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.

In the opinion of the directors, 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) ("Yue Gang Investment"), 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 Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment property and buildings, which have been measured at fair value, as further explained in note 2.4 to the financial statements. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards

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

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts

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

HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms a part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 27 *Consolidated and Separate Financial Statements*

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements as described in note 2.4 "Summary of significant accounting policies" below.

(c) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the consolidated income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

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

(c) HKAS 39 Financial Instruments: Recognition and Measurement (Continued)

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(d) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. The Group has determined based on this interpretation that certain arrangements of the Group contained leases and accordingly, the Group has treated them in accordance with HKAS 17 *Leases*. However, the adoption of this interpretation has had no material impact on these financial statements.

2.3 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards

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

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

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 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting.*

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRSs 7 and 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Subsidiaries

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

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

Joint ventures

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Joint ventures (Continued)

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

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 non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is 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 consolidated income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 Summary of Significant Accounting Policies (Continued)

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

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

Related parties

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

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

(b) the party is 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.

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated 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 consolidated income statement. Any subsequent revaluation surplus is credited to the consolidated income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the property revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2% to 10%
Leasehold improvements	4% to 20%
Plant and machinery	10% to 12.5%
Electronic equipment	20%
Furniture, fixtures and equipment	15% to 20%
Motor vehicles	15% to 20%

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

Residual values, useful lives and 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 consolidated 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.

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation (Continued)

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 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 consolidated 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 consolidated 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.

Leases

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

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

Loans and receivables

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

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets

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

Assets carried at amortised cost

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

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 consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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

Derecognition of financial assets

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets (Continued)

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

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

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

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

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

Derecognition of financial liabilities

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

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

Inventories

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

2.4 Summary of Significant Accounting Policies (Continued)

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.

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 consolidated income statement.

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

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

Income tax

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

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

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

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

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

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

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

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

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

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Revenue recognition

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

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

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

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

Employee benefits

Share-based payment transactions

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

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Employee benefits (Continued)

Share-based payment transactions (Continued)

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

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

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

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

Pension schemes

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies

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

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated 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 lease on its investment property. The Group has determined that it retains all the significant risks and rewards of ownership of the property which is leased out on operating lease.

3. Significant Accounting Judgements and Estimates (Continued)

Judgements (Continued)

Provision for obsolete inventories

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

Impairment of trade receivables

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

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

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

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2006 was HK$84,784,000 (2005: HK$124,828,000). Further details are contained in note 27 to the financial statements.

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 others 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 2006 and 2005.

Group

	Leather processing		Property investment		Corporate and others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:										
Sales to external customers	**419,975**	258,543	**—**	—	**—**	—	**—**	—	**419,975**	258,543
Intersegment sales	**—**	—	**—**	—	**—**	480	**—**	(480)	**—**	—
Other income	**2,520**	1,895	**337**	563	**—**	35	**—**	—	**2,857**	2,493
Total	**422,495**	260,438	**337**	563	**—**	515	**—**	(480)	**422,832**	261,036
Segment results	**37,717**	9,665	**124**	6,544	**(7,447)**	(8,313)	**—**	—	**30,394**	7,896
Interest income									**752**	708
Finance costs									**(5,726)**	(3,734)
Profit before tax									**25,420**	4,870
Tax									**(4,763)**	533
Profit for the year									**20,657**	5,403

4. Segment Information (Continued)

Business segments (Continued)

Group

	Leather processing		Property investment		Corporate and others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets and liabilities										
Segment assets	**323,849**	304,815	**9,026**	8,794	**121**	74	**(6,777)**	(6,427)	**326,219**	307,256
Interest in an associate	**—**	—	**1,219**	4,336	**—**	—	**—**	—	**1,219**	4,336
Unallocated assets									**54,424**	70,705
Total assets									**381,862**	382,297
Segment liabilities	**(95,904)**	(124,330)	**(602)**	(532)	**(6,366)**	(2,535)	**6,777**	6,427	**(96,095)**	(120,970)
Unallocated liabilities									**(86,046)**	(88,893)
Total liabilities									**(182,141)**	(209,863)
Other segment information:										
Capital expenditure	**6,525**	954	**—**	—	**—**	33	**—**	—	**6,525**	987
Changes in fair value of investment property	**—**	—	**95**	—	**—**	—	**—**	—	**95**	—
Depreciation	**11,776**	9,888	**—**	—	**13**	19	**—**	—	**11,789**	9,907
Provision for inventories	**2,576**	6,460	**—**	—	**—**	—	**—**	—	**2,576**	6,460
Recognition of prepaid land lease payments	**79**	93	**—**	—	**—**	—	**—**	—	**79**	93
Deficit on revaluation of buildings	**93**	80	**—**	—	**—**	—	**—**	—	**93**	80
Reversal of impairment of an amount due from an associate	**—**	—	**—**	(6,141)	**—**	—	**—**	—	**—**	(6,141)
Impairment of trade receivables	**184**	645	**—**	—	**—**	—	**—**	—	**184**	645
Other non-cash income, net	**—**	(36)	**—**	—	**—**	—	**—**	—	**—**	(36)

5. Revenue and Other Income

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 and other income is as follows:

	2006 HK$'000	2005 HK$'000
Revenue		
Processing and sale of leather	**419,975**	258,543
Other income		
Gross rental income	**805**	774
Interest income	**752**	708
Others	**2,052**	1,719
	3,609	3,201

6. Profit Before Tax

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

	Notes	2006 HK$'000	2005 HK$'000
Cost of inventories sold		**380,669**	228,511
Auditors' remuneration		**990**	780
Depreciation	*12*	**11,789**	9,907
Interest on:			
Bank loans and discounting bills receivable to banks		**1,493**	386
Loans from the immediate holding company		**1,394**	1,244
Loan from a fellow subsidiary		**2,839**	2,104
		5,726	3,734
Provision for inventories		**2,576**	6,460
Employee benefits expense (excluding directors' remuneration *(note 8)*):			
Wages and salaries		**11,805**	8,719
Pension scheme contributions (defined contributions scheme)*		**1,273**	778
Equity-settled share option expense		**110**	—
		13,188	9,497

6. Profit Before Tax (Continued)

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

	Notes	2006 HK$'000	2005 HK$'000
Minimum lease payments under operating leases in respect of land and buildings		**464**	374
Recognition of prepaid land lease payments	*14*	**79**	93
Other rental income		**(468)**	(211)
Gross rental income from investment properties		**(337)**	(563)
Less: Outgoings from investment properties		**—**	86
Net rental income		**(337)**	(477)
Changes in fair value of investment property	*13*	**95**	—
Deficit on revaluation of buildings	*12*	**93**	80
Write-off of items of property, plant and equipment	*12*	**31**	581
Gain on disposal of items of property, plant and equipment, net		**(393)**	(617)
Impairment of trade receivables		**184**	645
Foreign exchange differences, net		**(5)**	(65)

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

7. Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2005: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Xuzhou Nanhai Leather Factory Co., Ltd. ("Xuzhou Tannery"), a wholly-owned PRC subsidiary of the Company, was exempt from PRC corporate income tax for the first two profit-making years, and is eligible for a 50%-relief from PRC corporate income tax for the following three years under the PRC tax laws. Starting from the year ended 31 December 2006, which is the third profitable year of Xuzhou Tannery, the applicable tax rate of Xuzhou Tannery, after the 50% reduction, was 15%.

7. Tax (Continued)

Certain other subsidiaries of the Company established in the PRC, were exempt from PRC corporate income tax for two years commencing from its 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 2005 and 2006.

	2006	2005
	HK$'000	*HK$'000*
Group:		
Current — Mainland China	**4,793**	—
Deferred *(note 27)*	**(30)**	(533)
Total tax charge/(credit) for the year	**4,763**	(533)

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

Group — 2006

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

7. Tax (Continued)

Group — 2005

	Hong Kong HK$'000	Mainland China HK$'000	Total 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. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2006 ***HK$'000***	2005 *HK$'000*
Fees	**278**	300
Other emoluments:		
Salaries, allowances and benefits in kind	**999**	1,698
Performance related bonuses*	**845**	904
Pension scheme contributions	**400**	459
	2,244	3,061
	2,522	3,361

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

8. Directors' Remuneration (Continued)

(a) Independent non-executive directors

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

	2006 HK$'000	2005 HK$'000
Mr. Cheng Hok Lai James	—	100
Mr. Fung Lak	100	100
Mr. Choi Kam Fai Thomas	100	100
Mr. Chan Cheong Tat	78	—
	278	300

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(b) Executive directors and non-executive directors

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

8. Directors' Remuneration (Continued)

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

	Fees	Salaries, allowances and benefits in kind	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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. Five Highest Paid Employees

The five highest paid employees of the Group during the year included two (2005: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2005: one) non-director, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Salaries and allowances	**1,106**	455
Pension scheme contributions	**16**	16
	1,122	471

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

	Number of employees	
	2006	2005
	HK$'000	*HK$'000*
Nil – HK$1,000,000	**3**	1

10. Profit for the Year

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of HK$6,360,000 (2005: HK$30,171,000) which has been dealt with in the financial statements of the Company (note 30(b)).

11. Earnings Per Share

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

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

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

	2006	2005
	HK$'000	*HK$'000*
Earnings		
Profit for the year, used in the basic earnings per share calculation	**20,657**	5,403

	Number of shares	
	2006	2005
Shares		
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	**2,956,433**	294,383
	527,110,433	524,448,383

12. Property, Plant and Equipment

Group

	Buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Electronic equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2006								
At 1 January 2006:								
Cost or valuation	49,590	6,959	128,980	3,030	622	9,432	144	198,757
Accumulated depreciation and impairment	—	(4,949)	(101,382)	(2,541)	(574)	(8,998)	—	(118,444)
Net carrying amount	49,590	2,010	27,598	489	48	434	144	80,313
At 1 January 2006, net of accumulated depreciation and impairment	49,590	2,010	27,598	489	48	434	144	80,313
Additions	—	320	713	161	—	395	4,936	6,525
Disposal of subsidiaries *(note 31)*	(35,100)	(57)	(4,152)	(110)	—	—	—	(39,419)
Disposals	(2,966)	—	(13)	—	—	—	—	(2,979)
Write-off	—	—	—	(31)	—	—	—	(31)
Deficit on revaluation	(2,931)	—	—	—	—	—	—	(2,931)
Depreciation provided during the year	(2,583)	(261)	(8,578)	(118)	(16)	(233)	—	(11,789)
Transfers	—	89	736	94	—	—	(919)	—
Exchange realignment	1,320	28	1,389	27	—	57	90	2,911
At 31 December 2006, net of accumulated depreciation and impairment	7,330	2,129	17,693	512	32	653	4,251	32,600
At 31 December 2006:								
Cost or valuation	7,330	6,838	55,388	1,883	622	6,243	4,251	82,555
Accumulated depreciation and impairment	—	(4,709)	(37,695)	(1,371)	(590)	(5,590)	—	(49,955)
Net carrying amount	7,330	2,129	17,693	512	32	653	4,251	32,600
Analysis of cost or valuation:								
At cost	—	6,838	55,388	1,883	622	6,243	4,251	75,225
At 31 December 2006 valuation	7,330	—	—	—	—	—	—	7,330
	7,330	6,838	55,388	1,883	622	6,243	4,251	82,555

12. Property, Plant and Equipment (Continued)

Group

	Buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Electronic equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2005								
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	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)

Company

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

12. Property, Plant and Equipment (Continued)

As at 31 December 2006, the Group's buildings were individually revalued by Greater China Appraisal Limited, independent professionally qualified valuers, at an aggregate open market value of HK$7,330,000 (2005: HK$49,590,000) based on their existing use, with a net revaluation deficit of HK$2,931,000 (2005: surplus of HK$1,796,000), including a revaluation deficit of HK$2,838,000 (2005: surplus of HK$1,876,000) charged to property revaluation reserve (note 30) and a revaluation deficit of HK$93,000 (2005: HK$80,000) charged to the consolidated 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 2006 would have been approximately HK$3,742,000 (2005: HK$37,231,000).

At 31 December 2006, certain of the plant and machinery of a subsidiary of the Group of HK$3,680,000 (2005: HK$5,245,000) was pledged to secure general banking facilities granted to the Group (note 36).

At 31 December 2005, certain of the buildings of a subsidiary of the Group of HK$7,590,000 were pledged to secure general banking facilities granted to the Group (note 36). During the year, the pledge over those buildings was released.

13. Investment Property

	Notes	**2006** **HK$'000**	2005 *HK$'000*
Carrying amount at 1 January		**2,280**	6,740
Changes in fair value of investment property	*6*	**(95)**	—
Transfer to owner-occupied property	*12*	**—**	(4,492)
Exchange realignment		**—**	32
Carrying amount at 31 December		**2,185**	2,280

The Group's investment property is situated in Mainland China and is held under medium term leases. At 31 December 2006, an amount of HK$2,185,000 (2005: HK$2,280,000) included in the Group's investment property in respect of which the building ownership certificate was in the process of being obtained.

The Group's investment property was revalued on 31 December 2006 by Greater China Appraisal Limited at HK$2,185,000 (2005: HK$2,280,000) on an open market, existing use basis. The investment property is leased to third parties under operating leases, further summary details of which are included in note 33(a) to the financial statements.

14. Prepaid Land Lease Payments

	Group	
	2006	2005
	HK$'000	*HK$'000*
Carrying amount at 1 January	**3,825**	3,828
Recognised during the year *(note 6)*	**(79)**	(93)
Exchange realignment	**—**	90
Disposal of subsidiaries *(note 31)*	**(3,746)**	—
Carrying amount at 31 December	**—**	3,825
Current portion included in receivables, prepayments and deposits	**—**	(93)
Non-current portion	**—**	3,732

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

15. Interests in Subsidiaries

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**173,428**	165,465
Loans to subsidiaries	**333,514**	327,457
Loans from subsidiaries	**(80,578)**	(72,694)
	426,364	420,228
Impairment	**(272,295)**	(271,581)
	154,069	148,647

Included in the loans to subsidiaries are unsecured loans of HK$85,198,000 (2005: HK$81,855,000), which bear interest at rates ranging from 4.15% to 8.5% (2005: 3.8% to 8.5%) per annum and have no fixed terms of repayment. The remaining loans to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries.

The loans from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

15. Interests in Subsidiaries (Continued)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Crown South (Hong Kong) Limited	Hong Kong	HK$2	—	100	Dormant
Gastor Enterprises Limited	British Virgin Islands	US$150	100	—	Investment holding
Gold Star Assets Limited	Hong Kong	HK$2	—	100	Investment holding
Harbour Hill International Limited	Hong Kong	HK$1,000,000	100	—	Dormant
Jadeford Investments Limited	British Virgin Islands	US$1	100	—	Dormant
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.+	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	RMB20,000,000	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	
	2006	2005
	HK$'000	*HK$'000*
Share of net assets	**—**	—
Loan to an associate	**2,348**	5,465
	2,348	5,465
Impairment	**(1,129)**	(1,129)
	1,219	4,336

The loan to 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. In 2005, 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 the loan to an associate of HK$6,141,000 was credited to the consolidated income statement during the year ended 31 December 2005.

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

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$1,312,000 (2005: HK$1,129,000) as at 31 December 2006.

16. Interest in an Associate (Continued)

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

	2006	2005
	HK$'000	*HK$'000*
Assets	**3,651**	19,986
Liabilities	**7,751**	23,512
Revenues	**—**	—
(Loss)/profit	**(557)**	18,819

17. Inventories

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**70,885**	45,752
Work in progress	**108,470**	51,306
Finished goods	**30,721**	25,410
	210,076	122,468

18. Receivables, Prepayments and Deposits

As at 31 December 2006, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK$65,880,000 (2005: HK$86,414,000) 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 2006, the aged analysis of the Group's trade and bills receivables, based on the payment due date, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 1 month	**62,097**	82,376
1 to 3 months	**2,401**	2,486
3 to 6 months	**553**	170
Over 6 months	**2,251**	4,373
	67,302	89,405
Impairment	**(1,422)**	(2,991)
	65,880	86,414

At 31 December 2005, bills receivable of approximately HK$22,485,000 was pledged to secure the general banking facilities granted to the Group (note 36). During the year, the pledge over those bills receivable was released.

19. Loan to an Officer

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

Group and Company

Name	**Terms of the loan**	**31 December 2006** ***HK$'000***	**Maximum amount outstanding during the year** *HK$'000*	**1 January 2006** *HK$'000*
Ms. Chan Miu Ting (Former Company Secretary)	Secured by her property, bears interest at 5% per annum and is repayable by monthly instalments	**—**	873	873

The loan is a staff housing loan used by Ms. Chan Miu Ting, a former Company Secretary of the Group, to purchase a flat as her main residence. During the year, the interest income earned from the officer amounted to HK$18,000 (2005: HK$45,000) (note 35(a)(v)).

20. Cash and Cash Equivalents and Pledged and Frozen Bank Balances

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**41,536**	55,914	**9,941**	4,618
Time deposits	**12,888**	13,918	**—**	—
	54,424	69,832	**9,941**	4,618
Less: Pledged bank balances*	**(12,888)**	(4,900)	**—**	—
Frozen bank balances**	**—**	(9,018)	**—**	—
	(12,888)	(13,918)	**—**	—
Cash and cash equivalents	**41,536**	55,914	**9,941**	4,618

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

** These bank balances held by a former subsidiary of the Company were frozen by the PRC authorities.

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$43,575,000 (2005: HK$63,386,000). 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

As at 31 December 2006, the aged analysis of the Group's trade and bills payable, based on the payment due date, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 3 months	**25,420**	21,130
3 to 6 months	**21,776**	1,229
6 to 12 months	**796**	292
Over 12 months	**3,411**	3,472
	51,403	26,123

The trade and bills payable 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. Interest-bearing Bank Borrowings

	2006			2005		
	Effective interest rate (%)	**Maturity**	**Amount *HK$'000***	Effective interest rate (%)	Maturity	Amount *HK$'000*
Current						
Bank loan, secured	**LIBOR+1.0%**	**2007**	**15,451**	N/A	N/A	—

As at 31 December 2006, the Group's bank loan is secured by certain of the Group's plant and machinery and the pledged bank deposits.

The carrying amount of the Group's bank borrowings approximate to its fair values.

23. Due to a PRC Joint Venture Partner

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

24. Loans from the Immediate Holding Company

The Group's and the Company's loans represented unsecured loans of RMB20,000,000 (2005: RMB20,000,000) (equivalent to approximately HK$19,908,000 (2005: HK$19,226,000)) and HK$10,350,000 (2005: HK$10,350,000) advanced from GDH Limited ("GDH"), the Company's immediate holding company. The loans bore interest at an annual rate of 4.15% for the period from 1 January to 30 June 2006 and three-to-five-year benchmark lending rate announced by the People's Bank of China minus 1% thereafter (2005: 4.15%), and 3.8% for the period from 1 January 2006 to 30 June 2006 and 3-month HIBOR + 1% (2005: 3.8%) per annum thereafter, respectively, and were not repayable within one year from 31 December 2006.

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

25. Loan from a Fellow Subsidiary

The Group's loan represented an unsecured loan of US$7,000,000 (2005: US$7,000,000) (equivalent to approximately HK$54,600,000 (2005: HK$54,600,000)) advanced from Guangdong Assets Management Limited ("Guangdong Assets Management"), a fellow subsidiary of the Company. The loan bore interest at an annual rate of 3.8% for the period from 1 January 2006 to 30 June 2006 and 3-month LIBOR + 1% (2005: 3.8%) per annum thereafter and was repayable on 31 December 2007.

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

26. 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 1 January 2006	71,052	3,063	74,115
Disposal of subsidiaries *(note 31)*	(71,052)	—	(71,052)
Exchange realignment	—	99	99
At 31 December 2006	—	3,162	3,162

26. Provisions (Continued)

(a) Provision 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) made by the Anti-Smuggling Bureau of Guangzhou Customs (廣州海關緝私局) (the "Guangzhou Customs") to Foshan City Nanhai Tong Yuan Tanning Co., Ltd. ("Tongyuan Tannery"), a former wholly-owned subsidiary of the Company established in Mainland China, provisions of HK$71,052,000 in aggregate were made as at 31 December 2005 for (a) the tax claim of HK$35,526,000 made by the Guangzhou Customs; and (b) the tax penalty of HK$35,526,000 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.

During the year ended 31 December 2006, Tongyuan Tannery was disposed of as detailed in note 35(a)(vi) to the financial statements. On 28 March 2007, the Company obtained PRC legal opinion which advised that the Group should have no responsibility on the exposure of those tax claim and tax penalty upon the disposal of Tongyuan Tannery. Accordingly, such provision for tax claim and tax penalty and related contingency disclosures are no longer required to be reflected in the financial statements of the Group.

(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. These proceedings determined that (i) the joint venture agreement of Qingdao Tannery was terminated with effect from 23 August 2001; (ii) Qingdao Tannery should be liquidated in accordance with the joint venture agreement and with the relevant laws and regulations in the PRC; and (iii) the PRC joint venture partner's claim against the Company for an economic loss of RMB15 million due to the termination of the joint venture agreement be revoked.

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

27. Deferred Tax Liabilities

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

	Accelerated tax depreciation *HK$'000*	Revaluation of properties *HK$'000*	Total *HK$'000*
At 1 January 2005	1,203	3,562	4,765
Deferred tax charged to the property revaluation reserve	—	485	485
Deferred tax credited to the consolidated income statement during the year *(note 7)*	—	(533)	(533)
At 31 December 2005 and 1 January 2006	1,203	3,514	4,717
Deferred tax credited to the property revaluation reserve	—	(767)	(767)
Deferred tax credited to the consolidated income statement during the year *(note 7)*	—	(30)	(30)
Disposal of subsidiaries *(note 31)*	(1,203)	(1,529)	(2,732)
At 31 December 2006	—	1,188	1,188

The Group has tax losses arising in Hong Kong of HK$83,113,000 (2005: HK$78,805,000), that is available for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in the PRC of HK$1,671,000 (2005: HK$46,023,000), that is available for a maximum of five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and the directors considered not probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

28. Share Capital

	2006 ***HK$'000***	2005 *HK$'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

29. Share Option Scheme

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

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

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

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

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

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

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

29. Share Option Scheme (Continued)

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

	Number of share options							Price of the Company's shares***			
Name or category of participant	At 1 January 2006	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2006	Date of grant of share options* (dd/mm/yyyy)	Exercise period of share options (dd/mm/yyyy)	Exercise price of share options** HK$ per share	At grant date of options HK$ per share	Immediately before the exercise date HK$ per share	At exercise date of options HK$ per share
Directors											
Zhang Chunting	2,500,000	—	(2,500,000)	—	—	09/06/2003	10/09/2003–09/09/2008	0.220	0.204	0.48	0.51
	2,000,000	—	(2,000,000)	—	—	11/02/2004	12/05/2004–11/05/2009	0.246	0.240	0.48	0.51
	4,500,000	—	(4,500,000)	—	—						
Deng Rongjun	1,500,000	—	(1,500,000)	—	—	11/02/2004	12/05/2004–11/05/2009	0.246	0.240	0.48	0.51
Xiong Guangyang	3,000,000	—	(3,000,000)	—	—	09/06/2003	10/09/2003–09/09/2008	0.220	0.204	0.48	0.51
	2,200,000	—	(2,200,000)	—	—	11/02/2004	12/05/2004–11/05/2009	0.246	0.240	0.48	0.51
	5,200,000	—	(5,200,000)	—	—						
Fung Lak	300,000	—	—	—	300,000	09/06/2003	10/09/2003–09/09/2008	0.220	0.204	—	—
	300,000	—	—	—	300,000	11/02/2004	12/05/2004–11/05/2009	0.246	0.240	—	—
	600,000	—	—	—	600,000						
Sub-total	11,800,000	—	(11,200,000)	—	600,000						
Former directors											
In aggregate	300,000	—	—	(300,000)	—	09/06/2003	10/09/2003–09/09/2008	0.220	0.204	—	—
	2,100,000	—	—	(2,100,000)	—	11/02/2004	12/05/2004–11/05/2009	0.246	0.240	—	—
Sub-total	2,400,000	—	—	(2,400,000)	—						
Other employees											
In aggregate	550,000	—	—	(300,000)	250,000	09/06/2003	10/09/2003–09/09/2008	0.220	0.204	—	—
	600,000	—	—	(300,000)	300,000	11/02/2004	12/05/2004–11/05/2009	0.246	0.240	—	—
	—	1,000,000	—	—	1,000,000	03/04/2006	04/07/2006–03/07/2011	0.196	0.191	—	—
Sub-total	1,150,000	1,000,000	—	(600,000)	1,550,000						
Total	15,350,000	1,000,000	(11,200,000)	(3,000,000)	2,150,000						

29. Share Option Scheme (Continued)

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's closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the Stock Exchange's closing price immediately before the date on which the options were exercised.

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

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

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

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

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

At the balance sheet date, the Company had 2,150,000 share options outstanding under the Scheme, which represented approximately 0.4% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 2,150,000 additional ordinary shares of the Company and additional share capital of HK$215,000 and share premium of HK$249,600 (before issue expenses).

During the year ended 31 December 2006, the exercise of a total of 11,200,000 share options by certain of the directors of the Company resulted in the issue of 11,200,000 additional ordinary shares of the Company on 9 January 2007.

30. Reserves

(a) Group

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

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

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

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

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

30. Reserves (Continued)

(b) Company

	Notes	Share premium account HK$'000	General reserve fund HK$'000	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005		412,116	167,746	445	(538,956)	41,351
Profit for the year	10	—	—	—	30,171	30,171
At 31 December 2005 and 1 January 2006		412,116	167,746	445	(508,785)	71,522
Profit for the year	10	—	—	—	6,360	6,360
At 31 December 2006		412,116	167,746	445	(502,425)	77,882

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

31. Disposal of Subsidiaries

	2006 HK$'000	2005 HK$'000
Net liabilities disposed of:		
Property, plant and equipment	**39,419**	—
Prepaid land lease payments	**3,746**	—
Inventories	**6,599**	—
Receivables, prepayments and deposits	**1,686**	—
Tax recoverable	**7,462**	—
Frozen bank balances	**9,145**	—
Cash and bank balances	**5,659**	—
Trade and bills payables	**(1,462)**	—
Other payables and accruals	**(621)**	—
Provisions	**(71,052)**	—
Deferred tax liabilities	**(2,732)**	—
	(2,151)	—
Release of exchange translation reserve	**(4,381)**	—
Gain on disposal of subsidiaries	**14,119**	—
	7,587	—
Satisfied by:		
Cash (net of expenses of HK$913,000)	**7,587**	—

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

	2006 HK$'000	2005 HK$'000
Cash consideration	**7,587**	—
Cash and bank balances disposed of	**(5,659)**	—
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**1,928**	—

32. Major Non Cash Transaction

During the year ended 31 December 2005, investment properties with a carrying value of HK$4,492,000 were transferred to owner-occupied property under property, plant and equipment.

33. Operating Lease Arrangements

(a) As lessor

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

At 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with their lessees falling due as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**582**	645
In the second to fifth years, inclusive	**859**	196
	1,441	841

(b) As lessee

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

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**61**	20
In the second to fifth years, inclusive	**13**	—
	74	20

34. Commitments

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Leasehold improvements	**748**	—
Plant and machinery	**2,437**	—
	3,185	—

35. Related Party Transactions

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

		Group	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
Office rental paid to the immediate holding company	*(i)*	**128**	108
Computer system maintenance service fees paid to the immediate holding company	*(ii)*	**172**	211
Interest expense to the immediate holding company	*(iii)*	**1,394**	1,244
Interest expense to a fellow subsidiary	*(iv)*	**2,839**	2,104
Interest income from an officer	*(v)*	**18**	45
Gain on disposal of subsidiaries	*(vi)*	**14,119**	—

Notes:

(i) The office rental was charged by the immediate holding company at HK$7,730 per month up to 19 August 2006 and HK$15,460 per month from 20 August 2006 to 31 December 2006 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$30,920 (2005: HK$27,828) with the immediate holding company.

(ii) The immediate holding company charged maintenance service fees at HK$14,314 per month for 2006 (2005: HK$16,069 per month for the first 4 months of 2005 and HK$18,303 per month for the remainder of 2005) for the computer system used by the Group.

(iii) 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 24 to the financial statements.

(iv) 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 25 to the financial statements.

(v) 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.

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

35. Related Party Transactions (Continued)

(b) Outstanding balances with related parties:

(i) Details of the Group's and Company's loans from the immediate holding company and the Group's loan from its fellow subsidiary as at the balance sheet date are included in notes 24 and 25 to the financial statements, respectively.

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

(iii) Details of the Group's 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:

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

The transaction in respect of item (a)(vi) above also constituted a discloseable and connected transaction as defined in Chapter 14 and 14A of the Listing Rules.

36. Pledge of Assets

As at 31 December 2006, assets of the Group pledged to bank to secure general banking facilities granted to the Group were as follows:

		Group	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
Buildings	*12*	**—**	7,590
Bills receivable	*18*	**—**	22,485
Bank balances	*20, 22*	**12,888**	4,900
Plant and machinery	*12, 22*	**3,680**	5,245
		16,568	40,220

37. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise interest-bearing bank borrowings, interest-bearing unsecured short term loans from the immediate holding company and fellow subsidiary of the Group, 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.

37. Financial Risk Management Objectives and Policies (Continued)

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

The credit risk of the Group's other financial assets, which comprises cash and cash equivalents, 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.

38. Subsequent Event

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

39. Comparative Amounts

Certain comparative amounts have been reclassified to conform with the current year's presentation.

40. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 30 March 2007.