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	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees given to banks for banking facilities granted to a subsidiary	**–**	–	**251,160**	68,749
Banking facilities with the Company's guarantees utilised by a subsidiary	**–**	–	**90,357**	26,149

31. OPERATING LEASE ARRANGEMENTS

As lessee

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

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Within one year	**400**	96
In the second to fifth years, inclusive	**433**	–
	833	96

32. COMMITMENTS

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Contracted, but not provided for:				
Land and buildings	**2,357**	11,601	**–**	–
Leasehold improvements	**62**	411	**–**	–
Plant and machinery	**1,956**	1,169	**–**	–
	4,375	13,181	**–**	–
Authorised, but not contracted for:				
Land and buildings	**–**	23,302	**–**	–
Plant and machinery	**–**	52,570	**–**	–
	–	75,872	**–**	–
	4,375	89,053	**–**	–

33. RELATED PARTY TRANSACTIONS

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

	Notes	Group 2011 HK$'000	2010 HK$'000
Office rental paid to a fellow subsidiary	(i)	**345**	282
Computer system maintenance service fees paid to the immediate holding company	(ii)	**150**	159
Interest expenses to the immediate holding company	(iii)	**1,798**	3,537
Interest expense to a fellow subsidiary	(iv)	**1,273**	1,019

Notes:

(i) The office rental was charged by a fellow subsidiary at HK$28,800 per month (2010: HK$23,467 per month) commencing from 6 February 2011 in accordance with the terms of the rental agreement between the Group and the fellow subsidiary. At the balance sheet date, the Group had a rental deposit of HK$86,400 (2010: HK$84,480) with the fellow subsidiary.

(ii) The immediate holding company charged maintenance service fees at HK$12,465 per month for the year ended 31 December 2011 (2010: HK$13,265 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) Commitments with related parties:

On 1 April 2011, the Company entered into a three-year office rental agreement ending 5 February 2014 with Global Head Developments Limited, a fellow subsidiary of the Company. The total operating lease commitments due within one year and in the second to fifth year as at 31 December 2011 were approximately HK$346,000 and HK$379,000, respectively.

(c) 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 31 December 2010 are included in note 25 to the financial statements.

(d) 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 (c)(ii) above also constituted connected transactions as defined in Chapter 14A of the Listing Rules.

34. PLEDGE OF ASSETS

As at 31 December 2011, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

		Group	
	Note	**2011**	2010
		HK$'000	*HK$'000*
Bank balances and deposits	*18*	**33,490**	32,314

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	
	2011	2010
	Loans and receivables	Loans and receivables
	HK$'000	*HK$'000*
Trade and bills receivables	**216,780**	161,109
Financial assets included in prepayments, deposits and other receivables	**21**	237
Pledged deposits	**33,490**	32,314
Restricted bank balances	**1,850**	8,226
Cash and cash equivalents	**81,672**	107,718

Financial liabilities

	Group	
	2011	2010
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK$'000	*HK$'000*
Trade payables	**48,722**	46,539
Financial liabilities included in other payables and accruals	**22,021**	29,268
Interest-bearing bank and other borrowings	**90,357**	39,011
Due to a PRC joint venture partner	**1,131**	1,131
Loans from the immediate holding company	**142,379**	87,779
Loan from a fellow subsidiary	**–**	54,600

35. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial assets

	Company	
	2011	2010
	Loans and receivables	Loans and receivables
	HK$'000	*HK$'000*
Financial assets included in prepayments and deposits	**21**	21
Cash and bank balances	**3,328**	1,956

Financial liabilities

	Company	
	2011	2010
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK$'000	*HK$'000*
Financial liabilities included in other payables and accruals	**1,180**	1,759
Loans from the immediate holding company	**142,379**	87,779

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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 debt obligations at floating interest rates, in the opinion of the directors, the Group had no significant concentration of interest rate risk.

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$'000*
2011		
Hong Kong dollar	**100**	**(650)**
United States dollar ("US$")	**100**	**(774)**
Hong Kong dollar	**(10)**	**65**
US$	**(10)**	**77**
2010		
Hong Kong dollar	100	(650)
US$	100	(774)
Hong Kong dollar	(10)	65
US$	(10)	77

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 81% (2010: 77%) 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.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (Continued)

	Increase/ (decrease) in exchange rate *(%)*	Increase/ (decrease) in profit before tax *HK$'000*
2011		
If RMB weakens against US$	**(1)**	**(4,350)**
If RMB strengthens against US$	**3**	**13,051**
2010		
If RMB weakens against US$	(1)	(3,507)
If RMB strengthens against US$	3	10,522

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.

The credit risk of the Group's other financial assets, which comprises cash and cash equivalents, pledged deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts 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 spreads over a diversified portfolio of customers, there are no significant concentrations of credit risk within the Group.

Further details of the credit policy and 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 and other interest-bearing loans.

The Group's policy in previous years was that interest-bearing borrowings constituting not more than 50% of the total financial liabilities should mature in any 12-month period. The policy is amended and the Group is to regularly monitor its liquidity to ensure it maintains sufficient reserves of cash and cash equivalents and adequate committed lines of funding from major financial institutions and the immediate holding company to meet its liquidity requirements in the short and longer term.

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, is as follows:

Group

	2011				
	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	**24,236**	**24,486**	**–**	**–**	**48,722**
Other payables	**22,021**	**–**	**–**	**–**	**22,021**
Interest-bearing bank and other borrowings	**–**	**90,728**	**–**	**–**	**90,728**
Due to a PRC joint venture partner	**1,131**	**–**	**–**	**–**	**1,131**
Loans from the immediate holding company	**–**	**–**	**142,379**	**–**	**142,379**
	47,388	**115,214**	**142,379**	**–**	**304,981**

	2010				
	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	23,058	23,481	–	–	46,539
Other payables	29,268	–	–	–	29,268
Interest-bearing bank and other borrowings	–	39,226	–	–	39,226
Due to a PRC joint venture partner	1,131	–	–	–	1,131
Loans from the immediate holding company	–	–	87,779	–	87,779
Loan from a fellow subsidiary	–	–	–	54,600	54,600
	53,457	62,707	87,779	54,600	258,543

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

Company

	2011				
	On demand	Less than 3 months	3 to less than 12 months	Over 1 year	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	**1,180**	**–**	**–**	**–**	**1,180**
Loans from the immediate holding company	**–**	**–**	**142,379**	**–**	**142,379**
Guarantees given to banks in connection with facilities granted to a subsidiary	**90,357**	**–**	**–**	**–**	**90,357**
	91,537	**–**	**142,379**	**–**	**233,916**

	2010				
	On demand	Less than 3 months	3 to less than 12 months	Over 1 year	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	1,759	–	–	–	1,759
Loans from the immediate holding company	–	–	87,779	–	87,779
Guarantees given to banks in connection with facilities granted to a subsidiary	26,149	–	–	–	26,149
	27,908	–	87,779	–	115,687

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 shareholders' 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 2011 and 2010.

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 equity attributable to equity holders of the parent 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. The gearing ratios as at the balance sheet dates were as follows:

	2011	2010
	HK$'000	*HK$'000*
Interest-bearing bank and other borrowings	**90,357**	39,011
Loans from the immediate holding company *(note 22)*	**142,379**	87,779
Loan from a fellow subsidiary *(note 23)*	**–**	54,600
Total debt	**232,736**	181,390
Equity attributable to equity holders of the parent	**328,410**	303,121
Total debt and equity	**561,146**	484,511
Gearing ratio	**41%**	37%

37. LITIGATION

In December 2009, Xuzhou Tannery received a writ summons from an independent PRC construction contractor (the "PRC Contractor") claiming an outstanding construction cost of approximately RMB5,100,000 (equivalent to HK$5,994,000) and related interest of RMB270,000 (equivalent to HK$317,000) in respect of three construction contracts entered into 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$6,463,000). 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$3,218,000) and economic losses of RMB3,006,000 (equivalent to HK$3,533,000). These cases were fully settled during the year ended 31 December 2011 and the related frozen bank balance was released.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13 March 2012.

粵海制革有限公司
GUANGDONG TANNERY LIMITED