1. CORPORATE INFORMATION

The registered office of Guangdong Tannery Limited is located at 29/F, Guangdong Investment Tower, 148 Connaught Road, Central, Hong Kong.

During the year, the Group was principally engaged in the processing and sale of semi-finished and finished leather and property investment.

In the opinion of the directors, the ultimate holding company of the Company is Guangdong Yue Gang Investment Holdings Company Limited (廣東粵港投資控股有限公司) ("Yue Gang Investment"), a company established in the mainland of the People's Republic of China (the "PRC" or "Mainland China").

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND INTERPRETATIONS

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and leasehold land and buildings, as further explained below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share/registered capital or controls the composition of its board of directors.

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

Joint venture companies

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company'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 company is treated as a subsidiary if the Group has unilateral control, directly or indirectly, over the joint venture company or an associate if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Associates

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

The Group's share of the post-acquisition results and reserves of an associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fixed assets and depreciation

Fixed assets, other than construction in progress and investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of leasehold land and buildings 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 profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the 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 asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land held under medium term leases	Over the lease terms
Buildings	2% – 10%
Leasehold improvements	4% – 20%
Plant and machinery	10% – 12.5%
Electronic equipment	20%
Motor vehicles	15% – 20%
Furniture, fixtures and equipment	15% – 20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account 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 fixed assets when completed and ready for use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values, on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease.

Changes in the values of investment properties are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Operating leases

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

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow-moving items. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Provisions

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

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

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.

Provisions for a tax claim and a tax penalty by the PRC authorities is determined based on the amount set out in a demand letter issued by the PRC authorities to a subsidiary and a former subsidiary of the Company, and with reference to the relevant PRC laws and regulations and a PRC legal opinion.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax

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

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 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 investments in subsidiaries and associates, except 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 assets 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 assets 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 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 investments in subsidiaries and associates, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax (Cont'd)

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 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.

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 a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Employee benefits

Retirement benefits 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 profit and loss account 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 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 to the PRC Scheme to fund their benefits. The only obligation of the Group with respect to the PRC Scheme is to pay the ongoing required contributions under the PRC Scheme. Contributions under the PRC Scheme are charged to the profit and loss account as they become payable in accordance with the rules of the PRC Scheme.

Share option scheme

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. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise dates, or which lapse, are deleted from the register of outstanding options.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of subsidiaries and an associate operating in Mainland China and overseas are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and an associate are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange translation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries and an associate operating in Mainland China and overseas are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries and an associate operating in Mainland China and overseas which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the leather processing segment processes raw leather to finished leather for use in the leather ware products manufacturing industry mainly in Mainland China;

(b) the property investment segment invests in residential and commercial properties in Mainland China for rental income purposes; and

(c) the corporate and other segment mainly comprises the Group's corporate income and expense items.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. Intersegment transactions mainly represented management services provided and charged by the Company to its subsidiaries at the bases determined by the Group.

4. SEGMENT INFORMATION (Cont'd)

(a) Business segments

The following tables present revenue, profit/(loss) and certain assets, liability and expenditure information for the Group's business segments.

Group

	Leather processing		Property investment		Corporate and other		Eliminations		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:										
Sales to external customers	**281,951**	381,601	**–**	–	**–**	–	**–**	–	**281,951**	381,601
Intersegment sales	**–**	–	**–**	–	**480**	480	**(480)**	(480)	**–**	–
Other revenue (excluding exchange gains/(losses), net)	**1,408**	941	**1,066**	1,825	**31**	16,703	**–**	–	**2,505**	19,469
Exchange gains/(losses), net	**491**	(1,171)	**–**	–	**22**	(160)	**–**	–	**513**	(1,331)
Total	**283,850**	381,371	**1,066**	1,825	**533**	17,023	**(480)**	(480)	**284,969**	399,739
Segment results	**18,379**	(106,898)	**342**	2,075	**(7,533)**	8,997	**–**	–	**11,188**	(95,826)
Interest income									**417**	194
Profit/(loss) from operating activities									**11,605**	(95,632)
Finance costs									**(5,734)**	(5,948)
Profit/(loss) before tax									**5,871**	(101,580)
Tax									**(1,203)**	286
Net profit/(loss) from ordinary activities attributable to shareholders									**4,668**	(101,294)

4. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

Group

	Leather processing		Property investment		Corporate and other		Eliminations		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**386,012**	469,165	**12,924**	12,848	**19,331**	2,684	**(6,104)**	(5,850)	**412,163**	478,847
Unallocated assets									**923**	970
Total assets									**413,086**	479,817
Segment liabilities	**(136,312)**	(163,886)	**(433)**	(359)	**(1,829)**	(8,781)	**6,104**	5,850	**(132,470)**	(167,176)
Unallocated liabilities									**(109,544)**	(142,481)
Total liabilities									**(242,014)**	(309,657)
Other segment information:										
Capital expenditure	**2,165**	2,985	**–**	–	**21**	59	**–**	–	**2,186**	3,044
Depreciation	**8,956**	15,531	**–**	–	**452**	784	**–**	–	**9,408**	16,315
Reversal of impairment of fixed assets	**(5,162)**	–	**–**	–	**–**	–	**–**	–	**(5,162)**	–
Impairment of fixed assets	**–**	10,320	**–**	–	**–**	–	**–**	–	**–**	10,320
Revaluation deficit/(surplus) of investment properties	**–**	–	**234**	(662)	**–**	–	**–**	–	**234**	(662)
Revaluation surplus of leasehold land and buildings	**(138)**	(42)	**–**	–	**–**	–	**–**	–	**(138)**	(42)
Other non-cash expenses	**25**	8,098	**–**	(681)	**71**	790	**–**	–	**96**	8,207
Provisions for tax claim and tax penalty by the PRC authorities	**–**	69,600	**–**	–	**–**	–	**–**	–	**–**	69,600

4. SEGMENT INFORMATION (Cont'd)

(b) Geographical segments

The following tables present revenue, profit/(loss) and certain asset and expenditure information for the Group's geographical segments.

Group

	Mainland China		Hong Kong		Eliminations		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**281,951**	381,601	**–**	–	**–**	–	**281,951**	381,601
Other revenue (excluding exchange gains/(losses), net)	**2,505**	18,843	**–**	626	**–**	–	**2,505**	19,469
Exchange gains/(losses), net	**675**	(1,171)	**(162)**	(160)	**–**	–	**513**	(1,331)
Total	**285,131**	399,273	**(162)**	466	**–**	–	**284,969**	399,739
Other segment information:								
Segment assets	**388,033**	445,487	**24,130**	33,360	**–**	–	**412,163**	478,847
Unallocated assets							**923**	970
Total assets							**413,086**	479,817
Capital expenditure	**2,165**	3,035	**21**	9	**–**	–	**2,186**	3,044

5. TURNOVER AND OTHER REVENUE AND GAINS

Turnover represents gross proceeds received and receivable on the processing and sale of leather, net of goods returned, trade discounts and value-added tax, during the year.

An analysis of turnover, other revenue and gains is as follows:

	2004	2003
	HK$'000	*HK$'000*
Turnover		
Processing and sale of leather	**281,951**	381,601
Other revenue and gains		
Rental income	**1,304**	2,068
Interest income	**417**	194
Gain on disposal of subsidiaries (note 29)	**–**	16,609
Others	**1,201**	792
	2,922	19,663
	284,873	401,264

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	Notes	**2004** *HK$'000*	2003 *HK$'000*
Cost of inventories sold		**255,849**	376,238
Auditors' remuneration		**720**	799
Depreciation	12	**9,408**	16,315
Staff costs (excluding directors' remuneration (note 9)):			
Wages and salaries		**9,912**	20,741
Redundancy payments (included in other operating profit/(expenses), net below)		**1,257**	–
Pension scheme contributions (defined contributions scheme) *		**714**	1,153
		11,883	21,894
Minimum lease payments under operating leases in respect of land and buildings		**251**	359
Other rental income		**(449)**	(384)
Gross rental income from investment properties		**(855)**	(1,684)
Less: Outgoings from investment properties		**158**	320
Net rental income		**(697)**	(1,364)

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (Cont'd)

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting): (Cont'd)

	Notes	**2004** *HK$'000*	2003 *HK$'000*
Expenses/(income) included in other operating profit/(expenses), net:			
Deficit/(surplus) arising on revaluation of investment properties	12	**234**	(662)
Surplus arising on revaluation of leasehold land and buildings	12	**(138)**	(42)
Provision for doubtful debts		**–**	816
Write off of fixed assets	12	**83**	8,021
Loss/(gain) on disposal of fixed assets, net		**13**	(630)
Reversal of impairment of fixed assets		**(5,162)**	–
Impairment of fixed assets		**–**	10,320
Exchange losses/(gains), net		**(513)**	1,331
Redundancy payments		**1,257**	–
Provisions for tax claim and tax penalty by the PRC authorities	24	**–**	69,600
		(4,226)	88,754

* The amount of forfeited pension scheme contributions available at the current and the prior year ends to reduce contributions in future years is not material.

7. FINANCE COSTS

	Group	
	2004 *HK$'000*	2003 *HK$'000*
Interest on:		
Bank loans	**1,847**	3,585
Loans from the former immediate holding company	**–**	434
Loans from the immediate holding company	**1,778**	1,343
Loans from a fellow subsidiary	**2,109**	586
	5,734	5,948

8. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2003: Nil). No provision for Mainland China and overseas profits tax has been made (2003: Nil) as there were no assessable profits arising from certain subsidiaries of the Company operating in Mainland China and overseas during the year and certain subsidiaries of the Company operating in Mainland China and overseas had tax losses brought forward from prior years to offset the assessable profits during the year.

	2004	2003
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong		
Charge for the year	**–**	–
Overprovision in prior years	**–**	(286)
Deferred (note 25)	**1,203**	–
Total tax charge/(credit) for the year	**1,203**	(286)

A reconciliation of the tax expense 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 expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2004

	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	***HK$'000***	**%**	***HK$'000***	**%**
Profit/(loss) before tax	**(10,487)**		**16,358**		**5,871**	
Tax at the statutory tax rate	**(1,835)**	**17.5**	**5,398**	**33.0**	**3,563**	**60.7**
Lower tax rate for specific provinces or local authority	**–**	**–**	**323**	**2.0**	**323**	**5.5**
Income not subject to tax	**(349)**	**3.3**	**(8,942)**	**(54.7)**	**(9,291)**	**(158.3)**
Expenses not deductible for tax	**598**	**(5.7)**	**3,563**	**21.8**	**4,161**	**70.9**
Tax losses not recognised	**1,586**	**(15.1)**	**861**	**5.3**	**2,447**	**41.7**
Tax charge at the Group's effective rate	**–**	**–**	**1,203**	**7.4**	**1,203**	**20.5**

8. TAX (Cont'd)

Group – 2003

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	560		(102,140)		(101,580)	
Tax at the statutory tax rate	98	17.5	(33,706)	33.0	(33,608)	33.1
Lower tax rate for specific provinces or local authority	–	–	10,137	(9.9)	10,137	(9.9)
Income not subject to tax	(3,792)	(677.2)	(7,701)	7.5	(11,493)	11.3
Expenses not deductible for tax	3,321	593.0	19,336	(18.9)	22,657	(22.3)
Adjustments in respect of current tax of previous periods	(286)	(51.1)	–	–	(286)	0.3
Tax losses utilised from previous periods	(861)	(153.7)	–	–	(861)	0.8
Tax losses not recognised	1,234	220.4	11,934	(11.7)	13,168	(13.0)
Tax credit at the Group's effective rate	(286)	(51.1)	–	–	(286)	0.3

Certain subsidiaries of the Company established in the PRC were exempt from PRC corporate income tax for two years starting from their first profit-making year of operations, and are eligible for a 50% relief from PRC corporate income tax for the following three years under the PRC tax laws. The standard PRC corporate income tax rate applicable to those PRC subsidiaries ranged from 24% to 33% for the year ended 31 December 2004.

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Fees:		
Executive directors	**–**	–
Non-executive directors	**–**	–
Independent non-executive directors	**225**	200
	225	200
Other emoluments to executive directors:		
Salaries, allowances and benefits in kind	**1,794**	791
Performance related bonuses	**330**	–
Pension scheme contributions	**303**	89
	2,427	880
	2,652	1,080

The number of directors whose remuneration fell within the following band is as follows:

	Number of directors	
	2004	2003
Nil – HK$1,000,000	**8**	12
HK$1,000,001 – HK$1,500,000	**1**	–
	9	12

No director's fee was paid to Mr. Xiong Guangyang, Mr. Hui Wai Man Lawrence, Mrs. Ho Lam Lai Ping Theresa, Mr. Chan Hee Kwan, Mr. Zeng Hai Peng, Mr. Yuen Lam Fai Antony, Mr. Tam Chiu Pang Jaffe, Mr. Wang Man Kwan Paul, Mr. Luo Fan Yu and Mr. Li Wai Keung, directors of the Company, for the year ended 31 December 2003.

During the year, certain directors were granted 6,600,000 share options in respect of their services to the Group under the share option scheme, further details of which are set out in note 27 to the financial statements. The estimated value of such options, which has not been charged to the profit and loss account, was HK$1,254,000 as at the date of grant. This was determined by using the Black-Scholes option pricing model. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Cont'd)

(b) The five highest paid employees of the Group during the year included three (2003: two) directors, details of whose remuneration are set out in (a) above. Details of the remuneration of the remaining two (2003: three) non-director, highest paid employees for the year are as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**813**	1,372
Performance related bonuses	**–**	100
Pension scheme contributions	**159**	153
	972	1,625

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

	Number of employees	
	2004	2003
Nil – HK$1,000,000	**2**	3

During the year, 1,800,000 share options were granted to the two non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 27 to the financial statements. The estimated value of such options, which has not been charged to the profit and loss account, was HK$342,000 as at the date of grant. This was determined by using the Black-Scholes option pricing model. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was HK$15,650,000 (2003: HK$49,542,000) (note 28).

11. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK$4,668,000 (2003: net loss of HK$101,294,000) and the 524,154,000 (2003: 524,154,000) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31 December 2004 and 2003 have not been disclosed, as the share options outstanding during these years had an anti-dilutive effect on the basic earnings/(loss) per share for these years.

12. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Investment properties HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Electronic equipment HK$'000	Motor vehicles HK$'000	Furniture, fixtures and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation:									
At beginning of year	77,820	6,970	6,349	123,929	2,883	11,024	1,114	318	230,407
Additions	–	–	105	14	18	–	21	2,028	2,186
Disposals	–	–	–	–	(6)	(853)	(29)	–	(888)
Write off	–	–	(44)	–	–	–	(536)	–	(580)
Transfers	–	–	191	1,388	28	–	–	(1,607)	–
Deficit on revaluation, net	(9,001)	(234)	–	–	–	–	–	–	(9,235)
Exchange realignment	21	4	7	155	4	2	–	–	193
At 31 December 2004	68,840	6,740	6,608	125,486	2,927	10,173	570	739	222,083
Analysis of cost or valuation:									
At cost	–	–	6,608	125,486	2,927	10,173	570	739	146,503
At 2004 valuation	68,840	6,740	–	–	–	–	–	–	75,580
	68,840	6,740	6,608	125,486	2,927	10,173	570	739	222,083
Accumulated depreciation and impairment:									
At beginning of year	–	–	4,226	94,966	2,162	9,653	994	–	112,001
Depreciation provided for the year	4,229	–	426	3,968	176	581	28	–	9,408
Reversal of impairment during the year recognised in the profit and loss account	–	–	–	(5,162)	–	–	–	–	(5,162)
Disposals	–	–	–	–	(5)	(806)	(14)	–	(825)
Write off	–	–	(22)	–	–	–	(475)	–	(497)
Written back on revaluation	(4,170)	–	–	–	–	–	–	–	(4,170)
Exchange realignment	(59)	–	3	88	2	(2)	–	–	32
At 31 December 2004	–	–	4,633	93,860	2,335	9,426	533	–	110,787
Net book value:									
At 31 December 2004	68,840	6,740	1,975	31,626	592	747	37	739	111,296
At 31 December 2003	77,820	6,970	2,123	28,963	721	1,371	120	318	118,406

12. FIXED ASSETS (Cont'd)

Company

	Furniture, fixtures and equipment *HK$'000*
Cost:	
At beginning of year	833
Additions	20
Disposals	(24)
Write off	(536)
At 31 December 2004	293
Accumulated depreciation:	
At beginning of year	722
Provided for the year	25
Disposals	(10)
Write off	(475)
At 31 December 2004	262
Net book value:	
At 31 December 2004	31
At 31 December 2003	111

The leasehold land and buildings and investment properties of the Group were held under medium term leases in Mainland China.

The leasehold land and buildings and investment properties of the Group were revalued at 31 December 2004 by an independent professionally qualified valuer, RHL Appraisal Ltd., at open market value, based on their existing use.

12. FIXED ASSETS (Cont'd)

As at 31 December 2004, the Group's investment properties were revalued at HK$6,740,000 (2003: HK$6,970,000) with a revaluation deficit of HK$234,000 (2003: revaluation surplus of HK$662,000) charged (2003: credited) to the profit and loss account.

As at 31 December 2004, the Group's leasehold land and buildings were individually revalued at an aggregate open market value of HK$68,840,000 (2003: HK$77,820,000) with a net revaluation deficit of HK$4,831,000 (2003: HK$3,986,000), including a revaluation deficit of HK$4,969,000 (2003: HK$4,028,000) charged to property revaluation reserve (note 28) and a revaluation surplus of HK$138,000 (2003: HK$42,000) credited to the profit and loss account in the current year.

Had the leasehold land and buildings of the Group been carried at historical cost less accumulated depreciation and impairment, their carrying values as at 31 December 2004 would have been HK$40,289,000 (2003: HK$45,503,000).

At 31 December 2004, an amount of HK$2,280,000 (2003: HK$2,400,000) and HK$490,000 (2003: HK$490,000) included in the Group's investment properties and leasehold land and buildings, respectively, were leasehold properties situated in Mainland China, in respect of which the land use right certificates were in the process of being obtained.

At 31 December 2004, certain of the Group's plant and machinery, leasehold land and buildings and investment properties of HK$7,100,000 (2003: Nil), HK$3,300,000 (2003: HK$3,370,000) and HK$4,460,000 (2003: HK$4,570,000), respectively, were pledged to secure general banking facilities granted to the Group (note 34).

During the year, certain items of plant and machinery of a wholly-owned subsidiary of the Group, which had previously been impaired, were sold to another wholly-owned subsidiary of the Group. The recoverable amount of these items of plant and machinery was determined as the value in use. The discount rate used in estimating the amount of the value in use was the average rate of borrowings of the Group. Based on the change in the current and previous estimates of the value in use for these items of plant and machinery, a reversal of impairment of HK$5,162,000 was credited to the profit and loss account during the year.

13. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	*HK$'000*
Unlisted investments, at cost	**161,955**	161,955
Due from subsidiaries	**318,464**	304,675
Due to subsidiaries	**(38,511)**	(23,739)
	441,908	442,891
Provision for impairment	**(302,614)**	(319,083)
	139,294	123,808

Included in the amounts due from subsidiaries are unsecured loans of HK$126,007,000 (2003: HK$126,599,000), which bear interest at rates ranging from 3.8% to 8.5% (2003: 3.8% to 8.5%) per annum and have no fixed terms of repayment. The remaining amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

As certain amounts due from certain subsidiaries of the Company, which had previously been impaired, were repaid during the year, a reversal of impairment to the extent of such amounts was made during the year.

13. INTERESTS IN SUBSIDIARIES (Cont'd)

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 Directly	Percentage of equity attributable to the Company Indirectly	Principal activities
Crown South (Hong Kong) Limited	Hong Kong	HK$2	–	100	Dormant
Gastor Enterprises Limited	British Virgin Islands	US$150	100	–	Investment holding
Gold Star Assets Limited	Hong Kong	HK$2	–	100	Investment holding
Harbour Hill International Limited	Hong Kong	HK$1,000,000	100	–	Dormant
Jadeford Investments Limited	British Virgin Islands	US$1	100	–	Dormant
Foshan City Nanhai Tong Yuan Tanning Co., Ltd. (formerly Nanhai City Tongyuan Tanning Company Limited)+	Mainland China	US$3,000,000	–	100	Dormant
Qingdao Nanhai Tannery Co., Ltd. #	Mainland China	US$2,500,000	100	–	Dormant
Sun Po (Hong Kong) Leather Ware Company Limited	Hong Kong	HK$2	–	100	Property investment
Team Up Profits Limited	British Virgin Islands	US$1	100	–	Investment holding

13. INTERESTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Directly	Percentage of equity attributable to the Company Indirectly	Principal activities
Time Wise Profits Limited	British Virgin Islands	US$1	100	–	Dormant
Vermont Property Limited	British Virgin Islands	US$1	100	–	Investment holding
Xuzhou Gangwei Colour Package Co., Ltd. +	Mainland China	RMB18,000,000	100	–	Processing of cowhides, leather trading and lessor of plant and machinery
Xuzhou Nanhai Leather Factory Co., Ltd. +	Mainland China	RMB12,000,000	100	–	Processing of cowhides and leather trading

\+ Wholly-foreign-owned enterprises.

\# 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 Nanhai") was solely contributed by the Company. The PRC joint venture partner contributed its plant and equipment for the operations of Qingdao Nanhai. 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.

14. INTEREST IN AN ASSOCIATE

	Group 2004 HK$'000	Group 2003 HK$'000
Share of net assets	**907**	907
Due from an associate	**7,270**	7,270
	8,177	8,177
Less: Provision for impairment	**(8,177)**	(8,177)
	–	–

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

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

Name	Place of incorporation/ operations	Issued share capital	Percentage of ownership interest attributable to the Group	Principal activities
Essential Holdings Limited	British Virgin Islands	US$100	32	Investment holding

15. INVENTORIES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Raw materials	**24,319**	61,855
Work in progress	**85,338**	107,246
Finished goods	**31,432**	52,294
	141,089	221,395

The carrying amount of inventories carried at net realisable value included in the above balance was HK$40,804,000 (2003: HK$40,854,000) as at 31 December 2004.

16. RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 31 December 2004, included in the Group's receivables, prepayments and deposits are trade receivables with a net balance of HK$25,909,000 (2003: HK$17,162,000) 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. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

16. RECEIVABLES, PREPAYMENTS AND DEPOSITS (Cont'd)

As at 31 December 2004, the aged analysis of the Group's trade receivables, based on the payment due date, is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within 3 months	**25,855**	17,479
More than 3 months and less than 6 months	**471**	10
More than 6 months and less than 1 year	**3,056**	244
More than 1 year	**–**	34,835
	29,382	52,568
Less: Provisions for doubtful debts	**(3,473)**	(35,406)
	25,909	17,162

17. LOAN TO AN OFFICER

Loan to an officer, disclosed pursuant to Section 161B of the Companies Ordinance, is as follows:

Group and Company

Name	**Terms of the loan**	**31 December 2004**	**1 January 2004**	**Maximum amount outstanding during the year**
		HK$'000	*HK$'000*	*HK$'000*
Ms. Chan Miu Ting (Company Secretary)	Secured by her property, bears interest at 5% per annum and is repayable by monthly instalments	**923**	970	970

The loan is a staff housing loan used by Ms. Chan Miu Ting to purchase a flat as her main residence. During the year, the interest income earned from the officer amounted to HK$47,000 (2003: HK$50,000).

18. CASH AND BANK BALANCES

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**98,040**	84,332	**501**	1,095
Less: Pledged bank balances *	**(6,109)**	(7,355)	**–**	–
Frozen bank balances **	**(8,685)**	–	**–**	–
Cash and cash equivalents	**83,246**	76,977	**501**	1,095

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

** These bank balances were frozen by the PRC authorities, details of which are set out in note 32 to the financial statements.

19. TRADE AND BILLS PAYABLES

As at 31 December 2004, the aged analysis of the Group's trade and bills payables, based on the payment due date, is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within 3 months	**32,453**	62,672
More than 3 months and less than 6 months	**2,205**	2,831
More than 6 months and less than 1 year	**1,855**	67
More than 1 year	**2,351**	2,155
	38,864	67,725

20. 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.

21. LOANS FROM THE IMMEDIATE HOLDING COMPANY

The Group's and the Company's loans represented unsecured loans of RMB37,990,000 (2003: RMB49,000,000) (equivalent to approximately HK$35,676,000 (2003: HK$45,957,000)) and HK$10,350,000 (2003: Nil) advanced from GDH Limited ("GDH"), the Company's immediate holding company. The loans bore interest at 3.8% (2003: 3.8%) per annum and were repayable on 30 June 2005. Subsequent to the balance sheet date, on 26 January 2005, GDH agreed to extend the repayment due date of the loans to 30 June 2006 and the interest rate of the RMB37,990,000 loan was adjusted to 4.15% per annum for the period from 1 January 2005 to 30 June 2006.

22. LOAN FROM A FELLOW SUBSIDIARY

The Group's loan represented an unsecured loan of US$7,000,000 (2003: US$7,000,000) advanced from Guangdong Assets Management Limited ("Guangdong Assets Management"), a fellow subsidiary of the Company. The loan bore interest at 3.8% (2003: 3.8%) per annum and was repayable on 30 June 2005. Subsequent to the balance sheet date, on 26 January 2005, Guangdong Assets Management agreed to extend the repayment due date of the loan to 30 June 2006.

23. INTEREST BEARING BANK BORROWINGS

	Group	
	2004	2003
	HK$'000	*HK$'000*
Secured bank loans	–	17,000
Secured trust receipt loans	–	16,091
	–	33,091

The bank borrowings which were repaid during the year, were secured by certain bank deposits of the immediate holding company of the Company detailed in note 33 to the financial statements.

24. PROVISIONS

Group

	Tax claim and tax penalty by the PRC authorities	Early termination of a joint venture agreement	Total
	HK$'000	*HK$'000*	*HK$'000*
At beginning of year and 31 December 2004	69,600	3,000	72,600

(a) Tax claim by the PRC authorities

With respect to the tax claim of RMB36,989,000 (equivalent to approximately HK$34,800,000) made by the Anti-Smuggling Bureau of Guangzhou Customs (廣州海關緝私局) (the "Guangzhou Customs") to Foshan City Nanhai Tong Yuan Tanning Co., Ltd. (formerly Nanhai City Tongyuan Tanning Company Limited) ("Tongyuan Tannery"), a wholly-owned subsidiary of the Company established in Mainland China, provisions of HK$69,600,000 was made as at 31 December 2003 for (a) the tax claim of HK$34,800,000 made by the Guangzhou Customs; and (b) the tax penalty of HK$34,800,000 that may be imposed by the relevant PRC authorities, which were provided for by the directors with reference to a PRC legal opinion obtained by them. Details of the claim by the Guangzhou Customs are set out in note 32 to the financial statements.

24. PROVISIONS (Cont'd)

(b) Provisions for termination of a joint venture agreement

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

During the year, 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 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 provisions was made during the year. Accordingly, there was no movement in the provisions during the year.

25. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Group

	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Losses available for offset against future taxable profit HK$'000	Total HK$'000
At 1 January 2003	2,641	9,793	(2,641)	9,793
Deferred tax credited to the property revaluation reserve account during the year	–	(960)	–	(960)
Deferred tax charged/(credited) to the profit and loss account during the year	(483)	–	483	–
Disposal of a subsidiary	(1,107)	–	1,107	–
Deferred tax liabilities at 31 December 2003 and 1 January 2004	1,051	8,833	(1,051)	8,833
Deferred tax credited to the property revaluation reserve account during the year	–	(1,024)	–	(1,024)
Deferred tax charged to the profit and loss account during the year	152	–	1,051	1,203
Deferred tax liabilities at 31 December 2004	1,203	7,809	–	9,012

25. DEFERRED TAX (Cont'd)

The Group has tax losses arising in Hong Kong of HK$71,914,000 (2003: HK$62,851,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

26. SHARE CAPITAL

	2004	2003
	HK$'000	*HK$'000*
Authorised:		
700,000,000 ordinary shares of HK$0.10 each	**70,000**	70,000
Issued and fully paid:		
524,154,000 ordinary shares of HK$0.10 each	**52,415**	52,415

There were no changes in the ordinary share capital of the Company during the year.

27. SHARE OPTION SCHEME

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

27. SHARE OPTION SCHEME (Cont'd)

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

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

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

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

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

27. SHARE OPTION SCHEME (Cont'd)

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

No share options were exercised by the directors of the Company under the Scheme during the year.

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

Name or category of participant	Number of share options: At 1 January 2004	Number of share options: Granted during the year	Number of share options: At 31 December 2004	Date of grant of share options* (dd/mm/yyyy)	Exercise period of share options (dd/mm/yyyy)	Exercise price of share options** HK$	Company's shares at grant date of options*** HK$
Directors							
Zhang Chunting	2,500,000	–	2,500,000	09/06/2003	10/09/2003 – 09/09/2008	0.220	0.220
	–	2,000,000	2,000,000	11/02/2004	12/05/2004 – 11/05/2009	0.246	0.240
	2,500,000	2,000,000	4,500,000				
Chen Hong	–	1,800,000	1,800,000	11/02/2004	12/05/2004 – 11/05/2009	0.246	0.240
Xiong Guangyang	3,000,000	–	3,000,000	09/06/2003	10/09/2003 – 09/09/2008	0.220	0.220
	–	2,200,000	2,200,000	11/02/2004	12/05/2004 – 11/05/2009	0.246	0.240
	3,000,000	2,200,000	5,200,000				
Cheng Hok Lai James	300,000	–	300,000	09/06/2003	10/09/2003 – 09/09/2008	0.220	0.220
	–	300,000	300,000	11/02/2004	12/05/2004 – 11/05/2009	0.246	0.240
	300,000	300,000	600,000				
Fung Lak	300,000	–	300,000	09/06/2003	10/09/2003 – 09/09/2008	0.220	0.220
	–	300,000	300,000	11/02/2004	12/05/2004 – 11/05/2009	0.246	0.240
	300,000	300,000	600,000				
Subtotal	6,100,000	6,600,000	12,700,000				

27. SHARE OPTION SCHEME (Cont'd)

Name or category of participant	Number of share options: At 1 January 2004	Granted during the year	At 31 December 2004	Date of grant of share options* (dd/mm/yyyy)	Exercise period of share options (dd/mm/yyyy)	Exercise price of share options** HK$	Company's shares at grant date of options*** HK$
Other employees							
In aggregate	550,000	–	550,000	09/06/2003	10/09/2003 – 09/09/2008	0.220	0.220
	–	2,100,000	2,100,000	11/02/2004	12/05/2004 – 11/05/2009	0.246	0.240
Subtotal	550,000	2,100,000	2,650,000				
Total	6,650,000	8,700,000	15,350,000				

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

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

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the closing price on the Stock Exchange on the trading day on which the options were granted.

At the balance sheet date, the Company had 15,350,000 share options outstanding under the Scheme. The exercise in full of all the share options would, under the present capital structure of the Company, result in the issue of 15,350,000 additional ordinary shares of the Company and additional share capital of HK$1,535,000 and share premium of HK$2,068,200 (before issue expenses).

28. RESERVES

Group

	Notes	Share premium account HK$'000	General reserve fund HK$'000 (Note)	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 2003		412,116	167,746	445	969	26,552	(384,600)	223,228
Deficit on revaluation of properties	12	–	–	–	–	(4,028)	–	(4,028)
Deferred tax credited to the property revaluation reserve account	25	–	–	–	–	960	–	960
Exchange adjustments		–	–	–	(152)	–	–	(152)
Release of reserve upon disposal of subsidiaries	29	–	–	–	(969)	–	–	(969)
Net loss for the year		–	–	–	–	–	(101,294)	(101,294)
At 31 December 2003 and 1 January 2004		412,116	167,746	445	(152)	23,484	(485,894)	117,745
Deficit on revaluation of properties	12	–	–	–	–	(4,969)	–	(4,969)
Deferred tax credited to the property revaluation reserve account	25	–	–	–	–	1,024	–	1,024
Exchange adjustments		–	–	–	189	–	–	189
Net profit for the year		–	–	–	–	–	4,668	4,668
At 31 December 2004		412,116	167,746	445	37	19,539	(481,226)	118,657
Reserves retained by								
Company and subsidiaries		412,116	167,746	445	44	19,539	(479,609)	120,281
Associate		–	–	–	(7)	–	(1,617)	(1,624)
At 31 December 2004		412,116	167,746	445	37	19,539	(481,226)	118,657
Company and subsidiaries		412,116	167,746	445	(145)	23,484	(484,277)	119,369
Associate		–	–	–	(7)	–	(1,617)	(1,624)
At 31 December 2003		412,116	167,746	445	(152)	23,484	(485,894)	117,745

28. RESERVES (Cont'd)

Company

	Notes	Share premium account HK$'000	General reserve fund HK$'000 (Note)	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2003		412,116	167,746	445	(604,148)	(23,841)
Net profit for the year	10	–	–	–	49,542	49,542
At 31 December 2003 and 1 January 2004		412,116	167,746	445	(554,606)	25,701
Net profit for the year	10	–	–	–	15,650	15,650
At 31 December 2004		412,116	167,746	445	(538,956)	41,351

Note : The general reserve fund of the Company 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 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 Company'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 Company, a general reserve fund was credited in the books of account of the Company in the same amount for the purpose of setting off, in the consolidated accounts of the Company 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. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Disposal of subsidiaries

	2004	2003
	HK$'000	HK$'000
Net assets disposed of:		
Fixed assets	–	11,660
Cash and bank balances	–	6
Receivables, prepayments and deposits	–	5,291
Inventories	–	260
Trade payables, accruals and other payables	–	(20,575)
	–	(3,358)
Release of exchange translation reserve	–	(969)
	–	(4,327)
Gain on disposal of subsidiaries	–	16,609
	–	12,282
Satisfied by:		
Cash (net of expenses of HK$233,000)	–	12,282

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

	2004	2003
	HK$'000	HK$'000
Cash consideration (net of expenses of HK$233,000)	–	12,282
Cash and bank balances disposed of	–	(6)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	12,276

The results of the subsidiaries disposed of in the year ended 31 December 2003 had no significant impact on the Group's consolidated turnover or loss after tax for that year.

30. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties and certain plant and machinery under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years.

At 31 December 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with their lessees falling due as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within one year	**1,028**	1,117
In the second to fifth years, inclusive	**1,381**	2,639
	2,409	3,756

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms arranging from 2 to 3 years.

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within one year	**121**	145
In the second to fifth years, inclusive	**71**	–
	192	145

31. COMMITMENTS

At the balance sheet date, the Company and the Group did not have any significant capital commitments (2003: Nil).

32. CONTINGENT LIABILITIES

Following the change in senior management of the Company in June 2002, it was discovered that certain former executives (the "Former Executives") of Nanhai Tannery & Leather Products Co., Ltd. ("Nanhai Tannery") (one of whom was also a former director of the Company) had been involved in certain irregularities. Nanhai Tannery was a former wholly-owned subsidiary of the Company established in Nanhai, the PRC.

Upon discovery of the irregularities, an internal audit team of the Company's holding companies, working with the new management, conducted a preliminary investigation of the irregularities. The investigation revealed that the Former Executives apparently operated a business in parallel to the operations of Nanhai Tannery (the "Parallel Operation") for their own personal gain.

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 laws and regulations.

Pursuant to a business restructuring plan implemented by the Group, Tongyuan Tannery was established to operate the Group's tannery operations and businesses in the Guangdong province in January 2003. Tongyuan Tannery is a wholly-owned subsidiary of the Company which owns and operates a factory and distribution operations in Nanhai, the PRC. Tongyuan Tannery had purchased from Nanhai Tannery most of its fixed assets and inventories in 2003.

32. CONTINGENT LIABILITIES (Cont'd)

On 31 December 2003, the Company entered into a conditional sale and purchase agreement with Yong Sheng Limited, a subsidiary of GDH Limited ("GDH") and a fellow subsidiary of the Company, for the disposal of the Company's entire 100% interest in Nanhai Tannery. The transaction was completed on 31 December 2003 and Nanhai Tannery became a wholly-owned subsidiary of GDH and a fellow subsidiary of the Company.

In February and March 2004, certain bank accounts of Tongyuan Tannery in the PRC containing in total approximately RMB7 million were frozen by the Guangzhou Customs. Subsequently, additional bank balances of RMB2 million were frozen by the Guangzhou Customs. Accordingly, bank balances of RMB9 million (equivalent to approximately HK$8.7 million) were frozen as at 31 December 2004 (note 18).

The directors and management of the Company are satisfied that all the businesses and operations of Tongyuan Tannery have been conducted strictly in accordance with all the applicable PRC laws and regulations, and that there has been no wrongdoing on the part of Tongyuan Tannery or any of its management or staff.

On 22 March 2004, the Guangzhou Customs issued a demand letter to Tongyuan Tannery and Nanhai Tannery (i) claiming tax of RMB36,989,000 (equivalent to approximately HK$34,800,000) payable within 30 days from the date of the demand letter in relation to the tax evaded by Nanhai Tannery during the period from 2000 to 2002; and (ii) asserting that Tongyuan Tannery and Nanhai Tannery failed to notify the Guangzhou Customs of the change from Nanhai Tannery to Tongyuan Tannery.

Although the Group had disposed of its entire interest in Nanhai Tannery to GDH and the tax evasion was related to the Parallel Operation of Nanhai Tannery, it cannot be precluded that the Guangzhou Customs may still claim the tax evaded by Nanhai Tannery against Tongyuan Tannery on the ground that Nanhai Tannery had transferred most of its fixed assets and inventories to Tongyuan Tannery after the commencement of the investigations undertaken by the Guangzhou Customs. The directors have sought PRC legal advice on such matters and consider that Tongyuan Tannery will be liable for the above-mentioned tax claim of HK$34,800,000 by the Guangzhou Customs if the Guangzhou Customs considers that Tongyuan Tannery and Nanhai Tannery are one and the same entity. Accordingly, the Group made a provision of HK$34,800,000 (note 24(a)).

32. CONTINGENT LIABILITIES (Cont'd)

In addition, based on a PRC legal opinion, under the existing PRC laws and regulations, the relevant PRC authorities may also impose a tax penalty on Tongyuan Tannery of an amount equal to 1 to 5 times the tax evaded by the Parallel Operation of Nanhai Tannery, ie. HK$34,800,000 to HK$174,000,000. The directors have sought legal advice on such matters and consider that a provision of HK$34,800,000 for the tax penalty (note 24(a)) is appropriate.

As the actions taken by the PRC authorities have not yet been concluded, it is not possible to determine with any degree of reasonable certainty the amount of tax penalty which may finally be imposed by the PRC authorities against Tongyuan Tannery, which may be within the range of HK$34,800,000 to HK$174,000,000, other consequential actions that may be taken by the PRC authorities for the apparent breaches of certain PRC laws and regulations, and the existence or otherwise of any other penalties and claims as a result of the aforesaid irregularities. Should additional tax penalty in excess of the amount provided of HK$34,800,000 be imposed against Tongyuan Tannery, the directors are of the opinion that the Group would have adequate net assets and resources to continue its operations.

As of the date of this report, no further action has been taken by the Guangzhou Customs or any other PRC authorities against Tongyuan Tannery and there have been no further claims made against Tongyuan Tannery. Accordingly, based on the current available information, no further provision for the tax penalty and other claims or liabilities has been made in the financial statements.

33. RELATED PARTY TRANSACTIONS

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

		Group	
		2004	2003
	Notes	***HK$'000***	*HK$'000*
Office rental paid to the immediate holding company	(a)	**93**	–
Office rental paid to a fellow subsidiary	(b)	**103**	316
Computer system maintenance service fees paid to the immediate holding company	(c)	**111**	54
Tax consultancy fee paid to the immediate holding company	(d)	**50**	–
Interest expense to the former immediate holding company	(e)	**–**	434
Interest expense to the immediate holding company	(f)	**1,778**	1,343
Interest expense to a fellow subsidiary	(g)	**2,109**	586
Gain on disposal of subsidiaries, net	(h)	**–**	(14,881)
Loss on disposal of a subsidiary	(i)	**–**	15

Notes:

(a) The office rental was charged by the immediate holding company at HK$9,276 (2003: Nil) per month commencing from 1 March 2004 in accordance with the terms of the rental agreement between the Group and the immediate holding company. At the balance sheet date, the Group had a rental deposit of HK$27,828 (2003: Nil) with the immediate holding company of the Company.

(b) The office rental was charged by a fellow subsidiary at HK$25,740 per month for the first four months of 2004 (2003: HK$28,311 per month for the first quarter of 2003 and HK$25,740 per month for the remainder of 2003) in accordance with the terms of the rental agreement between the Group and the fellow subsidiary. The rental agreement between the Group and the fellow subsidiary was surrendered in May 2004 and the rental deposit of HK$102,974 was returned from the fellow subsidiary to the Company.

(c) The immediate holding company charged maintenance service fees at HK$6,750 per month for the first 2 months of 2004 and HK$9,750 per month for the remainder of 2004 (2003: HK$6,750) for the computer system used by the Company commencing from 1 May 2003.

(d) The immediate holding company charged consultancy fee for the tax consultancy services rendered in respect of reviewing the Group's tax matters for the year.

33. RELATED PARTY TRANSACTIONS (Cont'd)

Notes: (Cont'd)

(e) The interest expense to the former immediate holding company arose from the loans advanced from Guangdong Investment Limited ("GDI") in 2002. On 31 March 2003, GDI disposed of its entire shareholdings in the Company and its interests in the loans to GDH, GDI's immediate holding company. Since then, the Company ceased to pay interest to GDI.

(f) The interest expense to the immediate holding company arose from the loans advanced from GDH. Further details of the loans, including the terms, are disclosed in note 21 to the financial statements.

(g) 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 22 to the financial statements.

(h) During the year ended 31 December 2003, pursuant to a conditional sale and purchase agreement entered into between the Company and Yong Sheng Limited, a fellow subsidiary of the Company, the Company disposed of its entire 100% interest in Guangdong Tannery (Nominees) Limited and Nanhai Tannery at a cash consideration of HK$10,000. The transaction was completed on 31 December 2003.

(i) During the year ended 31 December 2003, pursuant to a sale and purchase agreement entered into between the Company and Guangdong Assets Management on 26 April 2003, the Company disposed of its entire 100% interest in Prized Time Limited to Guangdong Assets Management at a cash consideration of HK$7,998,000 (net of expenses).

In addition to the above, the Group's bank loans of HK$17,000,000 as at 31 December 2003 were secured by certain bank deposits of the immediate holding company of the Company at nil consideration. The bank loans were fully repaid by the Group during the year (note 23).

34. PLEDGE OF ASSETS

As at 31 December 2004, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

		Group	
		2004	2003
	Notes	***HK$'000***	*HK$'000*
Leasehold land and buildings	12	**3,300**	3,370
Investment properties	12	**4,460**	4,570
Bank balances	18	**6,109**	7,355
Plant and machinery	12	**7,100**	–
		20,969	15,295

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8 April 2005.