



Notes to Financial Statements *(Cont'd)*

31 December 2002

35. CONTINGENT LIABILITIES (Cont'd)

(a) (Cont'd)

The incident was reported by the Company to the relevant PRC authorities who have detained the Former Executives and seized documents related to the Parallel Operation for investigation. The Company also instructed its auditors and the PRC lawyers to carry out special investigations with a view to ascertaining the effects of the Parallel Operation on the business of Nanhai Tannery and to advise management of the Group's possible recourse against the Former Executives.

Based on the findings of the special investigations and having regard to the professional advice received, the directors of the Company are of the opinion that the Parallel Operation should not be incorporated in the financial statements of the Group and that the Parallel Operation appears to have involved various irregularities in its transactions under the applicable PRC law and regulations.

As the investigations of the PRC authorities are still ongoing, it is not possible to ascertain with any degree of reasonable certainty the consequential actions that may be taken by the PRC authorities for the aforesaid irregularities and the existence or otherwise of any penalties and claims. As of the date of this report, no action has been taken against the Group and there have been no indications that any adverse actions against it are pending. Accordingly, based on currently available information, no provision has been made in the financial statements for such contingencies.

- (b) In September 2002, the Company submitted a claim to China International Economic and Trade Arbitration Commission (the "Arbitration Commission") in Shenzhen, Mainland China against a PRC joint venture partner of a subsidiary of the Company at Qingdao seeking, amongst others, termination of the joint venture agreement and compensation of losses and damages of approximately RMB24,000,000. However, the PRC joint venture partner also applied to the Arbitration Commission in Beijing against the Company claiming for loss of fixed return under the above said joint venture agreement in question and damages in an aggregate of RMB15,000,000. The two arbitration proceedings are still in progress.

In the opinion of the Directors, based on legal advice, it is premature to conclude the likely outcome of the two arbitration proceedings, accordingly, no provision has been made in the financial statements as at 31 December 2002.



Notes to Financial Statements (Cont'd)

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36. RELATED PARTY TRANSACTIONS

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

		Group	
	Notes	2002	2001
		HK\$'000	HK\$'000
Annual fee paid to PRC joint venture partners	(a)	183	10,735
Office rental paid to a fellow subsidiary	(b)	518	660
Interest expense to immediate holding company	(c)	1,462	–
Interest expense to fellow subsidiaries	(d)	646	–

Notes:

- (a) The annual fees paid to PRC joint venture partners are in accordance with the respective Sino-foreign co-operative joint venture agreements. Balances with PRC joint venture partners at the balance sheet date are disclosed in note 23 to the financial statements.
- (b) Office rental is charged by a fellow subsidiary at HK\$72,000 per month for the first four months of the year and HK\$28,000 per month for the remainder of the year in accordance with the terms of rental agreements between the Company and the fellow subsidiary. At the balance sheet date, the Company had a rental deposit of HK\$85,000 with the fellow subsidiary.
- (c) The interest expense to immediate holding company arose from loans advanced from it. Further details of the loans, including the terms, are disclosed in note 25 to the financial statements.
- (d) The interest expense to fellow subsidiaries arose from loans advanced from them. Further details of the loans, including the terms, are disclosed in note 26 to the financial statements.

In addition to the above, the Group's bank loan of HK\$24,400,000 as at 31 December 2002 was secured by certain bank deposits of an intermediate holding company of the Company at nil consideration.



Notes to Financial Statements *(Cont'd)*

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37. PLEDGE OF ASSETS

At 31 December 2002, certain of the Group's properties and bank deposits and balances with a total net book value of HK\$48,972,000 (2001: HK\$31,162,000) were pledged to secure general banking facilities granted to the Group.

Included in the above net book value of the pledged properties is an amount of HK\$36,000,000 (2001: HK\$4,581,000) related to pledged leasehold land and buildings.

38. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group had the following significant post balance sheet events.

- (a) In January 2003, the Group disposed of a property in Hong Kong at a consideration of HK\$700,000. No significant gain or loss was resulted in this transaction.
- (b) In February 2003, Guangdong Investment Limited ("GDI"), the then immediate holding company of the Company, entered into a conditional sale and purchase agreement with GDH Limited, the then intermediate holding company of the Company, in respect of the disposal of its entire shareholdings in various investments including, amongst others, the Company (the "Disposal Transaction"). The Disposal Transaction was subsequently completed on 31 March 2003. Since then, GDH Limited and GDI became the Company's immediate holding company and fellow subsidiary, respectively.
- (c) In March 2003, a PRC bank agreed to renew a secured bank loan of RMB15,000,000 currently granted to Nanhai Tannery for six months. The bank loan is secured by Nanhai Tannery's certain leasehold land and buildings of net book value of HK\$36,000,000 (the "Pledged Properties") as at 31 December 2002. Moreover, the PRC bank also granted an additional bank loan of RMB10,000,000 to Nanhai Tannery in March 2003. The new bank loan is also secured by the Pledged Properties.
- (d) In April 2003, the Group disposed of another property in Hong Kong at a consideration of HK\$11,401,000. A gain of HK\$401,000 (before expenses) was resulted in this transaction.



Notes to Financial Statements *(Cont'd)*

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39. COMPARATIVE AMOUNTS

As further explained in notes 2 and 32(a) to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the presentation of certain items and balances in the financial statements has been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 11 April 2003.