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 was principally involved in the processing and sale of semi-finished and finished leather and property investment.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include 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 Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain buildings which have been measured at fair value, as further explained in note 2.5. 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 for the year ended 31 December 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 1, 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 21, 23, 27, 28, 31, 32, 33, 36, 37, 38, 39, 39 Amendment, HKFRSs 3 and 5, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term.

The effects of the change in accounting policy are summarised in note 2.4 to the financial statements.

(b) HKAS 40 – Investment Property

In prior years, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, 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. The adoption of HKAS 40 has had no effect on these financial statements because the Group's investment properties had a net revaluation deficit position as at 1 January 2005 and 2004 and the changes in fair value thereof had been dealt with in the income statement.

(c) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

(c) HKFRS 2 – Share-based Payment (Continued)

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005. The adoption of HKFRS 2 has no impact to the financial statements of the Group as the Group has neither employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005 nor employee share options granted during the year.

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. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

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

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

The HKAS 19 Amendment, HKAS 39 Amendments, HKAS 39 and HKFRS 4 Amendments, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 4, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting		
At 1 January 2005	**HKAS 1#**	**HKAS 17#**	
		Prepaid land	
	Presentation	**lease payments**	**Total**
Effect of new policies	***HK$'000***	***HK$'000***	***HK$'000***
Assets			
Decrease in property, plant and equipment	**(6,740)**	**(20,000)**	**(26,740)**
Increase in investment properties	**6,740**	**–**	**6,740**
Increase in prepaid land lease payments *(note 14)*	**–**	**3,828**	**3,828**
			(16,172)
Liabilities/equity			
Decrease in deferred tax liabilities *(note 26)*	**–**	**(4,247)**	**(4,247)**
Decrease in property revaluation reserve	**–**	**(16,020)**	**(16,020)**
Decrease in accumulated losses	**–**	**4,095**	**4,095**
			(16,172)

Adjustments/presentation taken effect retrospectively

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Effect on the consolidated balance sheet (Continued)

At 31 December 2005 **Effect of new policies**	**Effect of adopting** **HKAS 1#** **Presentation** ***HK$'000***	 **HKAS 17#** **Prepaid land lease payments** ***HK$'000***	**Total** ***HK$'000***
Assets			
Decrease in property, plant and equipment	**(2,280)**	**(20,000)**	**(22,280)**
Increase in investment properties	**2,280**	**–**	**2,280**
Increase in prepaid land lease payments *(note 14)*	**–**	**3,825**	**3,825**
			(16,175)
Liabilities/equity			
Decrease in deferred tax liabilities *(note 26)*	**–**	**(4,363)**	**(4,363)**
Decrease in property revaluation reserve	**–**	**(16,243)**	**(16,243)**
Decrease in accumulated losses	**–**	**4,431**	**4,431**
			(16,175)

\# Adjustments/presentation taken effect retrospectively

(b) Effect on the balances of equity at 1 January 2005 and 2004

Effect of adopting HKAS 17 in respect of prepaid land lease payments:

	1 January 2005 ***HK$'000***	1 January 2004 *HK$'000*
Decrease in property revaluation reserve	**(16,020)**	(17,208)
Decrease in accumulated losses	**4,095**	3,759
	(11,925)	(13,449)

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Continued)

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

Effect of adopting HKAS 17 in respect of prepaid land lease payments:

	Year ended 31 December	
	2005	2004
	HK$'000	*HK$'000*
Decrease in cost of sales	**336**	336
Increase in profit for the year	**336**	336
Increase in basic earnings per share	**0.06 cents**	0.06 cents
Increase in diluted earnings per share	**0.06 cents**	N/A

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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 registered capital or controls the composition of its board of directors, 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's registered capital and is in a position to exercise significant influence over the joint venture.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associate

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

The Group's share of the post-acquisition results and reserves of an associate is included in the consolidated income statement 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.

Impairment of assets

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 calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the property revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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 depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for property which would 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.

For a transfer from investment properties to owner-occupied properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

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

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

Other financial assets (Applicable to the year ended 31 December 2005)

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets (Applicable to the year ended 31 December 2005)

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

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 profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Applicable to the year ended 31 December 2005) (Continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of loans and receivables with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, 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. 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.

Derecognition of financial assets (Applicable to the year ended 31 December 2005)

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 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities (Applicable to the year ended 31 December 2005)

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 profit or loss.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 tax claim and tax penalty by the PRC authorities is determined based on the amounts 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.

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

Income tax

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

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

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

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 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

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

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees 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. 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 on 1 January 2005 and to those granted on or after 1 January 2005. No expense is recognised for the Group's outstanding options because there is neither share option granted by the Group after 7 November 2002 but not vested on 1 January 2005 nor share option granted by the Group on or after 1 January 2005.

2.5 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, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of 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 date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. 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 and associate 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

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 leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

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 material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates regarding provisions for tax claim and tax penalty by the PRC authorities and provisions for early termination of a joint venture agreement

In respect of the present obligations arising as a result of the above past events, the Group is required to estimate the amount of future outflow of resources that will be required to settle the obligations. Details of the estimates are set out in note 25 to the financial statements.

Estimates regarding the realisability of deferred tax assets

Estimating the amount for deferred tax asset arising from tax losses requires a process that involves determining appropriate provisions for taxation, forecasting future years' taxable income and assessing the ability to utilise tax benefits through future taxable profits. The Group's unrecognised deferred tax asset arising from taxes is from the Group's Mainland China business. While the current financial models indicate that it is not probable that sufficient taxable profits of the relevant companies will be available to all or part of the deferred tax asset to be utilised, any changes in assumptions and estimates and in tax regulations can affect the recognition of all or part of the deferred tax asset. Details of the unrecognised tax losses of the Group are set out in note 26 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment test of assets

The Group determines whether an asset is impaired on an annual basis. This requires an estimation of the value in use of the assets. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues 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. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

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.

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 (Continued)

Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Group

	Leather processing		Property investment		Corporate and other		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)				(Restated)				(Restated)
Segment revenue:										
Sales to external customers	**258,543**	281,951	**–**	–	**–**	–	**–**	–	**258,543**	281,951
Intersegment sales	**–**	–	**–**	–	**480**	480	**(480)**	(480)	**–**	–
Other income and gains	**2,510**	1,773	**563**	1,066	**128**	83	**–**	–	**3,201**	2,922
Total	**261,053**	283,724	**563**	1,066	**608**	563	**(480)**	(480)	**261,744**	284,873
Segment results	**10,280**	19,080	**6,544**	342	**(8,220)**	(7,481)	**–**	–	**8,604**	11,941
Finance costs									**(3,734)**	(5,734)
Profit before tax									**4,870**	6,207
Tax									**533**	(1,203)
Profit for the year									**5,403**	5,004

4. SEGMENT INFORMATION (Continued)

Business segments (Continued)

Group

	Leather processing		Property investment		Corporate and other		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)								(Restated)
Assets and liabilities										
Segment assets	**368,867**	369,840	**8,794**	12,924	**5,854**	19,331	**(6,427)**	(6,104)	**377,088**	395,991
Interest in an associate	**–**	–	**4,336**	–	**–**	–	**–**	–	**4,336**	–
Unallocated assets									**873**	923
Total assets									**382,297**	396,914
Segment liabilities	**(124,330)**	(136,312)	**(532)**	(433)	**(2,535)**	(1,735)	**6,427**	6,104	**(120,970)**	(132,376)
Unallocated liabilities									**(88,893)**	(105,391)
Total liabilities									**(209,863)**	(237,767)
Other segment information:										
Capital expenditure	**954**	2,165	**–**	–	**33**	21	**–**	–	**987**	2,186
Depreciation	**9,888**	8,527	**–**	–	**19**	452	**–**	–	**9,907**	8,979
Provision for inventories	**6,460**	11,021	**–**	–	**–**	–	**–**	–	**6,460**	11,021
Recognition of prepaid land lease payments	**93**	93	**–**	–	**–**	–	**–**	–	**93**	93
Changes in fair value of investment properties	**–**	–	**–**	234	**–**	–	**–**	–	**–**	234
Deficit/(surplus) on revaluation of buildings	**80**	(138)	**–**	–	**–**	–	**–**	–	**80**	(138)
Reversal of impairment of items of property, plant and equipment	**–**	(5,162)	**–**	–	**–**	–	**–**	–	**–**	(5,162)
Reversal of provision for an amount due from an associate	**–**	–	**(6,141)**	–	**–**	–	**–**	–	**(6,141)**	–
Provision for bad and doubtful debts	**645**	–	**–**	–	**–**	–	**–**	–	**645**	–
Other non-cash expenses/(income), net	**(36)**	25	**–**	–	**–**	71	**–**	–	**(36)**	96

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:

	2005 *HK$'000*	2004 *HK$'000*
Revenue		
Processing and sale of leather	**258,543**	281,951
Other income and gains		
Gross rental income	**774**	1,304
Interest income	**708**	417
Others	**1,719**	1,201
	3,201	2,922

6. PROFIT BEFORE TAX

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

	Notes	2005 *HK$'000*	2004 *HK$'000* (Restated)
Cost of inventories sold		**228,511**	244,492
Auditors' remuneration		**780**	720
Depreciation	*12*	**9,907**	8,979
Employee benefits expense (excluding directors' remuneration *(note 9)*):			
Wages and salaries		**8,719**	9,912
Redundancy payments (included in other operating income/(expenses), net below)		**–**	1,257
Pension scheme contributions (defined contributions scheme)*		**778**	714
		9,497	11,883
Provision for inventories		**6,460**	11,021
Minimum lease payments under operating leases in respect of land and buildings		**374**	251
Recognition of prepaid land lease payments	*14*	**93**	93
Other rental income		**(211)**	(449)
Gross rental income from investment properties		**(563)**	(855)
Less: Outgoings from investment properties		**86**	158
Net rental income		**(477)**	(697)

6. PROFIT BEFORE TAX (Continued)

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

	Notes	**2005**	2004
		HK$'000	*HK$'000*
			(Restated)
Expenses/(income) included in other operating income/(expense), net:			
Changes in fair value of investment properties	*13*	**–**	234
Deficit/(surplus) on revaluation of buildings	*12*	**80**	(138)
Write-off of items of property, plant and equipment	*12*	**581**	83
Loss/(gain) on disposal of items of property, plant and equipment, net		**(617)**	13
Reversal of impairment of items of property, plant and equipment	*12*	**–**	(5,162)
Provision for bad and doubtful debts, net		**645**	–
Foreign exchange differences, net		**(65)**	(513)
Redundancy payments		**–**	1,257
		624	(4,226)

* At 31 December 2004 and 2005, the Group had no forfeited contribution available to reduce its contributions to the pension scheme in future years.

7. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Interest on:		
Bank loans and discounting bills receivable to banks	**386**	1,847
Loans from the immediate holding company	**1,244**	1,778
Loan from a fellow subsidiary	**2,104**	2,109
	3,734	5,734

8. 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 (2004: Nil). No provision for Mainland China and overseas profits tax has been made (2004: Nil) as there were either no assessable profits arising from certain subsidiaries of the Company operating in Mainland China and overseas during the year or certain subsidiaries of the Company operating in Mainland China and overseas with available tax losses brought forward from prior years to offset the assessable profits during the year.

In addition, certain subsidiaries of the Company established in the PRC were exempt from PRC corporate income tax for two years commencing 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 years ended 31 December 2004 and 2005.

	2005	2004
	HK$'000	*HK$'000*
Group:		
Deferred *(note 26)*	**(533)**	1,203
Total tax charge/(credit) for the year	**(533)**	1,203

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 charge/(credit) at the effective tax rates is as follows:

Group – 2005

	Hong Kong	**Mainland China**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Profit/(loss) before tax	**(4,975)**	**9,845**	**4,870**
Tax at the statutory tax rate	**(871)**	**3,249**	**2,378**
Lower tax rate for specific provinces or local authority	**–**	**(6,912)**	**(6,912)**
Income not subject to tax	**(1,153)**	**(902)**	**(2,055)**
Expenses not deductible for tax	**818**	**1,186**	**2,004**
Tax losses not recognised	**1,206**	**2,846**	**4,052**
Tax credit at the Group's effective rate	**–**	**(533)**	**(533)**

8. TAX (Continued)

Group – 2004

	Hong Kong	Mainland China	Total
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	(Restated)
Profit/(loss) before tax	(10,487)	16,694	6,207
Tax at the statutory tax rate	(1,835)	5,509	3,674
Lower tax rate for specific provinces or local authority	–	(4,167)	(4,167)
Income not subject to tax	(349)	(4,482)	(4,831)
Expenses not deductible for tax	598	3,563	4,161
Tax losses not recognised	1,586	780	2,366
Tax charge at the Group's effective rate	–	1,203	1,203

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) 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 Companies Ordinance, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Fees	**300**	225
Other emoluments:		
Salaries and allowances	**1,698**	1,794
Performance related bonuses*	**904**	330
Pension scheme contributions	**459**	303
	3,061	2,427
	3,361	2,652

* 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.

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

(a) Directors' remuneration (Continued)

(i) Independent non-executive directors

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

	2005	2004
	HK$'000	*HK$'000*
Mr. Cheng Hok Lai James	**100**	100
Mr. Fung Lak	**100**	100
Mr. Choi Kam Fai Thomas	**100**	25
	300	225

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

(ii) Executive directors and non-executive directors

	Fees	Salaries and allowances	Performance related bonuses	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2005					
Executive directors:					
Mr. Zhang Chunting	-	513	362	198	1,073
Mr. Deng Rongjun	-	426	253	159	838
Mr. Chen Hong	-	183	289	87	559
Mr. Hui Wai Man Lawrence	-	576	-	15	591
	-	1,698	904	459	3,061
Non-executive directors:					
Mr. Wu Jiesi	-	-	-	-	-
Mr. Xiong Guangyang	-	-	-	-	-
Mrs. Ho Lam Lai Ping Theresa	-	-	-	-	-
	-	1,698	904	459	3,061

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

(a) Directors' remuneration (Continued)

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

	Fees	Salaries and allowances	Performance related bonuses	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2004					
Executive directors:					
Mr. Zhang Chunting	–	404	330	158	892
Mr. Chen Hong	–	378	–	120	498
Mr. Hui Wai Man Lawrence	–	1,012	–	25	1,037
	–	1,794	330	303	2,427
Non-executive directors:					
Mr. Wu Jiesi	–	–	–	–	–
Mr. Xiong Guangyang	–	–	–	–	–
Mrs. Ho Lam Lai Ping Theresa	–	–	–	–	–
	–	1,794	330	303	2,427

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

(b) Five highest paid employees

The five highest paid employees during the year included four (2004: three) directors, details of whose remuneration are set out in note 9(a) above. Details of the remuneration of the remaining one (2004: two) non-director, highest paid employee for the year are as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Salaries and allowances	**455**	813
Pension scheme contributions	**16**	159
	471	972

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

(b) Five highest paid employees (Continued)

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

	Number of employees	
	2005	2004
Nil to HK$1,000,000	**1**	2

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was HK$30,171,000 (2004: HK$15,650,000) (note 29).

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent, 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 net profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)

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

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Earnings		
Net profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**5,403**	5,004

	Number of shares	
	2005	2004
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**524,154,000**	524,154,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**294,383**	N/A
	524,448,383	N/A

A diluted earnings per share amount for the year ended 31 December 2004 has not been disclosed as the share options outstanding during that year had an anti-dilutive effect on the basic earnings per share for that year.

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improve-ments	Plant and machinery	Electronic equipment	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2005								
At 31 December 2004 and at 1 January 2005:								
Cost or valuation	48,840	6,608	125,486	2,927	570	10,173	739	195,343
Accumulated depreciation and impairment	–	(4,633)	(93,860)	(2,335)	(533)	(9,426)	–	(110,787)
Net carrying amount	48,840	1,975	31,626	592	37	747	739	84,556
At 1 January 2005, net of accumulated depreciation and impairment	48,840	1,975	31,626	592	37	747	739	84,556
Additions	–	101	297	9	33	–	547	987
Disposals	(2,869)	(14)	(98)	–	–	(10)	(168)	(3,159)
Write-off	(420)	(75)	(77)	(9)	–	–	–	(581)
Surplus on revaluation	1,796	–	–	–	–	–	–	1,796
Depreciation provided during the year	(3,233)	(284)	(5,879)	(148)	(22)	(341)	–	(9,907)
Transfers	–	124	833	27	–	–	(984)	–
Transfer from investment properties *(note 13)*	4,492	–	–	–	–	–	–	4,492
Exchange realignment	984	183	896	18	–	38	10	2,129
At 31 December 2005, net of accumulated depreciation and impairment	49,590	2,010	27,598	489	48	434	144	80,313
At 31 December 2005:								
Cost or valuation	49,590	6,959	128,980	3,030	622	9,432	144	198,757
Accumulated depreciation and impairment	–	(4,949)	(101,382)	(2,541)	(574)	(8,998)	–	(118,444)
Net carrying amount	49,590	2,010	27,598	489	48	434	144	80,313
Analysis of cost or valuation:								
At cost	–	6,959	128,980	3,030	622	9,432	144	149,167
At 31 December 2005 valuation	49,590	–	–	–	–	–	–	49,590
	49,590	6,959	128,980	3,030	622	9,432	144	198,757

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

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 (Restated)
31 December 2004								
At 1 January 2004:								
Cost or valuation	55,820	6,349	123,929	2,883	1,114	11,024	318	201,437
Accumulated depreciation and impairment	–	(4,226)	(94,966)	(2,162)	(994)	(9,653)	–	(112,001)
Net carrying amount	55,820	2,123	28,963	721	120	1,371	318	89,436
At 1 January 2004, net of accumulated depreciation and impairment	55,820	2,123	28,963	721	120	1,371	318	89,436
Additions	–	105	14	18	21	–	2,028	2,186
Disposals	–	–	–	(1)	(15)	(47)	–	(63)
Write off	–	(22)	–	–	(61)	–	–	(83)
Deficit on revaluation	(3,254)	–	–	–	–	–	–	(3,254)
Reversal of impairment	–	–	5,162	–	–	–	–	5,162
Depreciation provided during the year	(3,800)	(426)	(3,968)	(176)	(28)	(581)	–	(8,979)
Transfers	–	191	1,388	28	–	–	(1,607)	–
Exchange realignment	74	4	67	2	–	4	–	151
At 31 December 2004, net of accumulated depreciation and impairment	48,840	1,975	31,626	592	37	747	739	84,556
At 31 December 2004:								
Cost or valuation:	48,840	6,608	125,486	2,927	570	10,173	739	195,343
Accumulated depreciation and impairment	–	(4,633)	(93,860)	(2,335)	(533)	(9,426)	–	(110,787)
Net carrying amount	48,840	1,975	31,626	592	37	747	739	84,556
Analysis of cost or valuation:								
At cost	–	6,608	125,486	2,927	570	10,173	739	146,503
At 31 December 2004 valuation	48,840	–	–	–	–	–	–	48,840
	48,840	6,608	125,486	2,927	570	10,173	739	195,343

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Furniture, fixtures and equipment HK$'000
31 December 2005	
At 1 January 2005:	
Cost	**293**
Accumulated depreciation	**(262)**
Net carrying amount	**31**
At 1 January 2005, net of accumulated depreciation	**31**
Additions	**33**
Depreciation provided during the year	**(19)**
At 31 December 2005, net of accumulated depreciation	**45**
At 31 December 2005:	
Cost	**326**
Accumulated depreciation	**(281)**
Net carrying amount	**45**
31 December 2004	
At 1 January 2004:	
Cost	833
Accumulated depreciation	(722)
Net carrying amount	111
At 1 January 2004, net of accumulated depreciation	111
Additions	20
Disposals	(14)
Write off	(61)
Depreciation provided during the year	(25)
At 31 December 2004, net of accumulated depreciation	31
At 31 December 2004:	
Cost	293
Accumulated depreciation	(262)
Net carrying amount	31

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 December 2005, the Group's buildings were individually revalued by RHL Appraisal Ltd., independent professionally qualified valuers, at an aggregate open market value of HK$49,590,000 (2004: HK$48,840,000) based on their existing use, with a net revaluation surplus of HK$1,796,000 (2004: deficit of HK$3,254,000), including a revaluation surplus of HK$1,876,000 (2004: deficit of HK$3,392,000) charged to property revaluation reserve (note 29) and a revaluation deficit of HK$80,000 (2004: surplus of HK$138,000) charged to the income statement (note 6) in the current year.

Had these buildings of the Group been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts as at 31 December 2005 would have been approximately HK$37,231,000 (2004: HK$39,461,000).

At 31 December 2004, an amount of HK$490,000 included in the Group's buildings was a building situated in Mainland China, in respect of which the building ownership certificate had been in the process of being obtained. The above building has been written off during the year.

At 31 December 2005, certain of the plant and machinery and buildings of a subsidiary of the Group of HK$5,245,000 (2004: HK$7,100,000) and HK$7,590,000 (2004: HK$3,300,000), respectively, were pledged to secure general banking facilities granted to the Group (note 34).

During the year ended 31 December 2004, 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 income statement during that year.

13. INVESTMENT PROPERTIES

	Notes	**2005** ***HK$'000***	2004 *HK$'000*
Carrying amount at 1 January		**6,740**	6,970
Changes in fair value of investment properties	*6*	**–**	(234)
Transfer to owner-occupied property	*12*	**(4,492)**	–
Exchange realignment		**32**	4
Carrying amount at 31 December		**2,280**	6,740

The Group's investment properties are situated in Mainland China and are held under medium term leases. At 31 December 2005, an amount of HK$2,280,000 (2004: HK$2,280,000) included in the Group's investment properties in respect of which the building ownership certificates were in the process of being obtained.

13. INVESTMENT PROPERTIES (Continued)

The Group's investment properties were revalued on 31 December 2005 by RHL Appraisal Ltd. at HK$2,280,000 (2004: HK$6,740,000) on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 30(a) to the financial statements.

At 31 December 2004, an amount of HK$4,460,000 included in the Group's investment properties was pledged to secure general banking facilities granted to the Group (note 34). During the year, the above properties have been transferred to owner-occupied property under property, plant and equipment.

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Carrying amount at 1 January		
As previously reported	**–**	–
Effect of adopting HKAS 17 *(note 2.4(a))*	**3,828**	3,915
As restated	**3,828**	3,915
Recognised during the year *(note 6)*	**(93)**	(93)
Exchange realignment	**90**	6
Carrying amount at 31 December	**3,825**	3,828
Current portion included in receivables, prepayments and deposits	**(93)**	(93)
Non-current portion	**3,732**	3,735

The leasehold land is held under a medium term lease and is situated in Mainland China.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares/investments, at cost	**165,465**	161,955
Due from subsidiaries	**327,457**	318,464
Due to subsidiaries	**(72,694)**	(38,511)
	420,228	441,908
Impairment	**(271,581)**	(302,614)
	148,647	139,294

Included in the amounts due from subsidiaries are unsecured loans of HK$81,854,565 (2004: HK$126,007,000), which bear interest at rates ranging from 3.8% to 8.5% (2004: 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.

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

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		Principal activities
			Direct	Indirect	
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

15. INTERESTS IN SUBSIDIARIES (Continued)

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
Jadeford Investments Limited	British Virgin Islands	US$1	100	–	Dormant
Foshan City Nanhai Tong Yuan Tanning Co., Ltd. ("Tongyuan Tannery")+	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
Time Wise Profits Limited	British Virgin Islands	US$1	100	–	Dormant
Vermont Property Limited	British Virgin Islands	US$1	100	–	Investment holding
Xuzhou Gangwei Leather Co., Ltd. (formerly known as 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

\+ Registered as wholly-foreign-owned enterprises under 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. INTEREST IN AN ASSOCIATE

	Group 2005 HK$'000	Group 2004 HK$'000
Share of net assets	**–**	–
Due from an associate	**5,465**	7,270
	5,465	7,270
Provision for impairment	**(1,129)**	(7,270)
	4,336	–

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of this amount approximates to its fair value.

The associate held interests in land use rights in the PRC. In prior years, the recoverable amount of the amount due from the associate was uncertain and a full provision for impairment was made as at 31 December 2004. During the year, the associate, through its wholly-owned subsidiaries, entered into a sale and purchase agreement to dispose of its interests in land use rights. Accordingly, a reversal of provision for an amount due from an associate of HK$6,141,000 was credited to the income statement during the year.

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

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

In 2004, the Group has discontinued the recognition of its share of losses of the associate because the share of losses of the associate exceeded the Group's interest in the associate. The Group's unrecognised share of losses of this associate cumulatively was HK$1,129,000 (2004: HK$7,151,000). The Group's unrecognised share of loss of this associate for the year ended 31 December 2004 was HK$28,000.

16. INTEREST IN AN ASSOCIATE (Continued)

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

	2005	2004
	HK$'000	HK$'000
Assets	**19,986**	578
Liabilities	**23,512**	22,923
Revenues	**–**	–
Profit/(loss)	**18,819**	(87)

17. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**45,752**	24,319
Work in progress	**51,306**	85,338
Finished goods	**25,410**	31,432
	122,468	141,089

18. RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 31 December 2005, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK$86,414,000 (2004: HK$41,485,000) 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.

18. RECEIVABLES, PREPAYMENTS AND DEPOSITS (Continued)

As at 31 December 2005, the aged analysis of the Group's trade and bills receivables, based on the payment due date, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Current	**82,376**	34,094
1 to 3 months	**2,486**	7,337
3 to 6 months	**170**	471
Over 6 months	**4,373**	3,056
	89,405	44,958
Provisions for doubtful debts	**(2,991)**	(3,473)
	86,414	41,485

At 31 December 2005, bills receivables of approximately HK$22,485,000 (2004: HK$Nil) were pledged to secure the general banking facilities granted to the Group *(note 34)*.

19. 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 2005** ***HK$'000***	**Maximum amount outstanding during the year** ***HK$'000***	**1 January 2005** ***HK$'000***
Ms. Chan Miu Ting (Company Secretary)	Secured by her property, bears interest at 5% per annum and is repayable by monthly instalments	**873**	923	923

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$45,000 (2004: HK$47,000) *(note 33(a)(vii))*.

20. CASH AND CASH EQUIVALENTS AND PLEDGED AND FROZEN DEPOSITS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**69,832**	98,040	**4,618**	501
Less: Pledged bank balances *	**(4,900)**	(6,109)	**–**	–
Frozen bank balances **	**(9,018)**	(8,685)	**–**	–
	(13,918)	(14,794)	**–**	–
Cash and cash equivalents	**55,914**	83,246	**4,618**	501

* These bank balances were pledged to a bank 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.

Cash at bank earns interest at floating rates based on daily bank deposits rates. The carrying amounts of the cash and bank balances and pledged and frozen bank balances approximate to their fair values.

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$63,386,000 (2004: HK$74,677,000). 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.

21. TRADE AND BILLS PAYABLES, AND OTHER PAYABLES AND ACCRUALS

An aged analysis of trade and bills payables as at 31 December 2005, based on the payment due date, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 3 months	**21,130**	32,453
3 to 6 months	**1,229**	2,205
6 to 12 months	**292**	1,855
Over 12 months	**3,472**	2,351
	26,123	38,864

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

22. 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 value of this amount approximates to its fair value.

23. LOANS FROM THE IMMEDIATE HOLDING COMPANY

The Group's and the Company's loans represented unsecured loans of RMB20,000,000 (2004: RMB37,990,000) (equivalent to approximately HK$19,226,000 (2004: HK$35,676,000)) and HK$10,350,000 (2004: HK$10,350,000) advanced from GDH Limited ("GDH"), the Company's immediate holding company. The loans bore interest at a rate of 4.15% (2004: 3.8%) and 3.8% (2004: 3.8%) per annum, respectively, and were repayable on 31 December 2006.

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

24. LOAN FROM A FELLOW SUBSIDIARY

The Group's loan represented an unsecured loan of US$7,000,000 (2004: US$7,000,000) (equivalent to approximately HK$54,600,000 (2004: HK$54,600,000)) advanced from Guangdong Assets Management Limited ("Guangdong Assets Management"), a fellow subsidiary of the Company. The loan bore interest at a rate of 3.8% (2004: 3.8%) per annum and was repayable on 31 December 2006.

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

25. PROVISIONS

Group

	Tax claim and tax penalty by the PRC authorities *HK$'000* *(Note a)*	**Early termination of a joint venture agreement** *HK$'000* *(Note b)*	**Total** *HK$'000*
At 31 December 2004 and 1 January 2005	69,600	3,000	72,600
Exchange realignment	1,452	63	1,515
At 31 December 2005	71,052	3,063	74,115

25. PROVISIONS (Continued)

Notes:

(a) Provisions for tax claim and tax penalty by the PRC authorities

With respect to the tax claim of RMB36,989,000 (equivalent to approximately HK$35,526,000 as at 31 December 2005 (2004: HK$34,800,000)) made by the Anti-Smuggling Bureau of Guangzhou Customs (廣州海關緝私局) (the "Guangzhou Customs") to Tongyuan Tannery, a wholly-owned subsidiary of the Company established in Mainland China, provisions of HK$71,052,000 (2004: HK$69,600,000) in aggregate were made as at 31 December 2005 for (a) the tax claim of HK$35,526,000 (2004: HK$34,800,000) made by the Guangzhou Customs; and (b) the tax penalty of HK$35,526,000 (2004: 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 tax claim and tax penalty by the Guangzhou Customs are set out in note 32 to the financial statements.

(b) Provisions for early termination of a joint venture agreement

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

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

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

26. 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
2005				
Deferred tax liabilities at 1 January 2005:				
As previously reported	**1,203**	**7,809**	**–**	**9,012**
Prior year adjustment *(note 2.4(a))*	**–**	**(4,247)**	**–**	**(4,247)**
As restated	**1,203**	**3,562**	**–**	**4,765**
Deferred tax charged to the property revaluation reserve *(note 29)*	**–**	**485**	**–**	**485**
Deferred tax credited to the income statement during the year *(note 8)*	**–**	**(533)**	**–**	**(533)**
Deferred tax liabilities at 31 December 2005	**1,203**	**3,514**	**–**	**4,717**
2004				
At 1 January 2004 (restated)	1,051	4,197	(1,051)	4,197
Deferred tax credited to the property revaluation reserve (restated) *(note 29)*	–	(635)	–	(635)
Deferred tax charged to the income statement during the year *(note 8)*	152	–	1,051	1,203
Deferred tax liabilities at 31 December 2004 (restated)	1,203	3,562	–	4,765

The Group has tax losses arising in Hong Kong and PRC of HK$78,805,000 and HK$46,023,000 (2004: HK$71,914,000 and HK$35,482,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: 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.

27. SHARE CAPITAL

	2005	2004
	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.

28. 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 13 January 2003.

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

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.

28. SHARE OPTION SCHEME (Continued)

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.

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

No share options were granted, cancelled, lapsed or exercised under the Scheme during the year.

28. SHARE OPTION SCHEME (Continued)

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

Name or category of participant	Number of share options at 1 January 2005 and 31 December 2005	Date of grant of share options* (dd/mm/yyyy)	Exercise period of share options (dd/mm/yyyy)	Exercise price of share options** *HK$*	Price of Company's share at grant date of options*** *HK$*
Directors					
Zhang Chunting	2,500,000	09/06/2003	10/09/2003 – 09/09/2008	0.220	0.220
	2,000,000	11/02/2004	12/05/2004 – 11/05/2009	0.246	0.240
	4,500,000				
Deng Rongjun	1,500,000	11/02/2004	12/05/2004 – 11/05/2009	0.246	0.240
Xiong Guangyang	3,000,000	09/06/2003	10/09/2003 – 09/09/2008	0.220	0.220
	2,200,000	11/02/2004	12/05/2004 – 11/05/2009	0.246	0.240
	5,200,000				
Fung Lak	300,000	09/06/2003	10/09/2003 – 09/09/2008	0.220	0.220
	300,000	11/02/2004	12/05/2004– 11/05/2009	0.246	0.240
	600,000				
Subtotal	11,800,000				
Former Directors					
In aggregate	300,000	09/06/2003	10/09/2003 – 09/09/2008	0.220	0.220
	2,100,000	11/02/2004	12/05/2004 – 11/05/2009	0.246	0.240
Subtotal	2,400,000				

28. SHARE OPTION SCHEME (Continued)

Name or category of participant	Number of share options at 1 January 2005 and 31 December 2005	Date of grant of share options* (dd/mm/yyyy)	Exercise period of share options (dd/mm/yyyy)	Exercise price of share options** *HK$*	Price of Company's share at grant date of options*** *HK$*
Other employees					
In aggregate	550,000	09/06/2003	10/09/2003 – 09/09/2008	0.220	0.220
	600,000	11/02/2004	12/05/2004 – 11/05/2009	0.246	0.240
Subtotal	1,150,000				
Total	15,350,000				

Notes to the reconciliation of share options outstanding during the year:

* 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 Stock Exchange of Hong Kong Limited's closing price on the trading day immediately prior to the date of the grant of the options.

At the balance sheet date and the date of approval of these financial statements, the Company had 15,350,000 share options outstanding under the Scheme, which represented approximately 2.9% of the Company's shares in issue as at that date. 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).

29. RESERVES

Group

	Notes	Share premium account HK$000	General reserve fund HK$000 (Note 1)	Reserve funds HK$000 (Note 2)	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 2004									
As previously reported		412,116	167,746	–	445	(152)	23,484	(485,894)	117,745
Prior year adjustments	2.4(b)	–	–	–	–	–	(17,208)	3,759	(13,449)
As restated		412,116	167,746	–	445	(152)	6,276	(482,135)	104,296
Deficit on revaluation of buildings (as restated)	12	–	–	–	–	–	(3,392)	–	(3,392)
Deferred tax credited to the property revaluation reserve (as restated)	26	–	–	–	–	–	635	–	635
Exchange realignment		–	–	–	–	189	–	–	189
Net profit for the year (as restated)		–	–	–	–	–	–	5,004	5,004
At 31 December 2004		412,116	167,746	–	445	37	3,519	(477,131)	106,732
At 1 January 2005									
As previously reported		412,116	167,746	–	445	37	19,539	(481,226)	118,657
Prior year adjustments	2.4(b)	–	–	–	–	–	(16,020)	4,095	(11,925)
As restated		412,116	167,746	–	445	37	3,519	(477,131)	106,732
Surplus on revaluation of buildings	12	–	–	–	–	–	1,876	–	1,876
Deferred tax charged to the property revaluation reserve	26	–	–	–	–	–	(485)	–	(485)
Exchange realignment		–	–	–	–	6,493	–	–	6,493
Transfer from retained profits of a subsidiary established in the PRC		–	–	1,378	–	–	–	(1,378)	–
Net profit for the year		–	–	–	–	–	–	5,403	5,403
At 31 December 2005		412,116	167,746	1,378	445	6,530	4,910	(473,106)	120,019

29. RESERVES (Continued)

Company

	Notes	Share premium account HK$'000	General reserve fund HK$'000 (Note 1)	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 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 and 1 January 2005		412,116	167,746	445	(538,956)	41,351
Net profit for the year	10	–	–	–	30,171	30,171
At 31 December 2005		412,116	167,746	445	(508,785)	71,522

Notes:

1. 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 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 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.

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

30. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with their lessees falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**645**	1,028
In the second to fifth years, inclusive	**196**	1,381
	841	2,409

(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 2005, the Group had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**20**	121
In the second to fifth years, inclusive	**–**	71
	20	192

31. COMMITMENTS

At the balance sheet date, the Company and the Group did not have any significant capital commitments (2004: 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 until 31 December 2003 a 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 were of the opinion that the Parallel Operation should not be (and it had not been) incorporated in the financial statements of the Group and that the Parallel Operation appeared 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 items of property, plant and equipment and inventories in 2003.

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

In 2004, certain bank accounts of Tongyuan Tannery in the PRC containing in total of approximately RMB9 million (equivalent to approximately HK$8.7 million) were frozen by the Guangzhou Customs as at 31 December 2004. Taking into account the bank interest earned from the frozen bank balances and exchange realignment of HK$0.3 million in aggregate, the aggregate frozen bank balances amounted to approximately HK$9 million as at 31 December 2005 (note 20).

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

32. CONTINGENT LIABILITIES (Continued)

On 22 March 2004, the Guangzhou Customs issued a demand letter to Tongyuan Tannery and Nanhai Tannery (i) claiming tax of RMB36,989,000 (the "Potential Tax Claim") 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 Yong Sheng Limited and the tax evasion was related to the Parallel Operation of Nanhai Tannery, the PRC legal advice obtained by the Company in April 2004 indicated that if, which is denied by the Company, Tongyuan Tannery and Nanhai Tannery are considered to be one and the same entity due to the transfer of most of the Nanhai Tannery's items of property, plant and equipment and inventories to Tongyuan Tannery, then it may be possible for the Guangzhou Customs to impose the Potential Tax Claim on Tongyuan Tannery. Accordingly, the Group carried a provision of RMB36,989,000 (equivalent to approximately HK$35,526,000 as at 31 December 2005 (2004 and 2003: HK$34,800,000)) (note 25(a)) for the Potential Tax Claim which was made during the year ended 31 December 2003.

In addition, the PRC legal advice also indicated that, 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 Potential Tax Liability, i.e. RMB36,989,000 to RMB184,945,000 (equivalent to approximately HK$35,526,000 to HK$177,630,000 as at 31 December 2005 (2004 and 2003: HK$34,800,000 to HK$174,000,000)) (the "Potential Penalty"). In light of the PRC legal advice, the directors of the Group considered it appropriate to carry a provision of RMB36,989,000 (equivalent to approximately HK$35,526,000 as at 31 December 2005 (2004 and 2003: HK$34,800,000)) (note 25(a)) for the Potential Penalty which was made during the year ended 31 December 2003.

In April 2005, a prosecution was initiated in the Guangzhou Intermediate People's Court (the "Guangzhou Court") against, amongst others, Nanhai Tannery, in relation to alleged tax evasion activities on the part of Nanhai Tannery and others between January 2000 and May 2002 (the "Guangzhou Proceedings"). Although Tongyuan Tannery was not made a party to the Guangzhou Proceedings, allegations were made in these proceedings that Tongyuan Tannery was set up as a vehicle to take over the assets of Nanhai Tannery, and to place obstacles on the Guangzhou Customs' attempt to recover the evaded tax. Tongyuan Tannery filed its objections to these allegations with the Guangzhou Court in June 2005 to explain that (i) Tongyuan Tannery and Nanhai Tannery were separate legal entities; (ii) the acquisition of Nanhai Tannery's assets (including factory premises, machinery and raw materials) by Tongyuan Tannery were legitimate and genuine transactions at fair market prices; and (iii) the balances in the bank accounts of Tongyuan Tannery which were frozen by Guangzhou Customs were the proceeds of the normal operations of Tongyuan Tannery, and were not related to the operations of Nanhai Tannery.

Judgement in the Guangzhou Proceedings (the "Judgement") was rendered on 2 September 2005. Nanhai Tannery, amongst others, was found liable for tax evasion and it was ordered that all illegal gains from the tax evasion activities be recovered and confiscated by the State (such order is to be executed by the Guangzhou Customs). Further, a fine of RMB8,000,000 was imposed on Nanhai Tannery.

32. CONTINGENT LIABILITIES (Continued)

On 30 March 2006, the Company obtained a PRC legal advice on the potential effects of the Judgement on Tongyuan Tannery. As there is no appeal lodged within the required appeal period, i.e. 10 days after the Judgement, the Judgement took effect and the PRC legal advice indicated that:

(i) The Judgment made no finding to the effect that Tongyuan Tannery is in fact the same entity as Nanhai Tannery. Therefore, Tongyuan Tannery has not been held liable for any of the penalties which is imposed on Nanhai Tannery;

(ii) The Judgement made no finding to the effect that the balances in the bank accounts of Tongyuan Tannery which were frozen by the Guangzhou Customs are the proceeds of Nanhai Tannery's illegal activities. This gives Tongyuan Tannery grounds to apply to the Guangzhou Customs for release of such frozen bank accounts;

(iii) The Judgement made no finding to the effect that the acquisition of Nanhai Tannery's assets by Tongyuan Tannery was an attempt to dispose of Nanhai Tannery's assets in order to place obstacles on the Guangzhou Customs' attempt to recover the evaded tax. It is arguable that the Guangzhou Customs should not therefore seek to recover Nanhai Tannery's illegal gains from its illegal activities from Tongyuan Tannery; and

(iv) The possibility that, notwithstanding the apparent absence in the Judgement of any findings directly incriminating Tongyuan Tannery, the Guangzhou Customs may nevertheless still seek to apply the balances in Tongyuan Tannery's bank accounts towards (or otherwise resort to the other assets of Tongyuan Tannery for) discharging Nanhai Tannery's liabilities, cannot be excluded.

In light of the PRC legal advice as detailed above, it remains unclear whether the Guangzhou Customs will seek to enforce the Judgement against Tongyuan Tannery, and if so, what the amount of penalty which may finally be imposed against it is going to be, and the other possible consequential actions that may be taken by the PRC authorities for the apparent breaches of certain PRC laws and regulations, or the existence or otherwise of any other penalties and claims so arising as a result of the aforesaid irregularities. Accordingly, the directors are of the opinion that the provisions for Potential Tax Liability and Potential Penalty made during the year ended 31 December 2003 should continue to be carried in the Group's consolidated balance sheet as at 31 December 2005. Should additional penalties in excess of the amount of the provision 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.

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	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
Office rental paid to the immediate holding company	*(i)*	**108**	93
Office rental paid to a fellow subsidiary	*(ii)*	**–**	103
Computer system maintenance service fees paid to the immediate holding company	*(iii)*	**211**	111
Tax consultancy fee paid to the immediate holding company	*(iv)*	**–**	50
Interest expense to the immediate holding company	*(v)*	**1,244**	1,778
Interest expense to a fellow subsidiary	*(vi)*	**2,104**	2,109
Interest income from an officer	*(vii)*	**45**	47

Notes:

(i) The office rental was charged by the immediate holding company at HK$9,276 per month from 1 March 2004 to 31 October 2005 and HK$7,730 per month from 1 November 2005 to 31 December 2005 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 (2004: HK$27,828) with the immediate holding company of the Company.

(ii) In the prior year, the office rental was charged by a fellow subsidiary at HK$25,740 per month for the first four months of 2004 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 Group in 2004.

(iii) The immediate holding company charged maintenance service fees at HK$16,069 per month for the first 4 months of 2005 and HK$18,303 per month for the remainder of 2005 (2004: HK$6,750 per month for the first 2 months and HK$9,750 per month for the remainder of the year) for the computer system used by the Group commencing from 1 May 2003.

(iv) In the prior year, 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. No such services were provided by the immediate holding company of the Company in 2005 and accordingly no such expenses were charged during the year.

33. RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

(v) 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 23 to the financial statements.

(vi) The interest expense to a fellow subsidiary arose from a loan advanced from Guangdong Assets Management. Further details of the loan, including the terms, are disclosed in note 24 to the financial statements.

(vii) The interest income from an officer of the Company arose from a loan advanced to the officer. Further details of the loan, including the terms, are disclosed in note 19 to the financial statements.

(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 its fellow subsidiary as at the balance sheet date are included in note 23 and note 24 to the financial statements, respectively.

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

(iii) Details of the Group's and the Company's loan to an officer of the Company are included in note 19 to the financial statements.

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

	2005	2004
	HK$'000	*HK$'000*
Short term employee benefits	**2,602**	2,634
Post-employment benefits	**459**	485
Total compensation paid to key management personnel	**3,061**	3,119

Further details of directors' emoluments are included in note 9(a) to the financial statements.

34. PLEDGE OF ASSETS

As at 31 December 2005, assets of the Group pledged to bank to secure general banking facilities granted to the Group were as follows:

		Group	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
Buildings	*12*	**7,590**	3,300
Investment properties	*13*	**–**	4,460
Bank balances	*20*	**4,900**	6,109
Bills receivables	*18*	**22,485**	–
Plant and machinery	*12*	**5,245**	7,100
		40,220	20,969

35. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

During the year, investment properties with a carrying value of HK$4,492,000 were transferred to owner-occupied property under property, plant and equipment.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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 receivable are set out in note 18 to the financial statements.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and an interest-bearing short term loan to an officer of the Company, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Details of terms and security for the interest-bearing short term loan to an officer of the Company are set out in note 19 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing loans. Management monitors the liquidity position of the Group on an on-going basis to ensure the availability of sufficient liquid funds to meet all obligations as they fall due and to make the most efficient use of the Group's financial resources.

37. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2006.