2007年年報

Annual Report 2007

粵海制革有限公司

GUANGDONG TANNERY LIMITED

（股份代號 Stock Code: 1058）

GDH

Contents

Corporate Information

Board of Directors

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

* *Independent Non-Executive Director*
\# *Non-Executive Director*

Company Secretary

Lee Wai Mei

Auditors

Ernst & Young

Registered Office

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148 Connaught Road Central
Hong Kong

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Share Registrar and Share Transfer Office

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

Listing Information

Stock Code: 1058

Website

http://www.gdtann.com.hk

Results

I am pleased to report to the shareholders that the Group's consolidated net profit attributable to shareholders for 2007 was HK$11,576,000 (2006: HK$20,657,000), a decrease of 44.0% over last year. The basic earnings per share was HK cents 2.16 (2006: HK cents 3.94), representing a decrease of 45.2% compared with last year. The decrease in consolidated net profit was mainly due to the non-operating income from the disposal of subsidiaries of HK$14,119,000 was included in the profit of last year. Excluding such factor, the Group's consolidated net operating profit attributable to shareholders was increased significantly by HK$5,038,000 (77.1%).

Dividend

The board of directors (the "Board") of the Company does not recommend the payment of a final dividend for the year ended 31 December 2007 (2006: Nil).

Review

During the year under review, the Group maintained a pragmatic strategy of large-scale operation and implemented a sound enterprise development strategy in a timely manner. As a result, the Group's overall market position and operating results have been further improved and the Company's strategic development has taken the crucial first step as well. In the area of production management, the Group continued to improve its operation management capabilities by carrying out operating budgetary control system, realize large-scale operation by outsourcing upstream processing activities, consolidate and expand its supply and sales market efficiently by increasing direct sales to renowned footwear manufacturers and establishing a strategic cooperation mechanism with suppliers. In the area of strategic development, with the ground-breaking progress in both the relocation and technical renovation project of Xuzhou Nanhai Leather Factory Co., Ltd. and the planning of a new Jinsanqiao project in Xuzhou Economic Development Zone, the Group has entered in a positive stage of rapid development.

2007 was a difficult year for the tannery industry in China. Firstly, due to the high anti-dumping tax imposed by the European Union on footwear products originating from China, the footwear industry suffered a decline and the upstream leather manufacturing market was weakened. Secondly, China launched a set of macroeconomic regulation and control policies, such as lowering or abolishing the export tax refund rate for leather products, tightening the environmental protection policy and the monetary policy. These have imposed enormous pressure on the tannery industry in terms of costs, funding and environmental protection. Besides, the surging prices of agricultural and its by-products (such as cooking oil and feeds) coupled with that of basic energy products (such as crude oil) resulting in the constant price increase in raw materials and chemical materials for producing leather products, and thus reducing the profitability of the tannery industry. Facing the above difficulties, the Group implemented the dual strategies of large-scale operation and rolling development. The large-scale operation enabled the Group to earn profit and get through the difficult times, while the rolling and gradual development of new projects enabled the Group to have a solid foundation for future development.

Review (Continued)

To solve the long-existing problems of lacking synergy between the upstream and downstream processing capacities and insufficient capacity in environmental protection issues, the Group had undertaken two measures: (i) increase the outsourcing of upstream processing activities to meet downstream production's demand for chromed hides, hence, realizing the synergy between the upstream and downstream processing capacities and reducing the pressure on sewage discharge; (ii) carry out the relocation and technical renovation project of Xuzhou Nanhai Leather Factory Co., Ltd., enhancing the insufficient production capacity in its existing upstream production. The project is estimated to be completed and become operational in the fourth quarter of 2008. By then, the problem of lacking synergy between the upstream and downstream processing capacities will be resolved fundamentally, and the pressure on environmental protection issues will also be greatly relieved.

Apart from the result of large-scale operation and outsourcing strategy, the other important factors for the steady growth of the operating results in Xuzhou production base are as follows: (i) The Group became vice president unit of the China Leather Industry Association during the year. Through its active participation in the industry association, the Group enhanced its understanding on the policy and developing trends of the industry, strengthened its influence on the formulation of industry policy, and obtained first-hand information on the development policy, product trends and market information of the leather industry. Besides, the Group also established the information collecting mechanism of the market and competitors through its sales and supply channels, so as to grasp the pulse of the market and the industry in a timely manner; (ii) The production division reinforced the three aspects of production management, namely, "work, technology and statistics". As a result, a harmonious combination between different production elements in production processes was achieved, the importance of production technology was further highlighted, the consistent style and quality, greater variety and a further optimized structure of the products were gained; (iii) By establishing the strategic cooperation mechanism with suppliers, the Group further enforced measures like direct purchase, procurement through tender processes and foresighted strategic procurement, so as to meet the demand for large-scale production, establish a diversified and transparent supervision system on procurement, control cost efficiently within a reasonable range even in the period of the substantial price surging in raw materials, and create a safe and sound supplier channel; and (iv) By successfully fostering and developing a multi-level sales network with direct sales to renowned footwear manufacturers as the main channel, the Group was able to meet the market demand better. The Group also pursued diversification in its product mix. The Group not only has high-end products for branding and occupying the high-end market, but also has low-end products for disposing products with minor defects and thus reducing production and sales costs. In addition to expanding its business to new markets and building its brand image, the Group also adjusted its product structure by increasing the production of high-end products with high added value. This would capture more market share and develop a comprehensive platform for the Group's sustainable profit growth.

Prospects

2007 was the first year when the Group implemented the strategic development plan and a year when the tannery industry in China suffered the most from industry consolidation. Although the macroeconomic regulation and control policies promulgated from time to time have imposed significant impact to the tannery industry, the Group continues to, based on the core enterprise culture of "faith, integrity and efficiency", focus on the core mission of corporate development and adhered to a practical and steady development strategy, making concerted efforts and working hard. As such, the Group has achieved a great progress and accelerated the further growth of its overall market share and operating results.

Prospects (Continued)

We anticipate that the Group will have to encounter a number of difficulties in 2008. Nevertheless, the Group will strive to implement a series of measures to overcome those difficulties. Such measures consist of (1) continue to consolidate the existing operation, steady the processing channels of upstream production activities, accelerate the development of relocation and technical renovation project of Xuzhou Nanhai Leather Factory Co. Ltd, and the Group recently confirmed the construction of upstream production processing project with Xuzhou Jiawang People's Government and acquire scarce resources such as lands and environment protection quotas; (2) continue to improve the supply and sales channels, manage the raw material resources and optimize the structure of customers, so as to maintain a robust financial condition. Furthermore, the Group will actively seek opportunities in industry upgrade. It will increase its effort in the research and production of high-tech leather products with higher add-value, and to expand its market share in a proper way, thus to strengthen its position in the tannery industry and lay out solid basis for the goal of being the top in the industry.

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

Zhang Chunting
Chairman

Hong Kong, 8 April 2008

Results

The Group's consolidated profit attributable to shareholders for the year ended 31 December 2007 was HK$11,576,000, representing a decrease of HK$9,081,000 or 44.0% when compared with the profit for the same period of last year. The decrease in profit was mainly due to the gain from disposal of subsidiaries of HK$14,119,000 was included in the profit of last year. Excluding such factor, the Group's consolidated net operating profit attributable to shareholders was increased significantly by HK$5,038,000 (77.1%).

The net asset value of the Group as at 31 December 2007 was HK$243,182,000, representing an increase of HK$43,461,000 and HK$23,864,000 as compared to the net asset value as at 31 December 2006 and 30 June 2007 respectively.

The Board does not recommend the payment of final dividend for the year ended 31 December 2007.

Business Review

After the completion of disposal of idle assets last year, the Group continues with the large scale operating strategy. The business in Xuzhou production base has been growing rapidly. By increasing the volume of outsourced upstream processing activities, the problem originated from the lack of synergy between upstream and downstream processing capacities has been solved and the environmental protection pressure has been effectively lessened as well. Meanwhile, the bottleneck problem in production has been solved due to the expansion of production venues and reconstruction of equipment, and the productivity has been further enhanced. The Group's cowhides production volume for the year was 31,922,000 sq. ft., an increase of 8,875,000 sq. ft. compared to 23,047,000 sq. ft. for the same period last year. It laid out a solid foundation for the implementation of the large scale operating strategy.

During the year, the consolidated turnover of the Group was HK$626,618,000, representing an increase of HK$206,643,000, or 49.2% from HK$419,975,000 of the same period of last year. The turnover of cowhides amounted to HK$542,642,000 (2006: HK$373,013,000), an increase of 45.5%; the turnover of grey hides and other products amounted to HK$83,976,000 (2006: HK$46,962,000), an increase of 78.8%. Being affected by the negative factors such as price increase in agricultural by-products, output limitation by environmental protection issues and the cease of operation due to governance, the unit cost of cowhides has been pushed even higher. Facing the pressures above, the Group activated the strategic cooperation mechanism with suppliers to obtain a more favorable credit policy than those of market standard. Meanwhile, the Group further enforced measures such as direct purchase, procurement through tender processes and foresighted strategic procurement, aiming to lower costs and satisfy the needs of large-scale operation.

Business Review (Continued)

During the year, the Group has achieved a break through in strategic development. Under the State's constant launch of macroeconomic regulation and control policies such as "Energy Conservation & Emission Reduction" and "Regulating Land Supply", with multi-party effort and negotiation, the Group entered into an investment project agreement with the Suining Government and the Xuzhou Economic Development Management Committee, respectively, on 5 November 2007. The Group committed to construct a new factory in both Suining County and Xuzhou Economic Development Zone. The Suining County project ("Relocation & Technical Renovation Project of Xuzhou Nanhai Leather Factory Co., Ltd.") will engage in upstream processing of leather products while the Xuzhou Economic Development Zone project ("Xuzhou Jinsanqiao Economic Development Zone New Project") will engage in downstream processing of leather products. With a construction contract amounting to approximately HK$80,331,000, the monthly production capacity of the Relocation & Technical Renovation Project of Xuzhou Nanhai Leather Factory Co., Ltd. will be 3,500,000 sq. ft. and it is expected to become operational in the fourth quarter of 2008. With a construction contract amounting to approximately HK$80,757,000, the monthly production capacity of Xuzhou Jinsanqiao Economic Development Zone New Project will be 1,500,000 sq. ft. and it is expected to become operational by the end of 2009. Upon the projects are fully in operation, the Group will be equipped with a monthly production capacity of 5,000,000 sq. ft. from upstream and downstream processing activities.

In addition, the Group entered into a project agreement with Xuzhou Jiawang People's Government on 19 March 2008, pursuant to which the Group undertook to construct production plant in Jiawang Chemical Industrial Development Zone in Xuzhou City for the upstream processing of leather products. The construction contract amount is anticipated to be approximately HK$60,320,000. The production plant is expected to become operational by 2010 and achieve an upstream production capacity of 3,500,000 sq. ft. per month. The profitability of the Group is expected to further improve in the future.

Financial Review

Liquidity and Financial Resources

As at 31 December 2007, the Group's cash and cash equivalents amounted to HK$60,995,000 (as at 31 December 2006: HK$41,536,000), representing an increase of HK$19,459,000 or 46.8% when compared with the same as at 31 December 2006, which were denominated in Hong Kong dollars (47.2%), Renminbi (51.6%) and US dollars (1.2%) respectively. During the year, net cash outflow from operating activities was HK$97,379,000, which mainly represented our foresighted purchase strategy on a mass scale of raw materials to ensure our production and minimize the effect of rise in prices of raw materials. Our net cash inflow from financing activities was HK$133,311,000, which was used to fund the general production need and new projects.

Financial Review (Continued)

Liquidity and Financial Resources (Continued)

As at 31 December 2007, the Group's interest-bearing borrowings amounted to HK$261,951,000 (as at 31 December 2006: HK$100,309,000). Of which, interest-bearing borrowings in Hong Kong dollars amounted to HK$67,091,000, interest-bearing borrowings in Renminbi amounted to HK$70,855,000, and interest-bearing borrowings in US dollars amounted to HK$124,005,000. The Group's borrowings are consisting of: (1) balances of short-term bank borrowings of HK$97,544,000; (2) balances of long-term and short-term intra-group borrowings of HK$107,666,000; and (3) balances of convertible notes held by the Group's immediate holding company of HK$56,741,000. During the year, the Group entered into the Subscription Agreement with GDH, the immediate holding company of the Group, in relation to the subscription of the convertible notes in an aggregate principal amount of HK$61,500,000 with a term of three years. The interest rate is 1% per annum and the conversion price is HK$1.90 per conversion share. The proceeds are used to fund the needs of the Group's general operation and production. Other than the convertible notes, which was charged at 1% per annum, all of these interest-bearing borrowings were charged at floating interest rate.

As at 31 December 2007, after deduction of the cash and bank balances, the Group's gearing ratio of the net value of interest-bearing borrowings to adjusted capital (including convertible notes and shareholders' equity) plus net value of interest-bearing borrowings was 32.5% (as at 31 December 2006: 23.0%). The annual interest rate of the borrowings was approximately 4.9% to 7.5%. Of the Group's total borrowings, all are repayable within one year except for the amount due to immediate holding company and convertible notes with an aggregate amount of HK$86,308,000 and HK$56,741,000 respectively. During the year, the Group's interest expenses amounted to HK$10,846,000, an increase of 89.4% from the same period of last year.

At present, the Group mainly raises funds through internal funding from operating activities, borrowings advanced from immediate holding company and credit facilities granted by banks. To cater for the development needs of several new projects, it is expected that in the future the Group will invest a substantial amount of capital expenditure for building new factories. Nonetheless, it is believed that the Group has sufficient funds to satisfy the needs of current production. We are also committed to maintain a good inventory system, strengthen risk control over account receivables, increase market share, and examine various means of funding to provide sufficient fund in order to satisfy the development needs of future projects.

Capital Expenditure

As at 31 December 2007, the net value of non-current assets including land, property, plant and equipments and investment property amounted to HK$47,212,000, an increase of HK$12,427,000 over the net value as at 31 December 2006 of HK$34,785,000. The capital expenditure for the year amounted to HK$15,826,000 (2006: HK$6,525,000), which was mainly due to the renewal and purchase of leather manufacturing machines and equipments, and the deposits for the land and construction works of Relocation & Technical Renovation Project of Xuzhou Nanhai Leather Factory Co., Ltd. to cope with the production and development requirements of the production base in Xuzhou.

Pledge of Assets

As at 31 December 2007, certain of the Group's bank deposits, note receivables, inventories, buildings, plant and equipments with a total net book value of HK$91,844,000 (as at 31 December 2006: HK$16,568,000) were pledged to secure general banking facilities granted to the Group.

Financial Review (Continued)

Risk of Exchange Rate

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

Remuneration Policy for Employees

As at 31 December 2007, a total of 993 employees (2006: 871) were employed by the Group. The remuneration policy is based on the Group's operating results and the employee's performance. The Group offered social and medical insurance and provident fund to all employees in different areas. The Company has adopted a share option scheme in May 2002, and the purpose of which is to provide incentives to participants to contribute to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

Prospects

2007 was the first year when the Group implemented the strategic development plan and a year when the tannery industry in China suffered the most from industry upgrade. Facing the launch of macroeconomic regulation and control policies in China, the Group will continue to uphold the beliefs of "faith, integrity and efficiency". In addition to seeking business development upon a solid foundation, the Group will actively seize the opportunity of industry upgrade so as to consolidate our position in the industry. We will also further accelerate the constructing pace of new projects, and look forwards to have a greater profit contribution from fully operational projects.

Biographical Details of Directors and Senior Management

(A) Executive Directors

Mr. Zhang Chunting (Age: 43)

Mr. Zhang was appointed the Chairman of the Company in February 2004. He joined the Group and was appointed deputy general manager of the Company in March 2002. He is a senior economist in the People's Republic of China ("PRC") and holder of doctorate degree in economics at the Fudan University in the PRC. Prior to joining the Company, Mr. Zhang worked as the governor of a bank's sub-branch and subsequently worked for a securities firm in Mainland China and was responsible for senior management and research duties.

Mr. Ren Yingguo (Age: 54)

Mr. Ren was appointed the Managing Director of the Company in March 2008. He is an economist in the PRC. He was graduated from 中國成都電訊工程學院 (Chengdu Telecommunication Engineering College of PRC) . Mr. Ren is also appointed certain posts of wholly-owned subsidiaries of the Company (including acting as 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 (Xu Zhou) Limited); and acting as a deputy project director of 粵海制革(徐州)有限公司 (Guangdong Tannery (Xu Zhou) Limited) and relocation project of 徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.)). Prior to joining the Company, he was appointed the managing director of 深圳市東深投資控股有限公司 (Shenzhen Dongshen Investment Holding Co. Ltd.) ("Dongshen") in May 2003. Dongshen is a wholly-owned subsidiary of 廣東粵海控股有限公司 (Guangdong Holdings Limited)(formerly known as 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited)), the ultimate controlling shareholder of the Company. Mr. Ren has engaged in corporate management since 1982. He has nearly 30 years' experience in corporate works.

(B) Non-Executive Directors

Mr. Zhang Yaping (Age: 55)

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

(B) Non-Executive Directors (Continued)

Mr. Xiong Guangyang (Age: 54)

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

Mrs. Ho Lam Lai Ping, Theresa (Age: 52)

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

(C) Independent Non-Executive Directors

Mr. Fung Lak (Age: 60)

Mr. Fung was appointed an Independent Non-Executive Director of the Company in November 2002. Mr. Fung holds a bachelor degree in Science (Economics) major in Accounting and Finance from the London School of Economics and Political Science of University of London. He is also a fellow member of Hong Kong Institute of Certified Public Accountant, an associate member of the Institution of Chartered Accountants in the United Kingdom, a fellow member of the Association of Chartered Certified Accountants and a member of the Taxation Institute of Hong Kong. Mr. Fung was the former president of the Society of Chinese Accountants and Auditors. Mr. Fung has over 20 years' experience in the accounting and finance and is a director of Lak & Associates C.P.A. Limited.

Mr. Choi Kam Fai, Thomas (Age: 62)

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

(C) Independent Non-Executive Directors (Continued)

Mr. Chan Cheong Tat (Age: 58)

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

(D) Senior Management

The senior management of the Group comprises the Executive Directors above (namely Mr. Zhang Chunting and Mr. Ren Yingguo) and Ms. Lee Wai Mei, the Chief Financial Officer and the Company Secretary of the Company.

Ms. Lee Wai Mei (Age: 33)

Ms. Lee was appointed the Chief Financial Officer and the Company Secretary of the Company in May 2005 and June 2006 respectively. She has over 12 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.

The directors (the "Directors") of Guangdong Tannery Limited (the "Company") herein present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007.

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 and associate of the Company are set out in notes 15 and 16 to the financial statements respectively. There were no significant changes in the nature of the Group's principal activities during the year.

Results and Dividends

The results of the Group for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 94.

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 2007.

Financial Summary

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

Results

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Restated)	(Restated)	(Restated)
Turnover	**626,618**	419,975	258,543	281,951	381,601
Profit/(Loss) from operating activities	**28,301**	31,146	8,604	11,941	(95,118)
Finance costs	**(10,846)**	(5,726)	(3,734)	(5,734)	(5,948)
Profit/(Loss) before tax	**17,455**	25,420	4,870	6,207	(101,066)
Tax	**(5,879)**	(4,763)	533	(1,203)	286
Profit/(Loss) for the year	**11,576**	20,657	5,403	5,004	(100,780)

Financial Summary (Continued)

Assets and liabilities

	As at 31 December				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Restated)	(Restated)	(Restated)
Assets					
Property, plant and equipment, Investment property and prepaid land lease payments	**47,212**	34,785	86,325	95,031	100,228
Interest in an associate	**—**	1,219	4,336	—	—
Current assets	**544,153**	345,858	291,636	301,883	361,503
Total assets	**591,365**	381,862	382,297	396,914	461,731
Liabilities					
Current liabilities	**204,177**	150,695	205,146	233,002	300,824
Long term liabilities	**144,006**	31,446	4,717	4,765	4,196
Total liabilities	**348,183**	182,141	209,863	237,767	305,020
Net assets	**243,182**	199,721	172,434	159,147	156,711

Property, Plant and Equipment and Investment Property

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

Convertible Notes

Details of the issue of the convertible notes of the Company are set out in note 26 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 2007 are set out in notes 21 , 23 and 24 to the financial statements.

Share Capital and Share Options

Details of the Company's movements in ordinary share capital and share options during the year are set out in notes 28 and 29 to the financial statements.

Purchase, Redemption or Sale of Listed Securities of the Company

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

Reserves

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

Distributable Reserves

At 31 December 2007, 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 (2006: Nil).

Directors

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

Zhang Chunting *(Chairman)*	
Ren Yingguo *(Managing Director)*	*(appointed on 19 March 2008)*
Zhang Yaping#	*(appointed on 9 January 2007)*
Xiong Guangyang#	
Fung Lak*	
Choi Kam Fai, Thomas*	
Chan Cheong Tat*	
Ho Lam Lai Ping, Theresa#	
Deng Rongjun	*(resigned on 19 March 2008)*

* *Independent Non-Executive Director*

\# *Non-Executive Director*

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

Mr. Choi Kam Fai, Thomas and Mrs. Ho Lam Lai Ping, Theresa are due to retire by rotation from the board of Directors 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, they offer themselves for re-election.

Directors' Service Contracts

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

Directors' Interests in Contracts of Significance

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

Directors' Interests and Short Positions in Securities

As at 31 December 2007, 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:

(1) Interests and Short Positions in the Company

(a) Interests in ordinary shares

Name of Director	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held
Fung Lak	Personal	600,000	Long position	0.11%
Choi Kam Fai, Thomas	Personal	30,000	Long position	0.01%

Note: The approximate percentage of interests held was calculated on the basis of 537,504,000 ordinary shares of the Company in issue as at 31 December 2007.

Directors' Interests and Short Positions in Securities (Continued)

(1) Interests and Short Positions in the Company (Continued)

(b) Interests in options relating to ordinary shares

Name of Director	Number of options held as at 1 January 2007	Options granted during the year Date *(dd/mm/yyyy)*	Options granted during the year Number	Period during which share options are exercisable *(dd/mm/yyyy)* *(Note)*	Total consideration paid for share options *(HK$)*	Price per ordinary share payable on exercise of options *(HK$)*	Number of options exercised during the year	Number of options held as 31 December 2007	Long/Short Position
Fung Lak	300,000	—	—	10/09/2003 – 09/09/2008	1.00	0.220	300,000	—	Long position
	300,000	—	—	12/05/2004 – 11/05/2009	1.00	0.246	300,000	—	Long position

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

(2) Interests and Short Positions in Guangdong Investment Limited ("GDI")

Interests in ordinary shares

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

Note: The approximate percentage of interests held was calculated on the basis of 6,103,938,071 ordinary shares of GDI in issue as at 31 December 2007.

(3) 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
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 1,706,672,000 ordinary shares of Kingway in issue as at 31 December 2007.

Directors' Interests and Short Positions in Securities (Continued)

Save as disclosed above, as at 31 December 2007, 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 2007, 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	Derivative interests (Number of shares to be issued upon conversion of the HK$61,500,000 convertible notes issued by the Company)	Approximate percentage of the Company's issued ordinary share capital (including derivative interests)
廣東粵海控股有限公司 (Guangdong Holdings Limited) (formerly known as 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited)) *(Note)*	Interests of controlled corporation	375,100,000	Long position	32,368,421	75.81%
GDH Limited	Beneficial owner	375,100,000	Long position	32,368,421	75.81%

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

Save as disclosed above, as at 31 December 2007, 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.

Arrangements to Acquire Shares or Debentures

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

Connected Transactions

Details of the connected transactions are disclosed in notes 35(a)(vi) and 35(b)(iii) to the financial statements.

Major Customers and Suppliers

For the year ended 31 December 2007, the amount of purchases attributable to the Group's largest supplier represented 36.0% 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 80.3% of the Group's total purchases. In addition, the amount of turnover attributable to the Group's largest customer represented 6.9% of the Group's total turnover; and the aggregate amount of the turnover attributable to the Group's five largest customers represented 25.5% of the Group's total turnover. None of the Directors of the Company or their associates, or any shareholders (which, to the best knowledge of the Directors of the Company, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers or customers.

Post Balance Sheet Event

Details of the significant post balance sheet event of the Group are set out in note 39 to the financial statements.

Public Float

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

Auditors

A resolution will be proposed at the forthcoming annual general meeting for the reappointment of Messrs. Ernst & Young as the auditors of the Company.

By order of the Board
Zhang Chunting
Chairman

Hong Kong, 8 April 2008

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

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

Board of Directors

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

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

Five Board Meetings were held during the financial year ended 31 December 2007. The attendances of the Directors at the Board meetings are as follows:

Directors		**Number of Attendance**
Zhang Chunting		5/5
Ren Yingguo	*(appointed on 19 March 2008)*	0/0
Zhang Yaping	*(appointed on 9 January 2007)*	2/5
Xiong Guangyang		0/5
Ho Lam Lai Ping, Theresa		5/5
Fung Lak		5/5
Choi Kam Fai, Thomas		5/5
Chan Cheong Tat		5/5
Deng Rongjun	*(resigned on 19 March 2008)*	5/5

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

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 10 to 12 of this annual report, which demonstrate a diversity of skills, expertise, experience and qualifications.

Chairman and Managing Director

The Chairman of the Board is Mr. Zhang Chunting and the Managing Director is Mr. Ren Yingguo. Their roles are clearly defined and segregated to ensure independence and proper checks and balances. Mr. Zhang Chunting as the Chairman has executive responsibilities, provides leadership to the Board and ensures the proper and effective functioning of the Board in the discharge of its responsibilities. Mr. Ren Yingguo 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 of Directors

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

Authority

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

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

Remuneration of Directors (Continued)

Duties

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

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

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

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

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

6. To make recommendations to the Board on the remuneration of Non-Executive Directors.

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

8. To consult the Chairman and/or the Managing Director about their proposals relating to the remuneration of Executive Directors and senior management and have access to professional advice if considered necessary.

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

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

Remuneration of Directors (Continued)

During the financial year ended 31 December 2007, the Remuneration Committee held one meeting to (i) approve the annual remuneration package and the 2006 performance bonuses for the Executive Directors and senior management of the Company; (ii) amend the principles of calculation of performance bonuses; and (iii) recommend to the Board the adjustment to the annual emoluments of Independent Non-executive Directors. The attendance of each member of the Remuneration Committee is set out as follows:

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

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

Nomination of Directors

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

Authority

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

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

Duties

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

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

3. To assess the independence of Independent Non-Executive Directors.

4. To make recommendations to the Board on relevant matters relating to the appointment or reappointment of Directors and succession planning for Directors in particular the Chairman and the Managing Director.

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

Nomination of Directors (Continued)

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

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

During the financial year ended 31 December 2007, the Nomination Committee held one meeting to review the structure, size and composition of the Board and to recommend to the Board the proposed re-election of Mr. Zhang Chunting, Mr. Zhang Yaping and Mr. Fung Lak as Directors at 2007 Annual General Meeting of the Company. The attendance of each member of the Nomination Committee is set out as follows:

Directors	**Number of Attendance**
Zhang Chunting	1/1
Fung Lak	1/1
Choi Kam Fai, Thomas	1/1
Chan Cheong Tat	1/1

Audit Committee

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

Authority

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

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

Duties

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

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

Audit Committee (Continued)

Duties (Continued)

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

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

   i. any changes in accounting policies and practices;

   ii. major judgmental areas;

   iii. significant adjustments resulting from audit;

   iv. the going concern assumptions and any qualifications;

   v. compliance with accounting standards; and

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

5. In regard to 4 above:

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

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

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

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

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

Audit Committee (Continued)

Duties (Continued)

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

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

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

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

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

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

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

During the financial year ended 31 December 2007, the Audit Committee held three meetings to review the 2006 annual results and the 2007 interim results of the Company before submission to the Board and to review the scope of the audit of the external auditors and to approve their fees. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's financial results. The Audit Committee has also met the external auditors during the financial year ended 31 December 2007 to discuss any areas of concerns without the presence of the management. The attendance of each member of the Audit Committee is set out as follows:

Directors	**Number of Attendance**
Fung Lak	3/3
Choi Kam Fai, Thomas	3/3
Chan Cheong Tat	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	1,200
Review of Interim Results	261

Accountability and Audit

The Board is responsible for overseeing the preparation of financial statements for the year ended 31 December 2007, 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 2007, the Board has selected appropriate accounting policies, applied them consistently in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements and, made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on the going concern basis.

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

Internal Controls

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

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

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.

Internal Controls (Continued)

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

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

ERNST & YOUNG
安永會計師事務所

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

We have audited the financial statements of Guangdong Tannery Limited set out on pages 31 to 94, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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

8 April 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	5	**626,618**	419,975
Cost of sales		**(587,381)**	(383,245)
Gross profit		**39,237**	36,730
Other income and gains	5	**8,288**	3,609
Selling and distribution costs		**(2,086)**	(1,346)
Administrative expenses		**(17,138)**	(21,966)
Gain on disposal of subsidiaries	31	**—**	14,119
Finance costs	6	**(10,846)**	(5,726)
PROFIT BEFORE TAX	6	**17,455**	25,420
Tax	7	**(5,879)**	(4,763)
PROFIT FOR THE YEAR	10	**11,576**	20,657
EARNINGS PER SHARE	11		
— Basic		**2.16 cents**	3.94 cents
— Diluted		**2.16 cents**	3.92 cents

Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**39,239**	32,600
Investment property	13	**2,280**	2,185
Prepaid land lease payments	14	**5,693**	—
Interest in an associate	16	**—**	1,219
Total non-current assets		**47,212**	36,004
CURRENT ASSETS			
Inventories	17	**338,128**	210,076
Receivables, prepayments and deposits	18	**125,817**	81,358
Pledged deposits	19	**19,213**	12,888
Cash and cash equivalents	19	**60,995**	41,536
Total current assets		**544,153**	345,858
CURRENT LIABILITIES			
Trade and bills payables	20	**57,711**	51,403
Other payables and accruals		**22,376**	23,736
Interest-bearing bank and other borrowings	21	**97,544**	15,451
Due to a PRC joint venture partner	22	**1,131**	1,131
Loan from the immediate holding company	23	**21,358**	—
Loan from a fellow subsidiary	24	**—**	54,600
Provision	25	**3,406**	3,162
Tax payable		**651**	1,212
Total current liabilities		**204,177**	150,695
NET CURRENT ASSETS		**339,976**	195,163
TOTAL ASSETS LESS CURRENT LIABILITIES		**387,188**	231,167
NON-CURRENT LIABILITIES			
Loans from the immediate holding company	23	**31,708**	30,258
Loan from a fellow subsidiary	24	**54,600**	—
Convertible notes	26	**56,741**	—
Deferred tax liabilities	27	**957**	1,188
Total non-current liabilities		**144,006**	31,446
Net assets		**243,182**	199,721
EQUITY			
Issued capital	28	**53,750**	52,415
Reserves	30(a)	**189,432**	147,306
Total equity		**243,182**	199,721

Zhang Chunting
Director

Ren Yingguo
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

	Notes	Issued capital	Share premium account	Equity component of convertible notes	General reserve fund	Reserve funds	Share option reserve	Capital redemption reserve	Exchange translation reserve	Property revaluation reserve	Accumulated losses	Total
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Note 30(a))	*HK$'000* (Note 30(a))	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006		52,415	412,116	—	167,746	1,378	—	445	6,530	4,910	(473,106)	172,434
Deficit on revaluation of buildings	*12*	—	—	—	—	—	—	—	—	(2,838)	—	(2,838)
Deferred tax credited to the property revaluation reserve	*27*	—	—	—	—	—	—	—	—	767	—	767
Exchange realignment		—	—	—	—	—	—	—	12,972	—	—	12,972
Total income and expense recognised directly in equity		—	—	—	—	—	—	—	12,972	(2,071)	—	10,901
Profit for the year		—	—	—	—	—	—	—	—	—	20,657	20,657
Total income and expense for the year		—	—	—	—	—	—	—	12,972	(2,071)	20,657	31,558
Disposal of subsidiaries	*31*	—	—	—	—	—	—	—	(4,381)	(1,526)	1,526	(4,381)
Transfer from retained profits of a subsidiary established in the PRC		—	—	—	—	2,489	—	—	—	—	(2,489)	—
Equity-settled share option arrangement		—	—	—	—	—	110	—	—	—	—	110
At 31 December 2006 and 1 January 2007		52,415	412,116	—	167,746	3,867	110	445	15,121	1,313	(453,412)	199,721
Surplus on revaluation of buildings	*12*	—	—	—	—	—	—	—	—	123	—	123
Deferred tax credited to the property revaluation reserve	*27*	—	—	—	—	—	—	—	—	126	—	126
Exchange realignment		—	—	—	—	—	—	—	23,014	—	—	23,014
Total income and expense recognised directly in equity		—	—	—	—	—	—	—	23,014	249	—	23,263
Profit for the year		—	—	—	—	—	—	—	—	—	11,576	11,576
Total income and expense for the year		—	—	—	—	—	—	—	23,014	249	11,576	34,839
Issue of share	*28*	1,335	1,852	—	—	—	(110)	—	—	—	—	3,077
Issue of convertible notes, net of issue expenses attributable to equity component of HK$54,000	*26*	—	—	5,545	—	—	—	—	—	—	—	5,545
Transfer from retained profits of a subsidiary established in the PRC		—	—	—	—	3,020	—	—	—	—	(3,020)	—
At 31 December 2007		53,750	413,968*	5,545*	167,746*	6,887*	—*	445*	38,135*	1,562*	(444,856)*	243,182

* These reserve accounts comprise the consolidated reserves of HK$189,432,000 (2006: HK$147,306,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**17,455**	25,420
Adjustments for:			
Finance costs	6	**10,846**	5,726
Interest income	5	**(1,318)**	(752)
Depreciation	6	**5,987**	11,789
Provision for inventories	6	**8,695**	2,576
Gain on disposal of items of property, plant and equipment	6	**(226)**	(393)
Impairment of trade receivables	6	**281**	184
Changes in fair value of investment property	6	**(95)**	95
(Surplus)/deficit on revaluation of buildings	6	**(104)**	93
Recognition of prepaid land lease payments	6	**—**	79
Write-off of items of property, plant and equipment	6	**—**	31
Equity-settled share option expense	6	**—**	110
Gain on disposal of subsidiaries	31	**—**	(14,119)
		41,521	30,839
Increase in inventories		**(115,959)**	(89,563)
(Increase)/decrease in receivables, prepayments and deposits		**(37,096)**	11,186
Increase in trade and bills payables		**868**	24,197
(Decrease)/increase in other payables and accruals		**(3,228)**	4,343
Increase in trust receipt loans		**31,274**	—
Cash used in operations		**(82,620)**	(18,998)
Interest received		**1,318**	752
Interest paid		**(9,469)**	(5,726)
Tax paid		**(6,608)**	(3,606)
Net cash outflow from operating activities		**(97,379)**	(27,578)

Year ended 31 December 2007

	Notes	**2007** **HK$'000**	2006 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	*12*	**(10,017)**	(6,525)
Purchases of prepaid land lease payments	*14*	**(5,809)**	—
Proceeds from disposal of items of property, plant and equipment		**893**	3,372
Increase in pledged deposits		**(5,176)**	(7,653)
Repayment from an associate		**1,219**	3,117
Proceeds from disposal of subsidiaries	*31*	**—**	1,928
Repayment of a loan to an officer		**—**	873
Net cash outflow from investing activities		**(18,890)**	(4,888)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**47,967**	15,131
Increase in advances from the immediate holding company		**21,358**	—
Proceeds from issue of convertible notes, net of direct issue cost of HK$591,000		**60,909**	—
Proceeds from issue of shares	*28*	**3,077**	—
Net cash inflow from financing activities		**133,311**	15,131
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**17,042**	(17,335)
Cash and cash equivalents at beginning of year		**41,536**	55,914
Effect of foreign exchange rate changes, net		**2,417**	2,957
CASH AND CASH EQUIVALENTS AT END OF YEAR		**60,995**	41,536
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*19*	**60,995**	41,536

Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**70**	32
Interests in subsidiaries	15	**340,205**	234,647
Total non-current assets		**340,275**	234,679
CURRENT ASSETS			
Prepayments and deposits		**126**	133
Cash and bank balances	19	**29,359**	9,941
Total current assets		**29,485**	10,074
CURRENT LIABILITIES			
Other payables and accruals		**1,193**	3,620
NET CURRENT ASSETS		**28,292**	6,454
TOTAL ASSETS LESS CURRENT LIABILITIES		**368,567**	241,133
NON-CURRENT LIABILITIES			
Loans from the immediate holding company	23	**31,708**	30,258
Loans from subsidiaries	15	**34,378**	80,578
Convertible notes	26	**56,741**	—
Total non-current liabilities		**122,827**	110,836
Net assets		**245,740**	130,297
EQUITY			
Issued capital	28	**53,750**	52,415
Reserves	30(b)	**191,990**	77,882
Total equity		**245,740**	130,297

Zhang Chunting
Director

Ren Yingguo
Director

1. Corporate Information

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

During the year, the Group 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 Group is Guangdong Holdings Limited (廣東粵海控股有限公司) (formerly known as Guangdong Yue Gang Investment Holdings Company Limited (廣東粵港投資控股有限公司)), a company established in the mainland of the People's Republic of China (the "PRC" or "Mainland China").

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which 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 investment property and buildings, which have been measured at fair value, as further explained in note 2.4 to the financial statements. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards

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

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
HK(IFRIC)-Int 8	*Scope of HKFRS 2*
HK(IFRIC)-Int 9	*Reassessment of Embedded Derivatives*
HK(IFRIC)-Int 10	*Interim Financial Reporting and Impairment*

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

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements — Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 38 to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees in accordance with the Company's share option scheme, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards

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

HKFRS 2 Amendment	*Shared-based Payment — Vesting Conditions and Cancellation*
HKFRS 3 (Revised)	*Business Combinations*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HK(IFRIC)-Int 11	*HKFRS 2 — Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 14	*HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Amendment to HKFRS 2 shall be effective for annual periods beginning on or after 1 January 2009. This amendment restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. As the Group has no equity instrument outstanding at the balance sheet date, this amendment is unlikely to have any impact on the Group.

HKFRS 3 (Revised) shall be effective for annual periods beginning on or after 1 July 2009. The revised standard introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. As the Group has no such transactions, it is unlikely to have any financial impact on the Group.

HKFRS 8 shall be effective for annual periods beginning on or after 1 January 2009. This standard, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocation resources to the segments and assessing their performance, The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 (Revised) shall be effective for annual periods beginning on or after 1 January 2009. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

2.3 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

HKAS 23 (Revised) shall be effective for annual periods beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction of production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HKAS 27 (Revised) shall be effective for annual periods beginning on or after 1 July 2009. The revised standard requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. As the Group currently has no change in control of its subsidiaries and has no minority interests, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 shall be effective for annual periods beginning on or after 1 March 2007. The interpretation requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 shall be effective for annual periods beginning on or after 1 January 2008. The interpretation requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 shall be effective for annual periods beginning on or after 1 July 2008. The interpretation requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 shall be effective for annual periods beginning on or after 1 January 2008. The interpretation addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

2.3 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

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

2.4 Summary of Significant Accounting Policies

Subsidiaries

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

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

Joint ventures

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

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

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

Associate

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

2.4 Summary of Significant Accounting Policies (Continued)

Associate (Continued)

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

The results of associates are included in the Group's income statement to the extent of dividends received and receivable. The Group's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Impairment of non-financial assets other than goodwill

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, 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 impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Related parties (Continued)

(b) the party is an associate;

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

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

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

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

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

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 it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation (Continued)

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 each balance sheet date.

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

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

Investment properties

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

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

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

Leases

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Loans and receivables

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

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loans and receivables' original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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

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

Derecognition of financial assets

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets (Continued)

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

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

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

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

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

Convertible notes

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

Derecognition of financial liabilities

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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

Income tax

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

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries and an associate, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries and associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

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

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

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.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Employee benefits (Continued)

Share-based payment transactions (Continued)

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

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

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

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

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

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes (the "PRC Scheme") operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the PRC Scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the PRC Scheme.

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies

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

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity 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 reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

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

Operating lease commitments — Group as lessor

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

3. Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty

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

Provision for obsolete inventories

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

Impairment of trade receivables

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

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

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

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2007 was HK$86,559,000 (2006: HK$84,784,000). Further details are contained in note 27 to the financial statements.

4. Segment Information

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

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:

	2007	2006
	HK$'000	*HK$'000*
Revenue		
Processing and sale of leather	**626,618**	419,975
Other income		
Gross rental income	**746**	805
Interest income	**1,318**	752
Reinvestment tax refunds#	**1,730**	—
Sale of scrap materials	**1,777**	1,016
Others	**2,518**	1,036
	8,089	3,609
Gains		
Fair value gain on an investment property	**95**	—
Surplus on revaluation of buildings	**104**	—
	199	—
	8,288	3,609

According to the Income Tax Law of the PRC, the Group is entitled to refunds of corporate income taxes, subject to the approval from the relevant offices of the Tax Bureau in Mainland China. During the year, the Group reinvested the profit distributions received from its wholly-owned subsidiary into the same subsidiary in Mainland China. Approvals from the Tax Bureau in relation to the reinvestment tax refunds were received by the Group during the year. The refunds are determined based on certain percentages of the profit distributions reinvested.

6. Profit Before Tax

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

	Notes	2007 HK$'000	2006 HK$'000
Cost of inventories sold		**578,686**	380,669
Auditors' remuneration		**1,200**	990
Depreciation	*12*	**5,987**	11,789
Interest on:			
Bank loans and discounting bills receivable to banks		**4,347**	1,493
Convertible notes		**1,377**	—
Loans from the immediate holding company		**1,621**	1,394
Loans from a fellow subsidiary		**3,501**	2,839
		10,846	5,726
Employee benefits expense (excluding directors' remuneration *(note 8)*):			
Wages and salaries		**17,420**	11,805
Pension scheme contributions (defined contributions scheme)*		**1,691**	1,273
Equity-settled share option expense	*29*	**—**	110
		19,111	13,188
Provision for inventories		**8,695**	2,576
Minimum lease payments under operating leases in respect of land and buildings		**641**	464
Recognition of prepaid land lease payments	*14*	**—**	79
Net rental income from investment properties		**(387)**	(337)
Other rental income		**(359)**	(468)
Changes in fair value of investment property	*13*	**(95)**	95
(Surplus)/deficit on revaluation of buildings	*12*	**(104)**	93
Write-off of items of property, plant and equipment	*12*	**—**	31
Gain on disposal of items of property, plant and equipment, net		**(226)**	(393)
Impairment of trade receivables		**281**	184
Foreign exchange differences, net		**(187)**	(5)

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

7. Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2006: Nil). Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in Mainland China in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Xuzhou Nanhai Leather Factory Co., Ltd. ("Xuzhou Tannery"), a wholly-owned PRC subsidiary of the Company, was exempt from the PRC corporate income tax for the first two profit-making years, and is eligible for a 50%-relief from the PRC corporate income tax for the following three years under the PRC tax laws. For the year ended 31 December 2007, which is the fourth profitable year of Xuzhou Tannery, the applicable tax rate of Xuzhou Tannery, after the 50% reduction, was 15%.

Certain other subsidiaries of the Company established in the PRC, which exempt from the PRC corporate income tax for two years commencing from its first profit-making year of operations, and are eligible for a 50%-relief from the PRC corporate income tax for the following three years under the PRC tax laws, have not generated any accumulated assessable profit since their establishments. Thus, the tax exemption periods to which these subsidiaries are entitled have not commenced.

	2007 ***HK$'000***	2006 *HK$'000*
Group:		
Current — Mainland China	**5,984**	4,793
Deferred *(note 27)*	**(105)**	(30)
Total tax charge for the year	**5,879**	4,763

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

Group — 2007

	Hong Kong ***HK$'000***	**Mainland China** ***HK$'000***	**Total** ***HK$'000***
Profit/(loss) before tax	**(13,331)**	**30,786**	**17,455**
Tax at the statutory tax rate	**(2,333)**	**10,159**	**7,826**
Lower tax rate for specific provinces or local authority	**—**	**(5,541)**	**(5,541)**
Effect on opening deferred tax of decrease in rate	**—**	**(131)**	**(131)**
Income not subject to tax	**(180)**	**(260)**	**(440)**
Expenses not deductible for tax	**1,116**	**1,614**	**2,730**
Tax losses not recognised	**1,397**	**38**	**1,435**
Tax charge at the Group's effective rate	**—**	**5,879**	**5,879**

7. Tax (Continued)

Group — 2006

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

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	
	2007	2006
	HK$'000	*HK$'000*
Fees	**450**	278
Other emoluments:		
Salaries, allowances and benefits in kind	**1,017**	999
Performance related bonuses*	**864**	845
Pension scheme contributions	**439**	400
	2,320	2,244
	2,770	2,522

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

8. Directors' Remuneration (Continued)

(a) Independent non-executive directors

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

	2007 HK$'000	2006 HK$'000
Mr. Fung Lak	**150**	100
Mr. Choi Kam Fai, Thomas	**150**	100
Mr. Chan Cheong Tat	**150**	78
	450	278

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2007					
Executive directors:					
Mr. Zhang Chunting	—	**533**	**502**	**235**	**1,270**
Mr. Deng Rongjun	—	**484**	**362**	**204**	**1,050**
	—	**1,017**	**864**	**439**	**2,320**
Non-executive directors:					
Mr. Zhang Yaping	—	—	—	—	—
Mr. Xiong Guangyang	—	—	—	—	—
Ms. Ho Lam Lai Ping, Theresa	—	—	—	—	—
	—	**1,017**	**864**	**439**	**2,320**

8. Directors' Remuneration (Continued)

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

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

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 (2006: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2006: three) non-director, highest paid employees for the year are as follows:

	Group **2007** ***HK$'000***	2006 *HK$'000*
Salaries and allowances	**1,124**	1,106
Pension scheme contributions	**53**	16
	1,177	1,122

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	
	2007	2006
Nil – HK$1,000,000	**3**	3

10. Profit for the Year

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2007 includes a profit of HK$106,821,000 (2006: HK$6,250,000) which has been dealt with in the financial statements of the Company (note 30(b)).

11. Earnings Per Share

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

The calculation of diluted earnings per share amounts is based on the profit for the year, 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.

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

	2007	2006
	HK$'000	*HK$'000*
Earnings		
Profit for the year, used in the basic earnings per share calculation	**11,576**	20,657
Interest on convertible notes	**1,377***	—
Profit for the year, before interest on convertible notes	**12,953**	20,657

11. Earnings Per Share (Continued)

	Number of shares 2007	2006
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**535,918,932**	524,154,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	**1,038,687**	2,956,433
Convertible notes	**32,368,421***	—
	569,326,040	527,110,433

* Because the diluted earnings per share amount is increased when taking convertible notes into account, the convertible notes had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share. Therefore, diluted earnings per share amounts are based on the profit for the year of HK$11,576,000 and the weighted average of 536,957,619 ordinary shares in issue during the 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 2007								
At 1 January 2007:								
Cost or valuation	7,330	6,838	55,388	1,883	622	6,243	4,251	82,555
Accumulated depreciation and impairment	—	(4,709)	(37,695)	(1,371)	(590)	(5,590)	—	(49,955)
Net carrying amount	7,330	2,129	17,693	512	32	653	4,251	32,600
At 1 January 2007, net of accumulated depreciation and impairment	7,330	2,129	17,693	512	32	653	4,251	32,600
Additions	—	865	2,379	110	61	262	6,340	10,017
Disposals	—	—	(614)	(4)	—	(49)	—	(667)
Surplus on revaluation	227	—	—	—	—	—	—	227
Depreciation provided during the year	(311)	(356)	(4,915)	(115)	(23)	(267)	—	(5,987)
Transfers	—	1,525	6,556	—	—	—	(8,081)	—
Exchange realignment	274	377	2,003	46	—	110	239	3,049
At 31 December 2007, net of accumulated depreciation and impairment	7,520	4,540	23,102	549	70	709	2,749	39,239
At 31 December 2007:								
Cost or valuation	7,520	9,823	64,898	1,911	656	6,631	2,749	94,188
Accumulated depreciation and impairment	—	(5,283)	(41,796)	(1,362)	(586)	(5,922)	—	(54,949)
Net carrying amount	7,520	4,540	23,102	549	70	709	2,749	39,239
Analysis of cost or valuation:								
At cost	—	9,823	64,898	1,911	656	6,631	2,749	86,668
At 31 December 2007 valuation	7,520	—	—	—	—	—	—	7,520
	7,520	9,823	64,898	1,911	656	6,631	2,749	94,188

12. Property, Plant and Equipment (Continued)

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

12. Property, Plant and Equipment (Continued)

Company

	Furniture, fixtures and equipment *HK$'000*
31 December 2007	
At 1 January 2007:	
Cost	**326**
Accumulated depreciation	**(294)**
Net carrying amount	**32**
At 1 January 2007, net of accumulated depreciation	**32**
Additions	**61**
Depreciation provided during the year	**(23)**
At 31 December 2007, net of accumulated depreciation	**70**
At 31 December 2007:	
Cost	**376**
Accumulated depreciation	**(306)**
Net carrying amount	**70**
31 December 2006	
At 1 January 2006:	
Cost	326
Accumulated depreciation	(281)
Net carrying amount	45
At 1 January 2006, net of accumulated depreciation	45
Additions	—
Depreciation provided during the year	(13)
At 31 December 2006, net of accumulated depreciation	32
At 31 December 2006:	
Cost	326
Accumulated depreciation	(294)
Net carrying amount	32

12. Property, Plant and Equipment (Continued)

As at 31 December 2007, the Group's buildings were individually revalued by Greater China Appraisal Limited, independent professionally qualified valuers, at an aggregate open market value of HK$7,520,000 (2006: HK$7,330,000) based on their existing use, with a net revaluation surplus of HK$227,000 (2006: deficit of HK$2,931,000), including a revaluation surplus of HK$123,000 (2006: deficit of HK$2,838,000) credited to property revaluation reserve and a revaluation surplus of HK$104,000 (2006: deficit of HK$93,000) credited to the income statement (note 6).

Had these buildings of the Group been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts as at 31 December 2007 would have been approximately HK$3,672,000 (2006: HK$3,742,000).

At 31 December 2007, certain of the plant and machinery of a subsidiary of the Group of HK$2,560,000 (2006: HK$3,680,000) was pledged to secure general banking facilities granted to the Group (note 36).

At 31 December 2007, the buildings of the Group of HK$7,520,000 (2006: Nil) were pledged to secure general banking facilities granted to the Group (note 36).

13. Investment Property

	Note	**2007** ***HK$'000***	2006 *HK$'000*
Carrying amount at 1 January		**2,185**	2,280
Changes in fair value of an investment property	6	**95**	(95)
Carrying amount at 31 December		**2,280**	2,185

The Group's investment property is situated in Mainland China and is held under a medium term lease. At 31 December 2007, the land use right and building ownership certificates of the Group's investment property were in the progress of being obtained.

The Group's investment property was revalued on 31 December 2007 by Greater China Appraisal Limited at HK$2,280,000 (2006: HK$2,185,000) on an open market, existing use basis. The investment property is leased to third parties under operating leases, further summary details of which are included in note 33(a) to the financial statements.

14. Prepaid Land Lease Payments

	Group 2007 HK$'000	Group 2006 HK$'000
Carrying amount at 1 January	—	3,825
Additions	**5,809**	—
Recognised during the year *(note 6)*	—	(79)
Disposal of subsidiaries *(note 31)*	—	(3,746)
Carrying amount at 31 December	**5,809**	—
Current portion included in receivables, prepayments and deposits	**(116)**	—
Non-current portion	**5,693**	—

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

The application for land use right certificate in connection with prepaid land lease payments totalling HK$5,809,000 have been commenced, however, the land use right certificate had not yet been issued by the relevant offices of the Land Authorities in the PRC as at the balance sheet date. Notwithstanding this, the directors are of the opinion that the Group has obtained the legal right to use these assets as at 31 December 2007 and that the land use right certificate can be received.

15. Interests in Subsidiaries

	Company 2007 HK$'000	Company 2006 HK$'000
Unlisted shares, at cost	**236,137**	173,428
Loans to subsidiaries	**353,106**	333,514
	589,243	506,942
Impairment#	**(249,038)**	(272,295)
	340,205	234,647

Impairments were recognised for certain unlisted investments and loans to subsidiaries with a total carrying amount of HK$249,038,000 (before deducting the impairments) (2006: HK$272,295,000) because certain of the subsidiaries were losses making persistently.

15. Interests in Subsidiaries (Continued)

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

	2007	2006
	HK$'000	*HK$'000*
At 1 January	**272,295**	271,581
Impairment losses recognised	**—**	714
Impairment losses reversed	**(23,257)**	—
At 31 December	**249,038**	272,295

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

Included in the loans to subsidiaries are unsecured loans of HK$21,358,000 (2006: HK$85,198,000), which bear interest at 5.12% (2006: 4.15% to 8.5%) per annum and are not repayable within one year from 31 December 2007. The remaining loans to subsidiaries are unsecured, interest-free and are not repayable within one year from 31 December 2007. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries.

The loans from subsidiaries of HK$34,378,000 (2006: HK$80,578,000) are unsecured, interest-free and are not repayable within one year from 31 December 2007.

The carrying amounts of these due from/to subsidiaries approximate to their fair values.

15. Interests in Subsidiaries (Continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Gastor Enterprises Limited	British Virgin Islands	US$150	100	—	Investment holding
Gold Star Assets Limited	Hong Kong	HK$2	—	100	Investment holding
Qingdao Nanhai Tannery Co., Ltd.#	PRC/Mainland China	US$2,500,000	100	—	Dormant
Sun Po (Hong Kong) Leather Ware Company Limited	Hong Kong	HK$2	—	100	Property investment
Team Up Profits Limited	British Virgin Islands	US$1	100	—	Investment holding
Vermont Property Limited	British Virgin Islands	US$1	100	—	Investment holding
Xuzhou Gangwei Leather Co., Ltd.+	PRC/Mainland China	RMB18,000,000	100	—	Processing of cowhides, leather trading and lessor of plant and machinery
Xuzhou Nanhai Leather Factory Co., Ltd.+	PRC/Mainland China	US$10,450,000	100	—	Processing of cowhides and leather trading

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

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

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

16. Interest in an Associate

	Group 2007 HK$'000	2006 HK$'000
Share of net assets	—	—
Loan to an associate	—	2,348
	—	2,348
Impairment	—	(1,129)
	—	1,219

The loan to an associate was unsecured, interest-free and had no fixed terms of repayment. The carrying amount of this amount approximated to its fair value.

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

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

As at 31 December 2006, the Group has discontinued the recognition of its share of losses of the associate because the share of losses of the associate exceeded the Group's interest in the associate. The Group's unrecognised share of losses of this associate cumulatively as at 31 December 2006 was HK$1,312,000. The associate was disposed of during the year ended 31 December 2007.

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

	2007 HK$'000	2006 HK$'000
Assets	—	3,651
Liabilities	—	7,751
Revenues	—	—
Loss	—	(557)

17. Inventories

	Group 2007 HK$'000	2006 HK$'000
Raw materials	**97,075**	70,885
Work in progress	**180,335**	108,470
Finished goods	**60,718**	30,721
	338,128	210,076

At 31 December 2007, certain of the Group's inventories with carrying amount of HK$21,358,000 (2006: Nil) were pledged as security for the Group's bank loans, as further detailed in note 36 to the financial statements.

18. Receivables, Prepayments and Deposits

As at 31 December 2007, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK$107,130,000 (2006: HK$65,880,000) due from the Group's customers.

The Group's trading terms with customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well-established customers, where the terms are extended to two to three months. Each customer has a maximum credit limit. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group 2007 HK$'000	2006 HK$'000
Current	**103,144**	62,097
Less than 3 months	**2,200**	2,401
3 to 6 months	**1,504**	553
Over 6 months	**1,985**	2,251
	108,833	67,302
Impairment	**(1,703)**	(1,422)
	107,130	65,880

18. Receivables, Prepayments and Deposits (Continued)

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
At 1 January	**1,422**	2,991
Impairment losses recognised	**298**	184
Impairment losses reversed	**(17)**	—
Amount written off as uncollectible	**—**	(1,753)
At 31 December	**1,703**	1,422

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

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
Neither past due nor impaired	**103,144**	62,097
Less than 1 month past due	**1,929**	1,526
1 to 3 months past due	**271**	875
Over 3 months past due	**1,786**	1,382
	107,130	65,880

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

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

At 31 December 2007, bills receivable of approximately HK$41,193,000 (2006: Nil) were pledged to secure the general banking facilities granted to the Group (note 36).

19. Cash and Cash Equivalents and Pledged Deposits

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**76,652**	54,424	**29,359**	9,941
Time deposits	**3,556**	—	**—**	—
	80,208	54,424	**29,359**	9,941
Less: Pledged bank balances*	**(15,657)**	(12,888)	**—**	—
Pledged time deposits*	**(3,556)**	—	**—**	—
	(19,213)	(12,888)	**—**	—
Cash and cash equivalents	**60,995**	41,536	**29,359**	9,941

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

At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK$50,688,000 (2006: HK$43,575,000). 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 bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and six 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 carrying amounts of the cash and bank balances and pledged deposits approximate to their fair values.

20. Trade and Bills Payables

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

	Group 2007 HK$'000	2006 HK$'000
Within 3 months	**27,313**	25,420
3 to 6 months	**24,718**	21,776
6 to 12 months	**1,253**	796
Over 12 months	**4,427**	3,411
	57,711	51,403

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

21. Interest-bearing Bank and Other Borrowings

Group

	2007			2006		
	Effective interest rate (%)	***Maturity***	**Amount *HK$'000***	Effective interest rate *(%)*	*Maturity*	Amount *HK$'000*
Current						
Trust receipt loans, secured	**LIBOR+1.0**	**2008**	**49,127**	LIBOR+1.0	2007	15,451
Bank loans, secured	**5.83–7.45**	**2008**	**48,417**	—	—	—
			97,544			15,451
Non-current						
Convertible notes, unsecured *(note 26)*	**6.63**	**2010**	**56,741**	—	—	—
			154,285			15,451

21. Interest-bearing Bank and Other Borrowings (Continued)

Company

	2007			2006		
	Effective interest rate (%)	***Maturity***	**Amount *HK$'000***	Effective interest rate *(%)*	*Maturity*	Amount *HK$'000*
Non-current						
Convertible notes, unsecured *(note 26)*	**6.63**	**2010**	**56,741**	—	—	—

	Group		Company	
	2007 *HK$'000*	2006 *HK$'000*	**2007 *HK$'000***	2006 *HK$'000*
Analysed into:				
Bank loans repayable within one year	**97,544**	15,451	**—**	—
Other borrowings repayable in the third to fifth years, inclusive	**56,741**	—	**56,741**	—
	154,285	15,451	**56,741**	—

Notes:

(a) As at 31 December 2007, the Group's trust receipt loan facilities amounting to HK$117,469,000, of which HK$49,127,000 had been utilised, are secured by the pledge of the Group's buildings, and certain of the Group's plant and machinery and bank deposits, and supported by corporate guarantees executed by the Company and a subsidiary of the Company.

As at 31 December 2007, the Group's bank loans totaling HK$48,417,000 are secured by Group's bills receivables and inventories.

Details of pledge of assets are included in note 36 to the financial statements.

(b) Except for the bank loans totaling of approximately HK$69,405,000 and the convertible notes which are denominated in United States dollars and Hong Kong dollars, respectively, all other borrowings are in RMB.

The carrying amounts of the Group's current borrowings approximate to their fair values.

At 31 December 2007, the fair value of the Group's and the Company's convertible notes with a carrying amount of HK$56,741,000 was HK$57,691,000.

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

22. Due to a PPC 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.

23. Loans From the Immediate Holding Company

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

		Group		Company	
		2007	2006	**2007**	2006
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current	*(a)*	**21,358**	—	**—**	—
Non-current	*(b)*	**21,358**	19,908	**21,358**	19,908
	(c)	**10,350**	10,350	**10,350**	10,350
		31,708	30,258	**31,708**	30,258

Notes:

(a) Balance represents an unsecured loan of RMB20,000,000, which bears interest at a fixed annual rate of 5.48% and has no fixed terms of repayment.

(b) Balance represents an unsecured loan of RMB20,000,000 (2006: RMB20,000,000), which bears interest at an annual rate of 5.12% (2006: 4.15% for the period from 1 January to 30 June 2006 and 5.12% per annum thereafter), and is not repayable within one year from 31 December 2007.

(c) The loan is unsecured, bears interest at 3-month HIBOR + 1% (2006: 3.8% for the period from 1 January to 30 June 2006 and 3-month HIBOR + 1% thereafter) per annum and is not repayable within one year from 31 December 2007.

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

24. Loan from a Fellow Subsidiary

The Group's loan represents an unsecured loan of US$7,000,000 (2006: US$7,000,000) (equivalent to approximately HK$54,600,000 (2006: HK$54,600,000)) advanced from Guangdong Assets Management Limited ("Guangdong Assets Management"), a fellow subsidiary of the Company. The loan bears interest at 3-month LIBOR + 1% (2006: 3.8% for the period from 1 January to 30 June 2006 and 3-month LIBOR + 1% thereafter) per annum and is not repayable within one year from 31 December 2007 (2006: repayable on 31 December 2007).

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

25. Provision

Group

	Early termination of a joint venture agreement *HK$'000*
At 1 January 2007	**3,162**
Exchange realignment	**244**
At 31 December 2007	**3,406**

With respect to the Group's decision in August 2001 to curtail the operations of Qingdao Tannery due to its continuous losses, provisions of HK$3,000,000 were made as at 31 December 2001 for (a) staff redundancy payments of HK$2,000,000; and (b) compensation of HK$1,000,000 to the PRC joint venture partner for early termination of the joint venture agreement of Qingdao Tannery. These provisions were determined based on the relevant employment contracts and the terms of the joint venture agreement.

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

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

26. Convertible Notes

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

26. Convertible Notes (Continued)

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

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

	2007 *HK$'000*	2006 *HK$'000*
Nominal value of convertible notes issued during the year	**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	**1,377**	—
Liability component at 31 December *(note 21)*	**56,741**	—

27. Deferred Tax Liabilities

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

	Accelerated tax depreciation *HK$'000*	**Revaluation of properties** *HK$'000*	**Total** *HK$'000*
At 1 January 2006	1,203	3,514	4,717
Deferred tax credited to the property revaluation reserve	—	(767)	(767)
Deferred tax credited to the income statement during the year *(note 7)*	—	(30)	(30)
Disposal of subsidiaries *(note 31)*	(1,203)	(1,529)	(2,732)
At 31 December 2006 and 1 January 2007	**—**	**1,188**	**1,188**
Deferred tax credited to the property revaluation reserve	**—**	**(126)**	**(126)**
Deferred tax credited to the income statement during the year *(note 7)*	**—**	**(105)**	**(105)**
At 31 December 2007	**—**	**957**	**957**

27. Deferred Tax Liabilities (Continued)

On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Tax Law"), which is effective from 1 January 2008. Under the New CIT Tax Law, corporate income tax rate for domestic companies and foreign-invested enterprises will decrease from 33% to 25% since 1 January 2008. This change in the income tax rate will directly decrease the Group's effective tax rate prospectively from 2008. According to HKAS 12 "Income taxes", deferred tax assets and deferred tax 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. As a result, based on current best estimate of impact which could be reasonably estimated, the change in the CIT rate leads to a decrease in deferred tax liabilities as at 31 December 2007 of HK$288,000, of which HK$157,000 and HK$131,000 were credited to property revaluation reserve and income statement respectively.

The Group has tax losses arising in Hong Kong of HK$84,642,000 (2006: HK$83,113,000), that is available for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in the PRC of HK$1,917,000 (2006: HK$1,671,000), that is available for a maximum of five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and the directors considered not probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

28. Share Capital

Shares

	2007	2006
	HK$'000	*HK$'000*
Authorised:		
700,000,000 ordinary shares of HK$0.10 each	**70,000**	70,000
Issued and fully paid:		
537,504,000 (2006: 524,154,000), ordinary shares of HK$0.10 each	**53,750**	52,415

The movements in share capital were as follows:

(a) The subscription rights attaching to 11,200,000 share options were exercised at the subscription price of HK$0.2332 per share in December 2006 (note 29), resulting in the issue of 11,200,000 shares of HK$0.10 each on 9 January 2007 for a total cash consideration, before expense of approximately HK$2,612,000.

(b) During the year end 31 December 2007, the subscription rights attaching to 2,150,000 share options were exercised at the subscription price of HK$0.2161 per share (note 29), resulting in the issue of 2,150,000 shares of HK$0.10 each for a total cash consideration, before expense of approximately HK$465,000. As the share options were exercised during the year, the attributable share option reserve of HK$110,000 was transferred to share premium account.

28. Share Capital (Continued)

A summary of the transactions during the year with reference to the above movements in 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 2006 and 1 January 2007	524,154,000	52,415	412,116	464,531
Share options exercised	13,350,000	1,335	1,742	3,077
Transfer from share option reserve	—	—	110	110
At 31 December 2007	537,504,000	53,750	413,968	467,718

Share Options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 29 to the financial statements.

29. Share Option Scheme

The Company has adopted a share option scheme (the "Scheme") since 31 May 2002 for the purpose of providing incentives and rewards to eligible participants who contribute to the Group, to enable the Group to recruit and retain quality employees to serve the Group on a long term basis, to maintain good relationships with its consultants, professional advisers, suppliers of goods and services and customers, and to attract human resources that are valuable to the Group. Eligible participants of the Scheme include the Company's directors (including non-executive and independent non-executive directors), employees or executives of the Group, customers of the Group, and substantial shareholders of the Group. The Scheme, unless otherwise terminated or amended, will remain in force for 10 years from 13 January 2003.

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

29. Share Option Scheme (Continued)

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

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

The offer of a grant of share options may be accepted within 14 days from the date of the offer upon payment of a consideration of HK$1 by the grantee. The exercise period of the share options granted is determinable by the directors of the Company, commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant of the share options.

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

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

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

	2007		2006	
	Weighted average exercise price per share *HK$*	**Number of options** *'000*	Weighted average exercise price per share *HK$*	Number of options *'000*
At 1 January	**0.216**	**2,150**	0.235	15,350
Granted during the year	**—**	**—**	0.196	1,000
Exercised during the year	**(0.216)**	**(2,150)**	0.233	(11,200)
Expired during the year	**—**	**—**	0.241	(3,000)
At 31 December	**—**	**—**	0.216	2,150

The weighted average share price at the date of exercise for share options exercised during the year was HK$1.33 (2006: HK$0.51).

29. Share Option Scheme (Continued)

The exercise prices and exercise periods of the share options outstanding as at 31 December 2006 are as follows:

2006

Number of options '000	Exercise price per share* HK$	Exercise period
550	0.220	10/09/2003–09/09/2008
600	0.246	12/05/2004–11/05/2009
1,000	0.196	04/07/2006–03/07/2011
2,150		

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

As the share options were exercised during the year, the attributable share option reserve of HK$110,000 was transferred to share premium account.

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

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

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

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

The 11,200,000 share options exercised in December 2006 resulted in the issue of 11,200,000 ordinary shares of the Company on 9 January 2007 and new share capital of HK$1,120,000 and share premium of HK$1,492,000 (before issue expenses), as further detailed in note 28 to the financial statements.

29. Share Option Scheme (Continued)

The 2,150,000 share options exercised during the year resulted in the issue of 2,150,000 ordinary shares of the Company and new share capital of HK$215,000 and share premium of HK$360,000 (before issue expenses), as further detailed in note 28 to the financial statements.

30. Reserves

(a) Group

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

The general reserve fund of the Group is an undistributable reserve and may not be treated as realised profits.

On 25 November 1996, a court order confirming the reduction of the share premium account by HK$133,349,000 was registered by the Registrar of Companies in Hong Kong and the credit arising therefrom was transferred to the general reserve fund against which goodwill arising on the acquisition of a subsidiary was eliminated in the consolidated financial statements. In the year ended 31 December 2002, there was a release of goodwill of HK$133,349,000 in respect of impairment of an investment in a subsidiary related to the goodwill arising from acquisition of that subsidiary in 1996.

Pursuant to a special resolution passed in the Group's extraordinary general meeting held on 23 January 1998 and confirmed by the Order of the High Court of Hong Kong dated 2 March 1998, the share premium account was reduced by the amount of HK$34,397,000 and, as undertaken by the Group, a general reserve fund was credited in the books of account of the Group in the same amount for the purpose of setting off, in the consolidated financial statements of the Group and its subsidiaries, goodwill arising on consolidation in 1997. In 2000 and 2001, there was a release of goodwill of HK$12,478,000 and HK$21,919,000, respectively, in respect of impairment of investments in subsidiaries related to the goodwill arising from the acquisition of the subsidiaries in 1997.

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

30. Reserves (Continued)

(b) Company

	Notes	Share Premium account HK$'000	Equity component of convertible notes HK$'000	General reserve fund HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2006		412,116	—	167,746	—	445	(508,785)	71,522
Profit for the year	*10*	—	—	—	—	—	6,250	6,250
Equity-settled share option arrangement		—	—	—	110	—	—	110
At 31 December 2006 and 1 January 2007		412,116	—	167,746	110	445	(502,535)	77,882
Issue of share		1,852	—	—	(110)	—	—	1,742
Issue of convertible notes	*26*	—	5,599	—	—	—	—	5,599
Convertible notes issue expenses attributable to equity component		—	(54)	—	—	—	—	(54)
Profit for the year	*10*	—	—	—	—	—	106,821	106,821
At 31 December 2007		413,968	5,545	167,746	—	445	(395,714)	191,990

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

31. Disposal of Subsidiaries

	2007	2006
	HK$'000	*HK$'000*
Net liabilities disposed of:		
Property, plant and equipment	—	39,419
Prepaid land lease payments	—	3,746
Inventories	—	6,599
Receivables, prepayments and deposits	—	1,686
Tax recoverable	—	7,462
Frozen bank balances	—	9,145
Cash and bank balances	—	5,659
Trade and bills payables	—	(1,462)
Other payables and accruals	—	(621)
Provisions	—	(71,052)
Deferred tax liabilities	—	(2,732)
	—	(2,151)
Release of exchange translation reserve	—	(4,381)
Gain on disposal of subsidiaries	—	14,119
	—	7,587
Satisfied by:		
Cash (net of expenses of HK$913,000)	—	7,587

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

	2007	2006
	HK$'000	*HK$'000*
Cash consideration	—	7,587
Cash and bank balances disposed of	—	(5,659)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	—	1,928

32. Contingent Liabilities

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

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees given to banks for banking facilities granted to a subsidiary	**—**	—	**53,395**	—
Amount of banking facilities with the Company's guarantees utilised by a subsidiary	**—**	—	**27,747**	—

33. Operating Lease Arrangements

(a) As lessor

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

At 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with their lessees falling due as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within one year	**397**	582
In the second to fifth years, inclusive	**463**	859
	860	1,441

33. Operating Lease Arrangements (Continued)

(b) As lessee

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

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within one year	**289**	61
In the second to fifth years, inclusive	**27**	13
	316	74

34. Commitments

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

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Contracted, but not provided for:				
Land and buildings	**8,372**	—	**—**	—
Leasehold improvements	**762**	748	**—**	—
Plant and machinery	**1,207**	2,437	**—**	—
	10,341	3,185	**—**	—
Authorised, but not contracted for:				
Land and buildings	**66,191**	—	**—**	—
Plant and machinery	**80,355**	—	**—**	—
Capital contributions payable to a subsidiary	**—**	—	**156,000**	—
	146,546	—	**156,000**	—
	156,887	3,185	**156,000**	—

35. Related Party Transactions

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

		Group	
		2007	2006
	Notes	***HK$'000***	*HK$'000*
Office rental paid to the immediate holding company	*(i)*	**39**	128
Office rental paid to a fellow subsidiary	*(ii)*	**249**	—
Computer system maintenance service fees paid to the immediate holding company	*(iii)*	**114**	172
Interest expenses to the immediate holding company	*(iv)*	**2,998**	1,394
Interest expense to a fellow subsidiary	*(v)*	**3,501**	2,839
Gain on disposal of subsidiaries	*(vi)*	**—**	14,119

Notes:

(i) The office rental was charged by the immediate holding company at HK$15,460 per month until 15 March 2007 in accordance with the terms of the rental agreement between the Group and the immediate holding company. At 31 December 2006, the Group had rental deposit of HK$30,920 with the immediate holding company.

(ii) The office rental was charged by a fellow subsidiary at HK$23,040 per month from 6 February 2007 to 31 December 2007 in accordance with the terms of the rental agreement between the Group and the fellow subsidiary company. At the balance sheet date, the Group had a rental deposit of HK$69,120 (2006: Nil) with the fellow subsidiary.

(iii) The immediate holding company charged maintenance service fees at HK$9,475 per month for 2007 (2006: HK$14,314 per month) for the computer system used by the Group.

(iv) 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 23 and 26, respectively, to the financial statements.

(v) 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 24 to the financial statements.

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

35. Related Party Transactions (Continued)

(b) Outstanding balances with related parties:

(i) Details of the Group's and Company's loans from the immediate holding company and the Group's loan from a fellow subsidiary as at the balance sheet date are included in notes 23 and 24 to the financial statements, respectively.

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

(iii) Details of the Group's convertible notes to GDH as at the balance sheet date are included in note 26 to the financial statements.

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

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

The transactions in respect of items (a)(vi) and (b)(iii) above also constituted discloseable and connected transactions as defined in Chapter 14 and 14A of the Listing Rules.

36. Pledge of Assets

As at 31 December 2007, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

		Group	
		2007	2006
	Notes	***HK$'000***	*HK$'000*
Buildings	*12*	**7,520**	—
Plant and machinery	*12*	**2,560**	3,680
Inventories	*17*	**21,358**	—
Bills receivable	*18*	**41,193**	—
Bank balances and deposit	*19*	**19,213**	12,888
		91,844	16,568

37. 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	
	2007	2006
	Loans and receivables	Loans and receivables
	HK$'000	*HK$'000*
Loan to an associate	**—**	1,219
Trade and bills receivables	**107,130**	65,880
Financial assets included in prepayments, deposits and other receivables	**270**	64
Pledged deposits	**19,213**	12,888
Cash and cash equivalents	**60,995**	41,536

Financial liabilities

	Group	
	2007	2006
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK$'000	*HK$'000*
Trade and bills payables	**57,711**	51,403
Financial liabilities included in other payables and accruals	**12,363**	12,805
Interest-bearing bank and other borrowings	**97,544**	15,451
Due to a PRC joint venture partner	**1,131**	1,131
Loans from the immediate holding company	**53,066**	30,258
Loan from a fellow subsidiary	**54,600**	54,600
Convertible notes	**56,741**	—

37. Financial Instruments by Category (Continued)

Financial assets

	Company	
	2007	2006
	Loans and receivables	Loans and receivables
	HK$'000	*HK$'000*
Financial assets included in prepayments, deposits and other receivables	**—**	44
Cash and bank balances	**29,359**	9,941

Financial liabilities

	Company	
	2007	2006
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK$'000	*HK$'000*
Financial liabilities included in other payables and accruals	**1,193**	1,008
Loans from the immediate holding company	**31,708**	30,258
Convertible notes	**56,741**	—

38. Financial Risk Management Objectives and Policies

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

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

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 debts obligations with a floating interest rate except for convertible notes with a fixed interest rate.

38. Financial Risk Management Objectives and Policies (Continued)

Interest rate risk (Continued)

Save as the fixed rate convertible notes financed to the Group during the year, the Group's policy is to maintain not more than 80% of its debts obligations at floating interest rates. At 31 December 2007, approximately 69% (2006: 80%) of the Group's debts obligations borne interest at floating rates.

If there would be a general increase/decrease in the interest rate of debts obligations with floating interest rates by one percentage point, with all other variables held constant, the operating results of the Group would have been increased/decreased by approximately HK$104,000, HK$1,037,000 and HK$281,000 (2006: HK$104,000, HK$701,000 and nil) for the borrowings denominated in HK$, United States dollar ("US$") and RMB, respectively, for the year ended 31 December 2007, and there is no impact on other components of the equity of the Group.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from purchases by operating units in currencies other than the units' functional currency. Approximately 59% (2006: 48%) of the Group's purchase 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$ and 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) and there is no impact on the equity of the Group.

	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in profit before tax**
	%	***HK$'000***
2007		
If RMB weakens against US$	**(6)**	**(4,164)**
If RMB strengthens against US$	**6**	**4,164**
If HK$ weakens against RMB	**(6)**	**(1,281)**
If HK$ strengthens against RMB	**6**	**1,281**
2006		
If RMB weakens against US$	(6)	(927)
If RMB strengthens against US$	6	927
If HK$ weakens against RMB	(6)	(1,194)
If HK$ strengthens against RMB	6	1,194

The estimated percentage increase or decrease represents management's assessment of a reasonably possible change in foreign currency rates over the period until the next annual balance sheet date. The sensitivity analysis is performed on the same basis for the year ended 31 December 2006 and 2007.

38. Financial Risk Management Objectives and Policies (Continued)

Credit risk

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

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

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 18 to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, convertible notes, and other interest-bearing loans. The Group's policy is that not more than 50% of interest-bearing borrowings should mature in any 12-month period. At 31 December 2007, 35% (2006: 42%) of the Group's total financial liabilities would mature in less than one year based on the carrying value of borrowings reflected in the financial statements.

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

Group

	2007				
	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 and bills payables	**30,398**	**27,313**	**—**	**—**	**57,711**
Other payables	**12,363**	**—**	**—**	**—**	**12,363**
Interest-bearing bank and other borrowings, excluding convertible notes	**—**	**45,578**	**51,966**	**—**	**97,544**
Due to a PRC joint venture partner	**1,131**	**—**	**—**	**—**	**1,131**
Loans from the immediate holding company	**21,358**	**—**	**—**	**31,708**	**53,066**
Loan from a fellow subsidiary	**—**	**—**	**—**	**54,600**	**54,600**
Convertible notes	**—**	**—**	**—**	**65,331**	**65,331**
	65,250	**72,891**	**51,966**	**151,639**	**341,746**

38. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk (Continued)

Group (Continued)

	2006				
	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 and bills payables	25,983	25,420	—	—	51,403
Other payables	12,805	—	—	—	12,805
Interest-bearing bank and other borrowings	—	15,451	—	—	15,451
Due to a PRC joint venture partner	1,131	—	—	—	1,131
Loans from the immediate holding company	—	—	—	30,258	30,258
Loan from a fellow subsidiary	—	—	54,600	—	54,600
	39,919	40,871	54,600	30,258	165,648

Company

	2007				
	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***
Other payables	**1,193**	**—**	**—**	**—**	**1,193**
Loans from the immediate holding company	**—**	**—**	**—**	**31,708**	**31,708**
Convertible notes	**—**	**—**	**—**	**65,331**	**65,331**
	1,193	**—**	**—**	**97,039**	**98,232**

	2006				
	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*
Other payables	1,008	—	—	—	1,008
Loans from the immediate holding company	—	—	—	30,258	30,258
	1,008	—	—	30,258	31,266

38. Financial Risk Management Objectives and Policies (Continued)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder 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 during the years ended 31 December 2007 and 2006.

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

	2007	2006
	HK$'000	*HK$'000*
Interest-bearing bank and other borrowings, excluding convertible notes *(note 21)*	**97,544**	15,451
Loans from the immediate holding company *(note 23)*	**53,066**	30,258
Loan from a fellow subsidiary *(note 24)*	**54,600**	54,600
Less: Cash and cash equivalents *(note 19)*	**(60,995)**	(41,536)
Net debt	**144,215**	58,773
Convertible notes, the liability component *(note 26)*	**56,741**	—
Equity attributable to equity holders	**243,182**	199,721
Adjusted capital	**299,923**	199,721
Capital and net debt	**444,138**	258,494
Gearing ratio	**32%**	23%

39. Post Balance Sheet Event

On 19 March 2008, the Group entered into an agreement with the local government in Jiawang, Xuzhou City of the PRC, under which the Group agreed to establish a wholly-owned subsidiary to construct and operate production facilities (the "Jiawang Factory") for the upstream processing of leather products in Jiawang, Xuzhou City. The Group anticipated that a total capital expenditure of HK$60.3 million would be invested for such purpose and the construction of the Jiawang Factory would commence in 2009, and is expected to be completed within 24 months.

40. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 8 April 2008.