粵海制革有限公司
GUANGDONG TANNERY LIMITED

(股份代號 Stock Code: 1058)

ANNUAL REPORT 2008
年報

CONTENTS

Corporate Information

BOARD OF DIRECTORS

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

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

COMPANY SECRETARY

Lo Sze Sze

AUDITORS

Ernst & Young

REGISTERED OFFICE

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

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

SHARE REGISTRAR

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

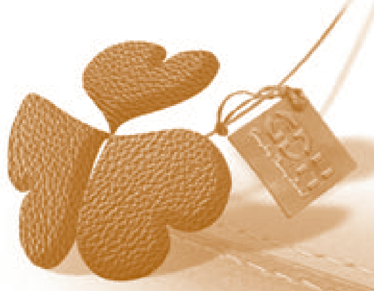
LISTING INFORMATION

Stock Code: 1058

WEBSITE

www.gdtann.com.hk

Chairman's statement



RESULTS

I hereby report to the shareholders that the consolidated profit of Guangdong Tannery Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") attributable to shareholders for 2008 was HK$3,050,000 (2007: HK$11,576,000), a decrease of 73.7% over last year. The basic earnings per share was HK cents 0.57 (2007: HK cents 2.16), representing a decrease of 73.6% compared with last year.

DIVIDEND

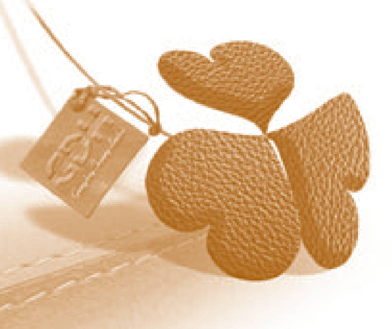
The board of directors of the Company (the "Board") does not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: Nil).

REVIEW

During the year under review, the Group maintained its stable operation and development under difficult operating environment by controlling its operating risks and continuing its stable operation as its overall direction and implementing its sound corporate development strategies in a timely manner. In the area of production management, in addition to consolidating the existing production scale, the Group adjusted the production management style and optimized the product portfolio as its internal measures and continued to reorganize its supply and marketing network to establish an efficient market as its external measures. As a result, the Group was able to sustain its stable operations with higher risk-resistance under adverse circumstances. In the area of strategic development, in order to improve the Group's future development capacity and synergy between the upstream and downstream processing activities, the Group carried out the Relocation & Technical Renovation Project of Xuzhou Nanhai Leather Factory Co., Ltd. ("Xuzhou Tannery") at the end of 2007. The project was close to completion and is expected to commence operations in the second quarter of 2009. Besides, the Jinsanqiao project in Xuzhou Economic Development Zone was also in the early preparation stage.

2008 was an extraordinary year. The financial tsunami triggered by the sub-prime mortgage in the United States has spread worldwide and caused damages to the real economy. The global economic downturn has materially impacted various sectors, including the tannery industry in the People's Republic of China ("PRC"). In addition, the significant fluctuation in raw material prices, tightening working capital in general, substantial decline in imports and exports and difficult operating environment for labour intensive enterprises principally engaged in processing and trading have deeply upset the tannery industry in the PRC. Facing such difficulties, the Group continued to, based on the core enterprise culture of "faith, integrity and efficiency", focus on the core mission of corporate development and consolidated the foundation of management through team building. The Group also adhered to "decreasing the inventory and trade receivables and increasing the cash flow" as its objective and endeavored to enhance its economic efficiency and seek development opportunities during the operating risk control process with an aim to provide a solid foundation for the future development.

Facing the global financial crisis, the Group has adopted various measures to maintain its stable operating and development ability: (1) closely monitor the domestic and international economic dynamic developments, conduct multi-angled research on economic conditions and development trend of the tannery industry as well as analyze the conditions of our own and major competitors in an objective manner so as to formulate practical and suitable production and operating goals and development strategies for the Group; (2) full implementation of Operating Budgetary Control System and improve the transparency and operation management standards by implementing financial plans and setting up a financial-oriented instruction and supervision mechanism; (3) adopt performance-based incentive schemes in respect of product maintenance and product development, recruit talented technical staff and introduce advanced technologies and craftsmanship; (4) implement strategic cooperation mechanism with suppliers to establish a stable and reliable supply market, closely monitor the domestic and foreign cowhides market and the changes in the exchange rate of Renminbi and adopt cautious and pragmatic purchasing strategies to manage the procurement risks; and (5) increase direct sales to renowned footwear manufacturers to establish an extensive high-end customers network covering all footwear industry and introduce a credit rating system to strictly control and reduce the market risks of the Group.



Chairman's Statement

PROSPECTS

The domestic and foreign economic conditions will remain adverse in 2009. It is expected that the competition in the tannery industry will intensify in light of the market uncertainty. The Group will implement its operating and strategic development strategies in a prudent approach, fully utilize its existing capacities, focus on the existing market and manage its overall operating risks. The Group will also continue to decrease its inventory level to maintain a sufficient cash flow and adhere to its long term mission by optimizing and upgrading the quality of its products and developing new products. The Group will further strengthen its effort on team building and refine its internal system by tapping potential and improving efficiency. In addition, the Group will closely monitor the changes in the tannery market and industry developments in 2009 and adjust its expansion strategies in response to the market conditions to accelerate the further improvement of its overall market position and operating results.

Zhang Chunting
Chairman

Hong Kong, 14 April 2009

Management Discussion And Analysis

RESULTS

The Group's consolidated profit attributable to shareholders for the year ended 31 December 2008 was HK$3,050,000, representing a decrease of HK$8,526,000 or 73.7% as compared to the profit of HK$11,576,000 for the same period of last year.

The net asset value of the Group as at 31 December 2008 was HK$267,236,000, representing an increase of HK$24,054,000 and a decrease of HK$4,638,000 as compared to the net asset value as at 31 December 2007 and 30 June 2008 respectively.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2008.

BUSINESS REVIEW

Since the end of 2007, the export trade, which was one of the driving forces for the economic development of the PRC, has been deteriorated with numbers of export-oriented enterprises experienced operational difficulties. In addition, due to the implementation of new Labour Law and the changes in the exchange rates of Renminbi and US dollars, the future economic development remained uncertain. In addition to consolidating the existing operational scale, the Group adhered to "decreasing the inventory and trade receivables and increasing the cash flow" as its objective to strengthen its production management, optimize its product portfolio and reorganize its supply and marketing network. By adopting prudent operating strategies, the Group has effectively managed its operating risks and relieved operational difficulties of the industry.

The Group has adjusted its production scale in response to the demand and prices of the tannery market. The cowhides production volume for the year was 25,495,000 sq. ft., representing a decrease of 6,427,000 sq. ft. or 20.1% as compared to 31,922,000 sq. ft. for the same period of last year, whereas the grey hides production volume was 5,244 tons, representing a decrease of 8,196 tons or 61.0% as compared to 13,440 tons for the same period of last year.

During the year, the consolidated turnover of the Group was HK$525,480,000, representing a decrease of HK$101,138,000 or 16.1% from HK$626,618,000 for the same period of last year. The turnover of cowhides amounted to HK$493,787,000 (2007: HK$542,642,000), representing a decrease of 9.0% and the turnover of grey hides and other products amounted to HK$31,693,000 (2007: HK$83,976,000), representing a decrease of 62.3%. Confronted with the unfavorable conditions such as decrease in sales volume of cowhides and the substantial drop in price and sales volume of grey hides, the Group had adopted the following measures to stabilize its clienteles during the year: (1) fostering an effective marketing network characterized by a high-end client base with direct sales to renowned footwear manufacturers as the main channel and a regional-balanced market; (2) increasing direct sales to renowned footwear manufacturers to ensure higher risk-resistance and stronger sales channels during the market fluctuation; (3) introducing a credit rating system for the customers to strictly control the market risks; (4) adopting customer demerger, market segmentizing, selling with accountability and performance-based evaluation schemes to explore the potentials of the marketing staff. In addition, the Group has worked actively in promoting technology renovation, craftsmanship innovation, and enhancement of new and existing products by recruiting talented staff and introducing advanced technologies. During the year, the Group has developed eight to nine products in five major kinds, including nappa leather, natural dry milled leather, smooth leather, corrected upper leather and emboss leather. As such, the Group has successfully maintained its market share in the tannery industry.

BUSINESS REVIEW (CONTINUED)

During the year, on the premise that ensures the normal production requirement, the Group had cut down its purchasing plan under the significant fluctuation of prices of raw materials and focused on cost control and risk management. Through closely monitoring the domestic and foreign changes in market supply and conducting research on development trend of market demand and prices, the Group has effectively managed its procurement costs. During the year, total amount of purchases decreased by 51.2% to HK$313,082,000.

As at 31 December 2008, the consolidated inventories of the Group amounted to HK$209,521,000 (as at 31 December 2007: HK$338,128,000), representing a decrease of HK$128,607,000 as compared to the same as at 31 December 2007. The substantial decrease in inventories was mainly due to the decrease of raw material purchases and the effort in maintaining sufficient cash by decreasing the inventory level so as to provide sufficient operating cash flow for the Group during the year.

In the area of strategic development, the Relocation & Technical Renovation Project of Xuzhou Tannery was close to completion during the year and is expected to commence its operations in the second quarter of 2009. In addition, Jinsanqiao project in Xuzhou Economic Development Zone was also in the early preparation stage. During the year, the Group had injected a registered capital of US$9,000,000 into Jinsanqiao project and the project has been commenced smoothly.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2008, the Group's cash and cash equivalents amounted to HK$97,653,000 (as at 31 December 2007: HK$60,995,000), representing an increase of HK$36,658,000 or 60.1% as compared to the same as at 31 December 2007, which were denominated in Hong Kong dollars (2.8%), Renminbi (81.8%) and US dollars (15.4%) respectively. During the year, net cash inflow from operating activities was HK$89,113,000, which mainly represented the modified purchase strategy with control of quantity purchased that decreased cash paid for raw materials. The net cash outflow from financing activities was HK$36,722,000, which was mainly used to repay bank loans.

As at 31 December 2008, the Group's interest-bearing borrowings amounted to HK$188,445,000 (as at 31 December 2007: HK$261,951,000), of which interest-bearing borrowings in Hong Kong dollars amounted to HK$81,414,000, interest-bearing borrowings in Euros amounted to HK$6,801,000, and interest-bearing borrowings in US dollars amounted to HK$100,230,000. The Group's borrowings mainly consist of: (1) balance of short-term bank borrowings of HK$6,801,000 which were secured by the pledge of the bank deposits of RMB5,999,000; (2) balances of long-term and short-term unsecured intra-group borrowings of HK$121,718,000; and (3) balance of convertible notes held by the Group's immediate holding company of HK$59,926,000. Other than the convertible notes, which was charged at 1% per annum, the above interest-bearing borrowings were charged at floating interest rate.

As at 31 December 2008, 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 shareholders' equity and convertible notes) plus net value of interest-bearing borrowings was 8.62% (as at 31 December 2007: 32.5%). During the year, the annual interest rate of the borrowings was approximately 3.0% to 7.8%. 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$121,718,000 and HK$59,926,000 respectively. The Group's interest expenses for the year amounted to HK$13,224,000, representing an increase of 21.9% from the same period of last year.

FINANCIAL REVIEW (CONTINUED)

Liquidity and Financial Resources (Continued)

As at 31 December 2008, the total banking facilities of the Group was HK$78,239,000, of which utilized banking facilities amounted to HK$6,801,000 and unutilized banking facilities amounted to HK$71,438,000. Taking into account of the existing cash resources and available credit facilities as well as the cash flow generated by the Group's operating business, the Group had adequate financial resources to meet its day-to-day operational requirements.

Capital Expenditure

As at 31 December 2008, the net value of non-current assets including land, property, machinery and equipments and investment property amounted to HK$72,413,000, representing an increase of HK$25,201,000 over the net value as at 31 December 2007 of HK$47,212,000. The capital expenditure for the year amounted to HK$28,122,000 (2007: HK$15,826,000), which mainly represented the payment of the construction works of Relocation & Technical Renovation Project of Xuzhou Tannery and the acquisition of machinery and equipments for that project to cope with the production and development requirements of the Group.

Pledge of Assets

As at 31 December 2008, certain of the Group's bank deposits, plant and machinery with a total net book value of HK$16,707,000 (2007: HK$91,844,000) were pledged to secure general banking facilities granted to the Group.

Risk of Exchange Rate

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

Remuneration Policy for Employees

As at 31 December 2008, a total of 873 employees (2007: 993) were employed by the Group. The remuneration policy is based on the Group's operating results and the employees' performance. The Group has adopted a performance-based evaluation scheme for its employees focusing on "accountability and performance" with an aim to motivate the contribution of its employees. In addition, the Group offered social and medical insurance and provident fund to all employees in different areas. The Company has adopted a new share option scheme in November 2008, with the purpose to provide incentives to the senior management to contribute to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

Biographical Details Of Directors And Senior Management

(A) EXECUTIVE DIRECTORS

Mr. Zhang Chunting (Age: 44)

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 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: 55)

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). 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), 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. Xiong Guangyang (Age: 55)

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 Limited ("GDH"), the immediate controlling shareholder of the Company, 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.

Mr. Zhang Yaping (Age: 56)

Mr. Zhang was appointed a Non-Executive Director of the Company in January 2007. Mr. Zhang is a senior economist in the PRC. From September 2000 to October 2008, he was a director of GDH. 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)

Mrs. Ho Lam Lai Ping, Theresa (Age: 53)

Mrs. Ho was appointed a Director of the Company in July 2000. She also acted as a director of Kingway Brewery Holdings Limited ("Kingway") during the period from 17 August 2000 to 24 July 2008. Kingway is a subsidiary of GDH and is listed on The Stock Exchange of Hong Kong Limited. Mrs. Ho has been the Company Secretary of Guangdong Investment Limited 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: 61)

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

Mr. Choi Kam Fai, Thomas (Age: 63)

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.

Mr. Chan Cheong Tat (Age: 59)

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 and independent non-executive director of Nobel Jewelry Holdings Limited (stock code: 00475).

(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 of the Company.

Ms. Lee Wai Mei (Age: 34)

Ms. Lee was appointed the Chief Financial Officer of the Company in May 2005. She has over 13 years of experience in auditing and accounting. She is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

REPORT OF THE DIRECTORS

The directors (the "Directors") of the Company herein present their report and the audited financial statements of the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The Group is principally engaged in the processing and sale of semi-finished and finished leather. The activities of the principal subsidiaries of the Company are set out in note 15 to the financial statements 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 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 96.

No interim dividend was paid during the year and the Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2008.

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				
	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Restated)	(Restated)
Turnover	**525,480**	626,618	419,975	258,543	281,951
Profit from operating activities	**20,898**	28,301	31,146	8,604	11,941
Finance costs	**(13,224)**	(10,846)	(5,726)	(3,734)	(5,734)
Profit before tax	**7,674**	17,455	25,420	4,870	6,207
Tax	**(4,624)**	(5,879)	(4,763)	533	(1,203)
Profit for the year	**3,050**	11,576	20,657	5,403	5,004

FINANCIAL SUMMARY (CONTINUED)

Assets and liabilities

	As at 31 December				
	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Restated)	(Restated)
Assets					
Property, plant and equipment, investment property and prepaid land lease payments	**72,413**	47,212	34,785	86,325	95,031
Interest in an associate	**–**	–	1,219	4,336	–
Current assets	**455,954**	544,153	345,858	291,636	301,883
Total assets	**528,367**	591,365	381,862	382,297	396,914
Liabilities					
Current liabilities	**78,507**	204,177	150,695	205,146	233,002
Long term liabilities	**182,624**	144,006	31,446	4,717	4,765
Total liabilities	**261,131**	348,183	182,141	209,863	237,767
Net assets	**267,236**	243,182	199,721	172,434	159,147

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

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

CONVERTIBLE NOTES

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

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Company and the Group as at 31 December 2008 are set out in notes 20, 22 and 23 to the financial statements.

SHARE CAPITAL

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

At 31 December 2008, 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 (2007: 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)*
Xiong Guangyang#	
Zhang Yaping#	
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. Xiong Guangyang and Mr. Chan Cheong Tat will retire by rotation in accordance with Articles 82 to 84 of the Company's Articles of Association at the forthcoming annual general meeting of the Company. Being eligible, they will 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

None of the Directors had a material beneficial interest, whether directly or indirectly, in any significant contract to which the Company or any of its subsidiaries, its holding companies or a subsidiary of its holding companies was party during the year or as at 31 December 2008.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2008, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive were taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange ("Listing Rules"), were as follows:

(I) Interests and Short Positions in the Company

(1) Interests in ordinary shares

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

Note: The approximate percentage of interests held was calculated on the basis of 537,504,000 ordinary shares of the Company in issue as at 31 December 2008.

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

	Number of share options									
Name of Director	At 1 January 2008	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2008	Date of grant of share options *(DD.MM.YYYY)*	Total consideration paid for share options *HK$*	Exercise price of share options* *HK$ (per share)*	Price of ordinary shares at date immediately before date of grant** *HK$ (per share)*	Price of ordinary shares immediately before the exercise date** *HK$ (per share)*
Zhang Chunting	–	800,000	–	–	800,000	24.11.2008	–	0.278	0.27	–
Ren Yingguo	–	700,000	–	–	700,000	24.11.2008	–	0.278	0.27	–
Xiong Guangyang	–	1,150,000	–	–	1,150,000	24.11.2008	–	0.278	0.27	–
Zhang Yaping	–	1,150,000	–	–	1,150,000	24.11.2008	–	0.278	0.27	–

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (CONTINUED)

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

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

Notes:

(a) The option period of all the share options under the share option scheme adopted by the Company on 24 November 2008 ("2008 Scheme") granted during the year is 5.5 years from the date of grant.

(b) Any share option under the 2008 Scheme granted during the year is only exercisable during the option period after it has become vested.

(c) The normal vesting scale of the share options under the 2008 Scheme granted during the year is as follows:

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

(d) The vesting of the share options under the 2008 Scheme granted during the year is further subject to the achievement of such performance targets as determined by the Board upon grant and stated in the offer of grant.

(e) The leaver vesting scale of the share options under the 2008 Scheme granted during the year that would apply in the event of the grantee ceasing to be an eligible person under certain special circumstances (less the percentage which has already vested under the normal vesting scale or lapsed) is as follows:

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

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

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

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (CONTINUED)

(II) Interests and Short Positions in Guangnan (Holdings) Limited ("Guangnan")

Interests in ordinary shares

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate Percentage of interests held *(Note)*
Xiong Guangyang	Personal	600,000	Long position	0.07%

Note: The approximate percentage of interests held was calculated on the basis of 905,603,285 ordinary shares of Guangnan in issue as at 31 December 2008.

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

(1) *Interests in ordinary shares*

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

Note: The approximate percentage of interests held was calculated on the basis of 6,161,388,071 ordinary shares of GDI in issue as at 31 December 2008.

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

Name of Director	Number of share options					Date of grant of share options *(DD.MM.YYYY)*	Total consideration paid for share options HK$	Exercise price of share options* HK$ *(per share)*	Price of ordinary shares at date immediately before date of grant** HK$ *(per share)*	Price of ordinary shares immediately before the exercise date** HK$ *(per share)*
	At 1 January 2008	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2008					
Ho Lam Lai Ping, Theresa	–	2,400,000	–	–	2,400,000	24.10.2008	–	1.88	1.73	–

Notes:

(a) The option period of all the share options under the share option scheme adopted by GDI ("GDI Scheme") granted during the year is 5.5 years from the date of grant.

(b) Any share option under GDI Scheme granted during the year is only exercisable during the option period after it has become vested.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (CONTINUED)

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

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

Notes: (Continued)

(c) The normal vesting scale of the share options under GDI Scheme granted during the year is as follows:

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

(d) The vesting of the share options under GDI Scheme granted during the year is further subject to the achievement of such performance targets as determined by the board of directors of GDI upon grant and stated in the offer of grant.

(e) The leaver vesting scale of the share options under GDI Scheme granted during the year that would apply in the event of the grantee ceasing to be an eligible person under certain special circumstances (less the percentage which has already vested under the normal vesting scale or lapsed) is as follows:

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

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

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

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (CONTINUED)

(IV) Interests and Short Positions in Kingway Brewery Holdings Limited ("Kingway")

Interests in ordinary shares

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

Note: The approximate percentage of interests held was calculated on basis of 1,711,536,850 ordinary shares of Kingway in issue as at 31 December 2008.

Save as disclosed above, as at 31 December 2008, 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 2008, so far as is known to the Directors or the chief executive of the Company, the following persons (other than a Director or the chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Derivative interests (Number of shares to be issued upon conversion of the HK$61,500,000 convertible notes issued by the Company)	Approximate percentage of the Company's issued ordinary share capital (including derivative interests)
廣東粵海控股有限公司 (Guangdong Holdings Limited) *(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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS (CONTINUED)

Save as disclosed above, as at 31 December 2008, so far as is known to the Director or the chief executive of the Company, there were no other persons (other than a Director or the chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

SHARE OPTIONS OF THE COMPANY

As at 31 December 2008, save as disclosed in the section of "Interests in share options relating to ordinary shares (long positions)" under "Interests and Short Positions in the Company" of this report on pages 14 and 15, certain eligible persons (other than Directors) had the following interests in rights to subscribe for shares of the Company granted under the 2008 Scheme. Each option gives the holder the right to subscribe for one share of par value HK$0.10 each of the Company. Further details are set out in note 28 to the financial statements.

	Number of share options									
Category of participants	At 1 January 2008	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2008	Date of grant of share options *(DD.MM.YYYY)*	Total consideration paid for share options *HK$*	Exercise price of share options* *HK$* *(per share)*	Price of ordinary shares at date immediately before date of grant** *HK$* *(per share)*	Price of ordinary shares immediately before the exercise date** *HK$* *(per share)*
Employees	–	1,550,000	–	–	1,550,000	24.11.2008	–	0.278	0.27	–

Note: Additional information regarding the above share options granted during the year is set out in the notes under "Interests in share options relating to ordinary shares (long positions)" in the "Interests and Short Positions in the Company" section of this report on pages 14 and 15.

In assessing the theoretical aggregate value of the share options granted during the year, the binomial model has been used.

Share options granted during the year ended 31 December 2008:

Date of Grant: 24.11.2008
Exercise Price: HK$0.278 per share

Vesting period *(DD.MM.YYYY)*	Exercise period *(DD.MM.YYYY)*	Number of options at 24.11.2008	Options value at 24.11.2008 *HK$* *(Note b)*
24.11.2008 – 23.11.2010	24.11.2010 – 23.05.2014	2,140,000	348,000
24.11.2008 – 23.11.2011	24.11.2011 – 23.05.2014	1,605,000	284,000
24.11.2008 – 23.11.2012	24.11.2012 – 23.05.2014	535,000	100,000
24.11.2008 – 23.11.2013	24.11.2013 – 23.05.2014	1,070,000	208,000

SHARE OPTIONS OF THE COMPANY (CONTINUED)

Notes:

(a) The closing price of the ordinary shares of the Company immediately before the date on which the options were granted was HK$0.27.

(b) According to the binomial model△, the theoretical aggregate value of the options was estimated at HK$940,000 as at 24 November 2008 (when the options were granted) with the following variables and assumptions:

Risk Free Rate:	1.388%, being the approximate yield of the 5-year exchange fund note traded on 24 November 2008
Expected Volatility:	91.26%, being the annualised volatility of the closing price of the ordinary shares of the Company from 26 May 2003 to 24 November 2008
Expected Dividend Yield:	Nil, being the approximate yield of the shares of the Company over the period from 1 January 2007 to 31 December 2007
Expected Life of the Options:	5.5 years
Assumptions:	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the ordinary shares of the Company over the period from 26 May 2003 to 24 November 2008.

(c) Information regarding the treatment of options that do not ultimately vest and are cancelled prior to their expiry is set out in note 2.4 to the financial statements.

△ The binomial model (the "Model") is one of the option pricing models to estimate the fair value of an option. It should be noted that the Model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the fair value of the share options derived from the Model should not be interpreted as the market or actual value of option.

SIGNIFICANT CONTRACTS WITH CONTROLLING SHAREHOLDER

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

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Directors' Interests and Short Positions in Securities" and "Share Options of the Company" of this report, and in note 28 to the financial statements, at no time during the year was the Company, any subsidiaries or holding company of the Company or any subsidiaries of the Company's holding company, a party to any arrangements to enable the Directors or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONNECTED TRANSACTIONS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2008, the amount of purchases attributable to the Group's largest supplier represented 35.2% 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 78.3% of the Group's total purchases. In addition, the amount of turnover attributable to the Group's largest customer represented 6.8% of the Group's total turnover; and the aggregate amount of the turnover attributable to the Group's five largest customers represented 21.8% of the Group's total turnover. None of the Directors of the Company or their associates, or any shareholders (which, to the best knowledge of the Directors of the Company, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers or customers.

PUBLIC FLOAT

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

AUDITORS

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

By order of the Board
Zhang Chunting
Chairman

Hong Kong, 14 April 2009

Corporate Governance Report

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

In the opinion of the Directors, the Company has met with the code provisions set out in the CG Code throughout 2008.

BOARD OF DIRECTORS

The Board comprises two Executive Directors, being Mr. Zhang Chunting and Mr. Ren Yingguo, three Non-Executive Directors, being Mr. Xiong Guangyang, Mr. Zhang Yaping 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.

Six Board Meetings were held during the financial year ended 31 December 2008. The attendances of the Directors at the Board meetings are as follows:

Directors		**Number of Attendance**
Zhang Chunting		6/6
Ren Yingguo	*(appointed on 19 March 2008)*	4/6
Xiong Guangyang		1/6
Zhang Yaping		1/6
Fung Lak		6/6
Choi Kam Fai, Thomas		6/6
Chan Cheong Tat		6/6
Ho Lam Lai Ping, Theresa		5/6
Deng Rongjun	*(resigned on 19 March 2008)*	0/1

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 8 and 9 of this annual report, which demonstrate a diversity of skills, expertise, experience and qualifications.

CHAIRMAN AND MANAGING DIRECTOR

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

REMUNERATION OF DIRECTORS (CONTINUED)

During the financial year ended 31 December 2008, the Remuneration Committee held three meetings (i) to approve the annual remuneration package and the 2007 performance bonuses for the Executive Directors and senior management of the Company; (ii) to amend the principles of calculation of performance bonuses; and (iii) to recommend to the Board the grant of share options to Non-Executive Directors and to approve the grant of share options to Executive Directors and senior management of the Company under 2008 Scheme. The attendance of each member of the Remuneration Committee is set out as follows:

Directors		Number of Attendance
Choi Kam Fai, Thomas		3/3
Fung Lak		3/3
Chan Cheong Tat		3/3
Zhang Chunting	*(ceased to act as a member on 18 November 2008)*	3/3

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

NOMINATION OF DIRECTORS

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

Authority

1. The Nomination Committee is 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 2008, the Nomination Committee held two meetings (i) to recommend to the Board the appointment of Mr. Ren Yingguo as an Executive Director and the Managing Director of the Company; (ii) to review the structure, size and composition of the Board; and (iii) to recommend to the Board the proposed re-election of Mr. Ren Yingguo, Mr. Choi Kam Fai, Thomas and Mrs. Ho Lam Lai Ping, Theresa as Directors at 2008 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	2/2
Fung Lak	2/2
Choi Kam Fai, Thomas	2/2
Chan Cheong Tat	2/2

AUDIT COMMITTEE

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

Authority

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

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

Duties

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

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

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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and other legal requirements in relation to financial reporting.

5. In regard to (4) above:

   i. members of the Audit Committee must liaise with the Company's Board and senior management and the Audit Committee must meet, at least once a year, with the Company's auditor; and

   ii. the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditor.

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

7. To discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

AUDIT COMMITTEE (CONTINUED)

Duties (Continued)

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

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

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

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

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

13. To report to the Board on the matters set out in the code provisions in relation to Audit Committee under Appendix 14 of the Listing Rules.

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

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

During the financial year ended 31 December 2008, the Audit Committee held four meetings to review the 2007 annual results and the 2008 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 2008 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	4/4
Choi Kam Fai, Thomas	4/4
Chan Cheong Tat	4/4

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	1,120
Review of Interim Results	280

ACCOUNTABILITY AND AUDIT

The Board is responsible for overseeing the preparation of financial statements for the year ended 31 December 2008, 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 2008, 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 CONTROL

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

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

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

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

INTERNAL CONTROL (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 of the Company and the Group's assets.

Independent Auditors' Report

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 33 to 96, which comprise the consolidated and Company balance sheets as at 31 December 2008, 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 2008 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

14 April 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
REVENUE	5	**525,480**	626,618
Cost of sales		**(493,095)**	(587,381)
Gross profit		**32,385**	39,237
Other income and gains	5	**9,306**	8,288
Selling and distribution costs		**(2,046)**	(2,086)
Administrative expenses		**(18,747)**	(17,138)
Finance costs	6	**(13,224)**	(10,846)
PROFIT BEFORE TAX	6	**7,674**	17,455
Tax	7	**(4,624)**	(5,879)
PROFIT FOR THE YEAR	10	**3,050**	11,576
EARNINGS PER SHARE	11		
– Basic		**0.57 cents**	2.16 cents
– Diluted		**0.57 cents**	2.16 cents

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**64,371**	39,239
Investment property	13	**2,120**	2,280
Prepaid land lease payments	14	**5,922**	5,693
Total non-current assets		**72,413**	47,212
CURRENT ASSETS			
Inventories	16	**209,521**	338,128
Receivables, prepayments and deposits	17	**138,009**	125,817
Pledged deposits	18	**10,771**	19,213
Cash and cash equivalents	18	**97,653**	60,995
Total current assets		**455,954**	544,153
CURRENT LIABILITIES			
Trade payables	19	**42,768**	57,711
Other payables and accruals		**23,192**	22,376
Interest-bearing bank and other borrowings	20	**6,801**	97,544
Due to a PRC joint venture partner	21	**1,131**	1,131
Loan from the immediate holding company	22	**–**	21,358
Provision	24	**3,617**	3,406
Tax payable		**998**	651
Total current liabilities		**78,507**	204,177
NET CURRENT ASSETS		**377,447**	339,976
TOTAL ASSETS LESS CURRENT LIABILITIES		**449,860**	387,188

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT LIABILITIES			
Loans from the immediate holding company	22	67,118	31,708
Loan from a fellow subsidiary	23	54,600	54,600
Convertible notes	25	59,926	56,741
Deferred tax liabilities	26	980	957
Total non-current liabilities		182,624	144,006
Net assets		267,236	243,182
EQUITY			
Issued capital	27	53,750	53,750
Reserves	29(a)	213,486	189,432
Total equity		267,236	243,182

Zhang Chunting
Director

Ren Yingguo
Director

Consolidated Statement Of Changes In Equity

Year ended 31 December 2008

	Notes	Issued capital HK$000	Share premium account HK$000	Equity component of convertible notes HK$'000	General reserve fund HK$000 (Note 29(a))	Reserve funds HK$000 (Note 29(a))	Share option reserve HK$000	Capital redemption reserve HK$000	Exchange translation reserve HK$000	Property revaluation reserve HK$000	Accumulated losses HK$000	Total HK$000
At 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	26	–	–	–	–	–	–	–	–	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 shares	27	1,335	1,852	–	–	–	(110)	–	–	–	–	3,077
Issue of convertible notes, net of issue expenses attributable to equity component of HK$54,000	25	–	–	5,545	–	–	–	–	–	–	–	5,545
Transfer from retained profits of a subsidiary established in the PRC		–	–	–	–	3,020	–	–	–	–	(3,020)	–
At 31 December 2007 and 1 January 2008		53,750	413,968	5,545	167,746	6,887	–	445	38,135	1,562	(444,856)	243,182
Surplus on revaluation of buildings	12	–	–	–	–	–	–	–	–	57	–	57
Deferred tax charged to the property revaluation reserve	26	–	–	–	–	–	–	–	–	(14)	–	(14)
Exchange realignment		–	–	–	–	–	–	–	20,926	–	–	20,926
Total income and expense recognised directly in equity		–	–	–	–	–	–	–	20,926	43	–	20,969
Profit for the year		–	–	–	–	–	–	–	–	–	3,050	3,050
Total income and expense for the year		–	–	–	–	–	–	–	20,926	43	3,050	24,019
Equity-settled share option arrangements	28	–	–	–	–	–	35	–	–	–	–	35
Transfer from retained profits of a subsidiary established in the PRC		–	–	–	–	2,562	–	–	–	–	(2,562)	–
At 31 December 2008		53,750	413,968*	5,545*	167,746*	9,449*	35*	445*	59,061*	1,605*	(444,368)*	267,236

* These reserve accounts comprise the consolidated reserves of HK$213,486,000 (2007: HK$189,432,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**7,674**	17,455
Adjustments for:			
Finance costs	6	**13,224**	10,846
Interest income	5	**(1,104)**	(1,318)
Depreciation	6	**6,119**	5,987
Provision/(reversal of provision) for inventories	6	**(894)**	8,695
Gain on disposal of items of property, plant and equipment	6	**–**	(226)
Impairment/(reversal of impairment) of trade receivables	6	**(204)**	281
Changes in fair value of investment property	6	**160**	(95)
Surplus on revaluation of buildings	6	**(36)**	(104)
Recognition of prepaid land lease payments	6	**122**	–
Write-off of items of property, plant and equipment	6	**117**	–
Equity-settled share option expense	28	**35**	–
		25,213	41,521
Decrease/(increase) in inventories		**147,267**	(115,959)
Increase in receivables, prepayments and deposits		**(4,275)**	(37,096)
Increase/(decrease) in trade payables		**(18,254)**	868
Decrease in other payables and accruals		**(2,813)**	(3,228)
Increase/(decrease) in trust receipt loans		**(44,803)**	31,274
Cash generated from/(used in) operations		**102,335**	(82,620)
Interest received		**1,104**	1,318
Interest paid		**(10,039)**	(9,469)
Tax paid		**(4,287)**	(6,608)
Net cash inflow/(outflow) from operating activities		**89,113**	(97,379)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	12	**(28,122)**	(10,017)
Purchases of prepaid land lease payments	14	**–**	(5,809)
Proceeds from disposal of items of property, plant and equipment		**–**	893
Decrease/(increase) in pledged deposits		**9,510**	(5,176)
Repayment from an associate		**–**	1,219
Net cash outflow from investing activities		**(18,612)**	(18,890)

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**33,329**	47,967
Repayment of bank loans		**(84,103)**	–
Increase in advances from the immediate holding company		**14,052**	21,358
Proceeds from issue of convertible notes, net of direct issue cost of HK$591,000		**–**	60,909
Proceeds from issue of shares	27	**–**	3,077
Net cash inflow/(outflow) from financing activities		**(36,722)**	133,311
NET INCREASE IN CASH AND CASH EQUIVALENTS		**33,779**	17,042
Cash and cash equivalents at beginning of year		**60,995**	41,536
Effect of foreign exchange rate changes, net		**2,879**	2,417
CASH AND CASH EQUIVALENTS AT END OF YEAR		**97,653**	60,995
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	**97,653**	60,995

Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	47	70
Interests in subsidiaries	15	382,846	340,205
Total non-current assets		382,893	340,275
CURRENT ASSETS			
Prepayments and deposits		143	126
Cash and bank balances	18	3,658	29,359
Total current assets		3,801	29,485
CURRENT LIABILITIES			
Other payables and accruals		1,171	1,193
NET CURRENT ASSETS		2,630	28,292
TOTAL ASSETS LESS CURRENT LIABILITIES		385,523	368,567
NON-CURRENT LIABILITIES			
Loans from the immediate holding company	22	67,118	31,708
Loans from subsidiaries	15	4,842	34,378
Convertible notes	25	59,926	56,741
Total non-current liabilities		131,886	122,827
Net assets		253,637	245,740
EQUITY			
Issued capital	27	53,750	53,750
Reserves	29(b)	199,887	191,990
Total equity		253,637	245,740

Zhang Chunting
Director

Ren Yingguo
Director

Notes To Financial Statements

31 December 2008

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), a company established in the People's Republic of China (the "PRC" or "Mainland China").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for 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 2008. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

HKAS 39 & HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

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 1 (Revised)	*First-time Adoption of HKFRS*[2]
HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	*Business Combinations*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures*[1]
HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[2]
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement*[5]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*[1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*[4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners*[2]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers*[2]

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Effective for annual periods ending on or after 30 June 2009
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Related parties

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

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

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

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

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

(e) 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 (c) or (d); or

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the 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%

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

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

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

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

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

Leases

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

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

Assets carried at amortised cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (Continued)

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. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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, loans from the immediate holding company, a fellow subsidiary and subsidiaries, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities

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

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

Inventories

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

Cash and cash equivalents

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

For the purpose of the balance 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

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

Revenue recognition

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

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

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

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

Employee benefits

Share-based payment transactions

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (Continued)

Share-based payment transactions (Continued)

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 28 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (Continued)

Pension schemes

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

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to 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, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the property which is leased out on an operating lease.

Estimation uncertainty

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

Provision for 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. 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

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

In determining the useful lives and residual values of items of property, plant and equipment, the Group periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of the 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 2008 was HK$52,602,000 (2007: HK$86,559,000). Further details are contained in note 26 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, results 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:

	2008 *HK$'000*	2007 *HK$'000*
Revenue		
Processing and sale of leather	**525,480**	626,618
Other income		
Gross rental income	**733**	746
Interest income	**1,104**	1,318
Reinvestment tax refunds#	**–**	1,730
Sale of scrap materials	**1,246**	1,777
Others	**2,483**	2,518
	5,566	8,089
Gains		
Fair value gain on an investment property	**–**	95
Surplus on revaluation of buildings	**36**	104
Foreign exchange gain	**3,704**	–
	3,740	199
	9,306	8,288

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 ended 31 December 2007, 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 that year. The refunds were 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	2008 HK$'000	2007 HK$'000
Cost of inventories sold		**493,989**	578,686
Auditors' remuneration		**1,120**	1,200
Depreciation	*12*	**6,119**	5,987
Interest on:			
Bank loans and discounting bills receivable to banks		**3,013**	4,347
Convertible notes		**3,800**	1,377
Loans from the immediate holding company		**3,900**	1,621
Loan from a fellow subsidiary		**2,511**	3,501
		13,224	10,846
Employee benefits expense (excluding directors' remuneration *(note 8)*):			
Wages and salaries		**21,912**	17,420
Pension scheme contributions (defined contributions scheme)*		**2,424**	1,691
Equity-settled share option expense		**9**	–
		24,345	19,111
Provision/(reversal of provision) for inventories		**(894)**	8,695
Minimum lease payments under operating leases in respect of land and buildings		**662**	641
Recognition of prepaid land lease payments	*14*	**122**	–
Net rental income from investment properties		**(397)**	(387)
Other rental income		**(336)**	(359)
Fair value loss/(gain) of an investment property	*13*	**160**	(95)
Surplus on revaluation of buildings	*12*	**(36)**	(104)
Write-off of items of property, plant and equipment	*12*	**117**	–
Gain on disposal of items of property, plant and equipment, net		**–**	(226)
Impairment/(reversal of impairment) of trade receivables		**(204)**	281

* 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 (2007: 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 2008, which is the fifth profitable year of Xuzhou Tannery, the applicable tax rate of Xuzhou Tannery, after the 50% reduction, was 12.5%.

	2008	2007
	HK$'000	*HK$'000*
Group:		
Current – Mainland China	**4,615**	5,984
Deferred *(note 26)*	**9**	(105)
Total tax charge for the year	**4,624**	5,879

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 rate is as follows:

Group – 2008

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

7. TAX (CONTINUED)

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

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 **2008** ***HK$'000***	 2007 *HK$'000*
Fees	**450**	450
Other emoluments:		
Salaries, allowances and benefits in kind	**1,176**	1,017
Performance related bonuses*	**622**	864
Equity-settled share option expense	**26**	–
Pension scheme contributions	**429**	439
	2,253	2,320
	2,703	2,770

* 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)

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

(a) Independent non-executive directors

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

	2008 *HK$'000*	2007 *HK$'000*
Mr. Fung Lak	**150**	150
Mr. Choi Kam Fai, Thomas	**150**	150
Mr. Chan Cheong Tat	**150**	150
	450	450

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

8. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Pension scheme contributions HK$'000	Employee share option benefits HK$'000	Total remuneration HK$'000
2008						
Executive directors:						
Mr. Zhang Chunting	–	553	362	219	5	1,139
Mr. Ren Yingguo	–	454	–	149	5	608
Mr. Deng Rongjun	–	169	260	61	–	490
	–	1,176	622	429	10	2,237
Non-executive directors:						
Mr. Xiong Guangyang	–	–	–	–	8	8
Mr. Zhang Yaping	–	–	–	–	8	8
Mrs. Ho Lam Lai Ping, Theresa	–	–	–	–	–	–
	–	–	–	–	16	16
	–	1,176	622	429	26	2,253
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. Xiong Guangyang	–	–	–	–	–	–
Mr. Zhang Yaping	–	–	–	–	–	–
Mrs. Ho Lam Lai Ping, Theresa	–	–	–	–	–	–
	–	–	–	–	–	–
	–	1,017	864	439	–	2,320

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 three (2007: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2007: three) non-director, highest paid employees for the year are as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Salaries and allowances	**952**	1,124
Pension scheme contributions	**26**	53
	978	1,177

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

	Number of employees	
	2008	2007
Nil – HK$1,000,000	**2**	3

10. PROFIT FOR THE YEAR

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2008 includes a profit of HK$7,862,000 (2007: HK$106,821,000) which has been dealt with in the financial statements of the Company (note 29(b)).

11. EARNINGS PER SHARE

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

	2008	2007
	HK$'000	*HK$'000*
Earnings		
Profit for the year, used in the basic earnings per share calculation	**3,050**	11,576
Interest on convertible notes	**3,800***	1,377*
Profit for the year, before interest on convertible notes	**6,850**	12,953

	Number of shares	
	2008	2007
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**537,504,000**	535,918,932
Effect of dilution – weighted average number of ordinary shares:		
Share options	**16,597**	1,038,687
Convertible notes	**32,368,421***	32,368,421*
	569,889,018	569,326,040

* 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$3,050,000 and the weighted average of 537,520,597 ordinary shares in issue during the year.

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Electronic equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2008								
At 1 January 2008:								
Cost or valuation	7,520	9,823	64,898	1,911	656	6,631	2,749	94,188
Accumulated depreciation and impairment	–	(5,283)	(41,796)	(1,362)	(586)	(5,922)	–	(54,949)
Net carrying amount	7,520	4,540	23,102	549	70	709	2,749	39,239
At 1 January 2008, net of accumulated depreciation and impairment	7,520	4,540	23,102	549	70	709	2,749	39,239
Additions	–	–	1,833	185	–	–	26,104	28,122
Write-off	–	–	(6)	(45)	–	–	(66)	(117)
Surplus on revaluation	93	–	–	–	–	–	–	93
Depreciation provided during the year	(340)	(428)	(4,955)	(150)	(23)	(223)	–	(6,119)
Transfers	–	–	1,594	–	–	–	(1,594)	–
Exchange realignment	237	394	1,912	40	–	95	475	3,153
At 31 December 2008, net of accumulated depreciation and impairment	7,510	4,506	23,480	579	47	581	27,668	64,371
At 31 December 2008:								
Cost or valuation	7,510	10,430	71,947	1,875	656	6,934	27,668	127,020
Accumulated depreciation and impairment	–	(5,924)	(48,467)	(1,296)	(609)	(6,353)	–	(62,649)
Net carrying amount	7,510	4,506	23,480	579	47	581	27,668	64,371
Analysis of cost or valuation:								
At cost	–	10,430	71,947	1,875	656	6,934	27,668	119,510
At 31 December 2008 valuation	7,510	–	–	–	–	–	–	7,510
	7,510	10,430	71,947	1,875	656	6,934	27,668	127,020

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 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)

Company

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

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2008, the Group's buildings were individually revalued by Greater China Appraisal Limited, independent professionally qualified valuers, at an aggregate open market value of HK$7,510,000 (2007: HK$7,520,000) based on their existing use, with a net revaluation surplus of HK$93,000 (2007: HK$227,000), including a revaluation surplus of HK$57,000 (2007: HK$123,000) credited to property revaluation reserve and a revaluation surplus of HK$36,000 (2007: HK$104,000) 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 2008 would have been approximately HK$3,555,000 (2007: HK$3,672,000).

At 31 December 2008, certain of the plant and machinery of a subsidiary of the Group of HK$5,936,000 (2007: HK$2,560,000) was pledged to secure general banking facilities granted to the Group (note 34).

At 31 December 2007, the buildings of the Group of HK$7,520,000 were pledged to secure general banking facilities granted to the Group (note 34).

13. INVESTMENT PROPERTY

	Note	**2008** ***HK$'000***	2007 *HK$'000*
Carrying amount at 1 January		**2,280**	2,185
Fair value loss/(gain) of an investment property	*6*	**(160)**	95
Carrying amount at 31 December		**2,120**	2,280

The Group's investment property is situated in Mainland China and is held under a medium term lease. At 31 December 2008, the land use right and building ownership certificates of the Group's investment property were in the process of being obtained.

The Group's investment property was revalued on 31 December 2008 by Greater China Appraisal Limited at HK$2,120,000 (2007: HK$2,280,000) on an open market, existing use basis. The investment property is leased to third parties under operating leases, further summary details of which are included in note 31(a) to the financial statements.

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2008	2007
	HK$'000	*HK$'000*
Carrying amount at 1 January	**5,809**	–
Additions	**–**	5,809
Recognised during the year *(note 6)*	**(122)**	–
Exchange realignment	**358**	–
Carrying amount at 31 December	**6,045**	5,809
Current portion included in receivables, prepayments and deposits	**(123)**	(116)
Non-current portion	**5,922**	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$6,045,000 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 2008 and that the land use right certificate can be received.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2008	2007
	HK$'000	*HK$'000*
Unlisted shares, at cost	**305,184**	236,137
Loans to subsidiaries	**310,287**	353,106
	615,471	589,243
Impairment#	**(232,625)**	(249,038)
	382,846	340,205

\# Impairments were recognised for certain unlisted investments and loans to subsidiaries with a total carrying amount of HK$232,625,000 (before deducting the impairments) (2007: HK$249,038,000) because certain of the subsidiaries were losses making persistently.

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

	2008	2007
	HK$'000	*HK$'000*
At 1 January	**249,038**	272,295
Impairment losses reversed	**(16,413)**	(23,257)
At 31 December	**232,625**	249,038

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.

As at 31 December 2008, the loans to subsidiaries are unsecured, interest-free and are not repayable within one year from 31 December 2008. As at 31 December 2007, included in the loans to subsidiaries are unsecured loans of HK$21,358,000, which bore interest at 5.12% per annum and were not repayable within one year from 31 December 2007. The remaining loans to subsidiaries were unsecured, interest-free and were 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$4,842,000 (2007: HK$34,378,000) are unsecured, interest-free and are not repayable within one year from 31 December 2008.

15. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct (%)	Percentage of equity attributable to the Company Indirect (%)	Principal activities
Gastor Enterprises Limited	British Virgin Islands	US$150	100	–	Investment holding
Gold Star Assets Limited	Hong Kong	HK$2	–	100	Investment holding
Qingdao Nanhai Tannery Co., Ltd.#	PRC/Mainland China	US$2,500,000	100	–	Under liquidation
Sun Po (Hong Kong) Leather Ware Company Limited	Hong Kong	HK$2	–	100	Property investment
Team Up Profits Limited	British Virgin Islands	US$1	100	–	Investment holding
Xuzhou Gangwei Leather Co., Ltd.+	PRC/Mainland China	RMB18,000,000	100	–	Processing of cowhides, 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
Guangdong Tannery (Xuzhou) Ltd.+	PRC/Mainland China	US$9,000,000	100	–	Dormant

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

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

16. INVENTORIES

	Group 2008 HK$'000	2007 HK$'000
Raw materials	**32,859**	97,075
Work in progress	**113,599**	180,335
Finished goods	**63,063**	60,718
	209,521	338,128

At 31 December 2007, certain of the Group's inventories with carrying amount of HK$21,358,000 were pledged as security for the Group's bank loans, as further detailed in note 34 to the financial statements.

17. RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 31 December 2008, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK$131,328,000 (2007: HK$107,130,000) 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 2008 HK$'000	2007 HK$'000
Current	**127,780**	103,144
Less than 3 months	**1,852**	2,200
3 to 6 months	**471**	1,504
Over 6 months	**1,685**	1,985
	131,788	108,833
Impairment	**(460)**	(1,703)
	131,328	107,130

17. RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

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

	Group	
	2008	2007
	HK$'000	*HK$'000*
At 1 January	**1,703**	1,422
Impairment losses recognised	**221**	298
Impairment losses reversed	**(425)**	(17)
Amount written off as uncollectible	**(1,039)**	–
At 31 December	**460**	1,703

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

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

	Group	
	2008	2007
	HK$'000	*HK$'000*
Neither past due nor impaired	**127,780**	103,144
Less than 1 month past due	**1,104**	1,929
1 to 3 months past due	**748**	271
Over 3 months past due	**1,696**	1,786
	131,328	107,130

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 were pledged to secure the general banking facilities granted to the Group (note 34).

18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**86,022**	76,652	**3,658**	29,359
Time deposits	**22,402**	3,556	**–**	–
	108,424	80,208	**3,658**	29,359
Less: Pledged bank balances*	**(3,969)**	(15,657)	**–**	–
Pledged time deposits*	**(6,802)**	(3,556)	**–**	–
	(10,771)	(19,213)	**–**	–
Cash and cash equivalents	**97,653**	60,995	**3,658**	29,359

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

At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK$88,728,000 (2007: HK$50,688,000). The RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank 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.

19. TRADE PAYABLES

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

	Group	
	2008	2007
	HK$'000	*HK$'000*
Within 3 months	**19,227**	27,313
3 to 6 months	**16,900**	24,718
6 to 12 months	**2,111**	1,253
Over 12 months	**4,530**	4,427
	42,768	57,711

The trade 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.

20. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2008			2007		
	Effective Interest rate *(%)*	**Maturity**	**Amount** ***HK$'000***	Effective interest rate *(%)*	Maturity	Amount *HK$'000*
Current						
Trust receipt loans, secured	**LIBOR+1.4**	**2009**	**6,801**	LIBOR+1.0	2008	49,127
Bank loans, secured	**–**	**–**	**–**	5.83-7.45	2008	48,417
			6,801			97,544
Non-current						
Convertible notes, unsecured *(note 25)*	**6.63**	**2010**	**59,926**	6.63	2010	56,741
			66,727			154,285

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

Company

	2008			2007		
	Effective Interest rate *(%)*	**Maturity**	**Amount** *HK$'000*	Effective interest rate *(%)*	Maturity	Amount *HK$'000*
Non-current						
Convertible notes, unsecured *(note 25)*	**6.63**	**2010**	**59,926**	6.63	2010	56,741

	Group		Company	
	2008 *HK$'000*	2007 *HK$'000*	**2008** *HK$'000*	2007 *HK$'000*
Analysed into:				
Bank loans repayable within one year	**6,801**	97,544	**–**	–
Other borrowings repayable:				
In the second year	**59,926**	–	**59,926**	–
In the third to fifth years, inclusive	**–**	56,741	**–**	56,741
	66,727	154,285	**59,926**	56,741

Notes:

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

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

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

The carrying amounts of the Group's current borrowings approximate to their fair values. At 31 December 2008, the fair value of the Group's and the Company's convertible notes with a carrying amount of HK$59,926,000 (2007: HK$56,741,000) was HK$58,708,000 (2007: 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.

21. DUE TO A PRC JOINT VENTURE PARTNER

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

22. LOANS FROM THE IMMEDIATE HOLDING COMPANY

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

		Group		Company	
		2008	2007	**2008**	2007
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current	*(a)*	**–**	21,358	**–**	–
Non-current	*(b)*	**–**	21,358	**–**	21,358
	(c)	**10,350**	10,350	**10,350**	10,350
	(d)	**11,138**	–	**11,138**	–
	(e)	**45,630**	–	**45,630**	–
		67,118	31,708	**67,118**	31,708

Notes:

(a) The balance represented an unsecured loan of RMB20,000,000, which bore interest at a fixed annual rate of 5.48% and had no fixed terms of repayment.

(b) The balance represented an unsecured loan of RMB20,000,000, which bore interest at an annual rate of 5.12%, and was not repayable within one year from 31 December 2007.

(c) The loan is unsecured, bears interest at 3-month HIBOR + 1% (2007: 3-month HIBOR + 1%) per annum and is not repayable within one year from 31 December 2008 (2007: not repayable within one year from 31 December 2007).

(d) The loan is unsecured, bears interest at 3-month HIBOR + 1.5% per annum (2007: Nil) and is repayable on 31 December 2013.

(e) The balance represents an unsecured loan of US$5,850,000, which bears interest at of 3-month LIBOR + 1% (2007: Nil) and is repayable on 31 July 2011.

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

23. LOAN FROM A FELLOW SUBSIDIARY

The Group's loan represents an unsecured loan of US$7,000,000 (2007: US$7,000,000) (equivalent to approximately HK$54,600,000 (2007: 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% (2007: 3-month LIBOR + 1%) per annum and is not repayable within one year from 31 December 2008 (2007: not repayable within one year from 31 December 2007).

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

24. PROVISION

Group

	Early termination of a joint venture agreement *HK$'000*
At 1 January 2008	**3,406**
Exchange realignment	**211**
At 31 December 2008	**3,617**

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

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

25. CONVERTIBLE NOTES

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

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

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

	2008 ***HK$'000***	2007 *HK$'000*
Nominal value of convertible notes	**61,500**	61,500
Equity component	**(5,599)**	(5,599)
Direct transaction costs attributable to the liability component	**(537)**	(537)
Liability component at the issuance date	**55,364**	55,364
Interest expense	**5,177**	1,377
Interest paid	**(615)**	–
Liability component at 31 December *(note 20)*	**59,926**	56,741

26. DEFERRED TAX LIABILITIES

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

	Revaluation of properties *HK$'000*
At 1 January 2007	1,188
Deferred tax credited to the property revaluation reserve	(126)
Deferred tax credited to the income statement during the year *(note 7)*	(105)
At 31 December 2007 and 1 January 2008	**957**
Deferred tax charged to the property revaluation reserve	**14**
Deferred tax charged to the income statement during the year *(note 7)*	**9**
At 31 December 2008	**980**

The Group has tax losses arising in Hong Kong of HK$52,602,000 (2007: HK$84,642,000), that are available for offsetting against future taxable profits of the companies in which the losses arose. As at 31 December 2008, the Group has no tax losses (2007: HK$1,917,000) arising in the PRC, that will expire in one to five years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and the directors considered not probable that taxable profits will be available against which the tax losses can be utilised.

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

At 31 December 2008, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$1,281,000 at 31 December 2008 (2007: Nil).

27. SHARE CAPITAL

Shares

	2008	2007
	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 (2007: 537,504,000), ordinary shares of HK$0.10 each	**53,750**	53,750

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

	Number of shares in issue	**Issued share capital**	**Share premium account**	**Total**
		HK$'000	*HK$'000*	*HK$'000*
At 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, 1 January 2008 and 31 December 2008	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 28 to the financial statements.

28. SHARE OPTION SCHEME

On 24 November 2008, the Company terminated its then share option scheme adopted on 31 May 2002 (the "2002 Scheme") and adopted a new share option scheme (the "2008 Scheme"). Upon termination of the 2002 Scheme, no further share options will be granted thereunder but in all other respects, the provisions of the 2002 Scheme shall remain in force and all existing share options which have been granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

2002 Scheme

The 2002 Scheme was adopted by the Company for the purpose of providing incentives to the participants to contribute to the Group, to enable the Group to recruit and retain quality employees to serve the Group on a long term basis, to maintain good relationships with its consultants, professional advisers, suppliers of goods or services and customers and to attract human resources that are valuable to the Group. Eligible participants of the 2002 Scheme include the Company's directors (including non-executive and independent non-executive directors), employees or executives of the Group, consultants or advisers of the Group, suppliers of goods or services to the Group, customers of the Group, and substantial shareholders of the Group.

The maximum number of ordinary shares of the Company ("Ordinary Shares") which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the 2002 Scheme prior to its termination and any other schemes of the Company must not exceed 30% of Ordinary Shares in issue from time to time. The total number of Ordinary Shares which may be issued upon exercise of all share options to be granted under the 2002 Scheme prior to its termination and any other schemes of the Company must not, in aggregate, exceed 10% of Ordinary Shares in issue as at the date of adopting the 2002 Scheme without prior approval from the Company's shareholders.

The total number of Ordinary Shares issued and to be issued upon exercise of the share options granted and to be granted under the 2002 Scheme prior to its termination to each eligible participant (including both exercised and outstanding options) in any 12-month period up to the date of grant must not exceed 1% of Ordinary Shares in issue at the date of grant. Any further grant of share options under the 2002 Scheme prior to its termination in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

Share options granted under the 2002 Scheme prior to its termination 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 under the 2002 Scheme prior to its termination 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 Ordinary Shares in issue at any time and with an aggregate value (based on the closing price of Ordinary Shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting of the Company.

An offer of the grant of a share option under the 2002 Scheme prior to its termination may be accepted within 14 days from the date of the offer upon payment of a consideration of HK$1.00 by the grantee. The exercise period of the share options granted under the 2002 Scheme prior to its termination is determinable by the directors of the Company, and 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.

28. SHARE OPTION SCHEME (CONTINUED)

2002 Scheme (Continued)

The exercise price of the share options granted under the 2002 Scheme prior to its termination is determinable by the directors of the Company, but must not be less than the highest of (i) the closing price of Ordinary Shares as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the share options, which must be a business day; (ii) the average closing price of Ordinary Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the share options; and (iii) the nominal value of the Ordinary Shares.

Share options granted under the 2002 Scheme do not confer rights on the holders to dividends or to vote in shareholders' meetings.

No share options (2007: 2,150,000) granted under the 2002 Scheme exercised during the year.

At 24 November 2008, the date of termination of the 2002 Scheme, share options to subscribe for a total of 19,350,000 Ordinary Shares had been granted under the 2002 Scheme since its adoption, which represented approximately 3.6% of Ordinary Shares in issue of which no share options remained outstanding and share options to subscribe for 6,000,000 Ordinary Shares have lapsed in accordance with the terms of the 2002 Scheme. Under the 2002 Scheme, no share options were granted, cancelled or lapsed during the year ended 31 December 2008.

2008 Scheme

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

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

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

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

28. SHARE OPTION SCHEME (CONTINUED)

2008 Scheme (Continued)

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

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

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

The following share options were outstanding during the year:

	2008		2007	
	Weighted average exercise price per share	**Number of options**	Weighted average exercise price per share	Number of options
	HK$	***'000***	*HK$*	*'000*
At 1 January	**–**	**–**	0.216	2,150
Granted during the year	**0.278**	**5,350**	–	–
Exercised during the year	**–**	**–**	(0.216)	(2,150)
At 31 December	**0.278**	**5,350**	–	–

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2007 was HK$1.33.

28. SHARE OPTION SCHEME (CONTINUED)

The exercise prices and exercise periods of the share options outstanding as at 31 December 2008 are as follows:

Number of options	Exercise price per share* *HK$*	Exercise period *(DD.MM.YYYY)*
2,140,000	0.278	24.11.2010 – 23.05.2014
1,605,000	0.278	24.11.2011 – 23.05.2014
535,000	0.278	24.11.2012 – 23.05.2014
1,070,000	0.278	24.11.2013 – 23.05.2014
5,350,000		

* 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 under the 2008 Scheme during the year was HK$940,000 of which the Group recognised an equity-settled share option expense of HK$35,000 during the year ended 31 December 2008.

The fair value of equity-settled share options granted under the 2008 Scheme during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

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

The expected life of the options is based on the historical data over the past 5.5 years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

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

The 11,200,000 share options under the 2002 Scheme exercised in December 2006 resulted in the issue of 11,200,000 Ordinary Shares during the year ended 31 December 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 27 to the financial statements.

28. SHARE OPTION SCHEME (CONTINUED)

The 2,150,000 share options under the 2002 Scheme exercised during the year ended 31 December 2007 resulted in the issue of 2,150,000 Ordinary Shares and new share capital of HK$215,000 and share premium of HK$360,000 (before issue expenses), as further detailed in note 27 to the financial statements.

During the year ended 31 December 2008, 5,350,000 share options were granted by the Company under the 2008 Scheme of which no share options were exercised, lapsed or cancelled.

As at 31 December 2008, the Company had 5,350,000 share options outstanding under the 2008 Scheme, which represented approximately 1% of Ordinary Shares in issue at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 5,350,000 additional ordinary shares of the Company and additional share capital of HK$535,000 and share premium of HK$952,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 5,350,000 share options outstanding under the 2008 Scheme, which represented approximately 1% of the Company's shares in issue as at that date.

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

29. RESERVES

(a) Group

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

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

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

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

29. RESERVES (CONTINUED)

(a) Group (Continued)

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.

(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 2007		412,116	–	167,746	110	445	(502,535)	77,882
Issue of shares		1,852	–	–	(110)	–	–	1,742
Issue of convertible notes	25	–	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 and 1 January 2008		413,968	5,545	167,746	–	445	(395,714)	191,990
Equity-settled share option arrangements		–	–	–	35	–	–	35
Profit for the year	10	–	–	–	–	–	7,862	7,862
At 31 December 2008		413,968	5,545	167,746	35	445	(387,852)	199,887

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

30. CONTINGENT LIABILITIES

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

	Group 2008 HK$'000	Group 2007 HK$'000	Company 2008 HK$'000	Company 2007 HK$'000
Guarantees given to banks for banking facilities granted to a subsidiary	**–**	–	**131,532**	53,395
Amount of banking facilities with the Company's guarantees utilised by a subsidiary	**–**	–	**6,801**	27,747

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with their lessees falling due as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Within one year	**733**	397
In the second to fifth years, inclusive	**570**	463
	1,303	860

(b) As lessee

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

At 31 December 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Within one year	**72**	289
In the second to fifth years, inclusive	**–**	27
	72	316

32. COMMITMENTS

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Contracted, but not provided for:				
Land and buildings	**28,731**	8,372	**–**	–
Leasehold improvements	**397**	762	**–**	–
Plant and machinery	**7,958**	1,207	**–**	–
	37,086	10,341	**–**	–
Authorised, but not contracted for:				
Land and buildings	**87,753**	66,191	**–**	–
Plant and machinery	**81,629**	80,355	**–**	–
Capital contributions payable to a subsidiary	**–**	–	**124,800**	156,000
	169,382	146,546	**124,800**	156,000
	206,468	156,887	**124,800**	156,000

33. RELATED PARTY TRANSACTIONS

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

		Group	
		2008	2007
	Notes	***HK$'000***	*HK$'000*
Office rental paid to the immediate holding company	*(i)*	**–**	39
Office rental paid to a fellow subsidiary	*(ii)*	**276**	249
Computer system maintenance service fees paid to the immediate holding company	*(iii)*	**171**	114
Interest expenses to the immediate holding company	*(iv)*	**7,700**	2,998
Interest expense to a fellow subsidiary	*(v)*	**2,511**	3,501

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.

(ii) The office rental was charged by a fellow subsidiary at HK$23,040 per month commencing from 6 February 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 (2007: HK$69,120) with the fellow subsidiary.

(iii) The immediate holding company charged maintenance service fees at HK$14,222 per month for 2008 (2007: HK$9,475 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 22 and 25, 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 23 to the financial statements.

33. 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 22 and 23 to the financial statements, respectively.

(ii) Details of the Group's convertible notes to GDH as at the balance sheet date are included in note 25 to the financial statements.

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

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

The transactions in respect of item (b)(ii) above also constituted connected transactions as defined in Chapter 14A of the Listing Rules.

34. PLEDGE OF ASSETS

As at 31 December 2008, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

		Group	
		2008	2007
	Notes	***HK$'000***	*HK$'000*
Buildings	*12*	**–**	7,520
Plant and machinery	*12*	**5,936**	2,560
Inventories	*16*	**–**	21,358
Bills receivable	*17*	**–**	41,193
Bank balances and deposits	*18*	**10,771**	19,213
		16,707	91,844

35. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

	Group	
	2008	2007
	Loans and receivables	Loans and receivables
	HK$'000	*HK$'000*
Trade and bills receivables	**131,328**	107,130
Financial assets included in prepayments, deposits and other receivables	**176**	270
Pledged deposits	**10,771**	19,213
Cash and cash equivalents	**97,653**	60,995

Financial liabilities

	Group	
	2008	2007
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK$'000	*HK$'000*
Trade payables	**42,768**	57,711
Financial liabilities included in other payables and accruals	**16,605**	12,363
Interest-bearing bank and other borrowings	**6,801**	97,544
Due to a PRC joint venture partner	**1,131**	1,131
Loans from the immediate holding company	**67,118**	53,066
Loan from a fellow subsidiary	**54,600**	54,600
Convertible notes	**59,926**	56,741

35. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial assets

	Company	
	2008	2007
	Loans and receivables	Loans and receivables
	HK$'000	*HK$'000*
Financial assets included in prepayments, deposits and other receivables	**21**	–
Cash and bank balances	**3,658**	29,359

Financial liabilities

	Company	
	2008	2007
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK$'000	*HK$'000*
Financial liabilities included in other payables and accruals	**1,171**	1,193
Loans from the immediate holding company	**67,118**	31,708
Convertible notes	**59,926**	56,741

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk (Continued)

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax *HK$'000*
2008		
Hong Kong dollar	**200**	**(430)**
United States dollar ("US$")	**200**	**(2,005)**
Hong Kong dollar	**(15)**	**32**
United States dollar ("US$")	**(15)**	**150**
2007		
Hong Kong dollar	100	(104)
United States dollar ("US$")	100	(1,037)
RMB	100	(281)
Hong Kong dollar	(100)	104
United States dollar ("US$")	(100)	1,037
RMB	(100)	281

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 61% (2007: 59%) 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$'000*
2008		
If RMB weakens against US$	**(2)**	**(3,823)**
If RMB strengthens against US$	**2**	**3,823**
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

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. Details of credit policy of trade and bills receivables are set out in note 17 to the financial statements.

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

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

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 2008, 3% (2007: 35%) 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 contractual undiscounted payments, was as follows:

Group

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

	2007				
	On demand	Less than 3 months	3 to less than 12 months	Over 1 year	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade 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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

Company

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

	2007				
	On demand	Less than 3 months	3 to less than 12 months	Over 1 year	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	1,193	–	–	–	1,193
Loans from the immediate holding company	–	–	–	31,708	31,708
Convertible notes	–	–	–	65,331	65,331
	1,193	–	–	97,039	98,232

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 for managing capital during the years ended 31 December 2008 and 2007.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (Continued)

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, a 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:

	2008	2007
	HK$'000	*HK$'000*
Interest-bearing bank and other borrowings, excluding convertible notes *(note 20)*	**6,801**	97,544
Loans from the immediate holding company *(note 22)*	**67,118**	53,066
Loan from a fellow subsidiary *(note 23)*	**54,600**	54,600
Less: Cash and cash equivalents *(note 18)*	**(97,653)**	(60,995)
Net debt	**30,866**	144,215
Convertible notes, the liability component *(note 25)*	**59,926**	56,741
Equity attributable to equity holders	**267,236**	243,182
Adjusted capital	**327,162**	299,923
Capital and net debt	**358,028**	444,138
Gearing ratio	**9%**	32%

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 April 2009.