GDH

粵海制革有限公司
GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

2006 ANNUAL RESULTS ANNOUNCEMENT

CHAIRMAN'S STATEMENT

Results

I am pleased to report to the shareholders that we have recorded a satisfactory growth in the results of the Group for 2006. The Group's consolidated profit attributable to shareholders for 2006 was HK$20,657,000 (2005: HK$5,403,000), a significant increase of 282% over last year. The basic earnings per share was HK cents 3.94 (2005: HK cents 1.03), representing an increase of 282% compared with last year.

Dividend

The board of directors (the "Board") of the Company does not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: Nil).

Review

Upon the completion of the disposal of idle assets in 2006, the Group centralised the resources on realizing the strategy of large-scale operation and expanding its tannery business, which resulted in stable growth.

After more than two years of adjustment in the management structure and operation restructuring, the Group has established a direct mode of operation to centralize the management of the core activities including production, procurement, distribution and finance. The Group has also become an influential enterprise in the production of cow leather vamp in China.

2006 was a very difficult year for the tannery industry in China. In the midst of the surging prices of raw materials, the stringent environmental protection policies, the changes in the industrial policies of the State and the continuous international trading conflicts, a large number of small- to medium-sized tanneries were closed as a result. The Group had the foresight to implement the strategy of large-scale operation in order to secure the survival and development through economies of scale. In the face of the problems arising from the aging of equipments, insufficient production premises and lack of synergy between the upstream and downstream processing, the Group took the initiative to mobilize the resources and to go along with an appropriate operation strategy, by which the Group succeeded in beating out a path to operate the business at low cost and high efficiency.

On the one hand the Group strives to expand the tannery business, while taking proactive steps to address the environmental issues which have long been a major concern in the leather industry. In view of this, the Group shifted the operation to the northern part of China years ago and speeded up the development of the production base in Xuzhou. In order to meet demand from increasing sales and to resolve the problems of the lack of synergy between the upstream and downstream processing and the serious productivity insufficiencies in the upstream production of chromed hides, the Group has increased the sourcing of chromed hides and also established a strategic cooperation relationship with peripheral tanneries to outsource the upstream processing of producing chromed hides. Following the outsourcing of certain parts of the upstream processing through subcontracting in 2005, the Group entered into agreements with two other subcontracting plants in 2006 to process and produce chromed hides for the Group in order to resolve the upstream productivity shortages of the production base in Xuzhou. This has reduced the pressure on sewage discharge, effectively broke through the bottleneck constraint in production, greatly released the potential productivity of the production base in Xuzhou, and also safeguarded our market share and minimized our commitment in production equipments.

The operating results of the production base in Xuzhou have been surging for three consecutive years. This has benefited from the large-scale operation and the strategy of outsourcing processing. Other factors include: (1) the enforcement of procurement through tendering and the introduction of a competitive mechanism for the supply of raw materials, which effectively reduced purchasing costs even during the period when the price of raw materials increased significantly, thus enhancing our price competitiveness; (2) the realization of the direct purchase of imported hides and the establishment of five direct purchasing points for domestically produced hides, which became the main purchasing channel in the second half of this year. These tactics can help to achieve better results by stabilizing the supply of hides for the Group and through the continuous implementation of the large-scale operation strategy. With an accurate judgment of the market, the Group carried out an extensive foresighted strategy in procurement of hides and imported chemicals on a large scale, which has secured the production and at the same time significantly reduced costs; and (3) the strengthened and improved regional distribution system which has allowed an expansion of the proportion of direct sales, stabilized the direct sales networks of the renowned footwear manufacturers, hence, greatly enhanced the competitiveness of the Group's products as well as the capacity of the Group to withstand risks.

Outlook

2006 was a year when the Group implemented the strategy of large-scale operation. In spite of the unfavourable factors such as the significant increase in the costs of raw materials and the stringent policies on environmental protection, the Group will continue to encounter the difficulties in its operation. In spite of these, the Group still adheres to its belief of making concerted efforts by the entire group and working hard to ride out the storm, as on one hand we will put efforts in construction, and on the other hand we will work on our production to achieve rapid growth in both production and turnover so as to capture a larger market share.

We anticipate that the Group will have to encounter a number of difficulties in 2007. Nevertheless, the Group will strive to implement fully the strategy of large-scale operation, to strengthen further the development on the technology and production management, to increase market share and to improve the regional market structure. In addition, the Group will actively seek investment opportunities in the tannery business with the aim of creating development opportunities and better returns in profit.

On behalf of the Board, I would like to take this opportunity to thank sincerely the customers, suppliers and shareholders of the Group for their support over the past years and express my earnest gratitude to each dedicated member of staff.

Zhang Chunting
Chairman

Hong Kong, 30 March 2007

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's consolidated profit attributable to shareholders for the year ended 31 December 2006 was HK$20,657,000, representing an increase of HK$15,254,000 or 282% when compared with the profit for the same period of last year. The increase in profit was mainly due to the continued improvement in the operating results of the production base in Xuzhou and a gain on disposal of subsidiaries.

The net asset value of the Group as at 31 December 2006 was HK$199,721,000, representing an increase of HK$27,287,000 and HK$25,344,000 as compared to the net asset value as at 31 December 2005 and 30 June 2006 respectively.

The Board does not recommend the payment of final dividend for the year ended 31 December 2006.

Business Review

The business volume recovered rapidly with the production base in Xuzhou entering the early phase of large-scale operation in the wake of the successful shift of operations to the northern part of China. Since the outsourcing of upstream production processes has been completed and in place, the shortfall arising from the upstream production processes prior to outsourcing has been resolved, which effectively breaks through the bottleneck constraint in production and greatly releases the potential productivity of the production base in Xuzhou. The Group's leather production volume for the year was 23,047,000 sq. ft., an increase of 8,836,000 sq. ft. compared to 14,211,000 sq. ft. for the same period last year. The production of cowhides increased by 71.9% to 23,047,000 sq. ft. (2005: 13,411,000 sq. ft.) whereas the production of coated cow split and others decreased by 100% to zero sq. ft. (2005: 800,000 sq. ft.). The rise in production volume marks the successful completion of the Group's strategic shift of operations to the northern part of China.

Product development will continue to be one of our priority tasks. Through the introduction of technical staffs, technical support services from chemical suppliers, the Group's leather production technology has been further consolidated. Apart from our traditional bestseller such as nappa leather and natural-look nappa leather series, the breakthrough in the production technology of calf skin leather resulting in the improvement of the quality of calf skin leather, these products have become our new areas of profit growth. At the same time, we strive for products innovations and promotion campaigns. Of which, new products have been successfully developed such as wax resemble nappa leather series which are well-received by the market. The product mix has become broader, and thus, the Group's ability to face the risks of market changes has been strengthened and it also helps the Group in exploring a further breakthrough in marketing.

During the year, the Group took an initiative to push forward with the transformation from production oriented to sales and marketing oriented, to optimize our staff incentive mechanism and to improve the segregation of duties and responsibilities of each division. The Group initiated various sales and marketing activities such as hosting industry summit meetings, becoming members of the related industry associations, participating in leather exhibitions and providing customized services to key customers in key regions. This also helps building up our image of being a reputable and well-established enterprise with a modernized management team in the industry, thus reinforcing our sales. The Group's regional sales system has also been enhanced and improved, with the direct sales made to renowned footwear manufacturers seeing marked growth. Other than the significant growth in turnover, the Group has become much more capable in dealing with market risk and the recoverability risk of receivables.

During the year, the consolidated turnover of the Group was HK$419,975,000, representing an increase of HK$161,432,000, or 62.4% from HK$258,543,000 of the same period of last year. The increase in turnover was mainly due to the effectiveness of the strategy of large-scale operation. In the midst of the surging prices of raw materials, the stringent environmental protection policies, the changes in the industrial policies of the State and the continuous international trading conflicts, a large number of small- to medium-sized tanneries were closed as a result. The Group had the foresight to implement the strategy of large-scale operation in order to secure the survival and development through economies of scale. In the face of the problems arising from the aging of equipments, insufficient production premises and lack of synergy between the upstream and downstream processing, the Group took the initiative to mobilize the resources and to go along with an appropriate operation strategy, by which the Group succeeded in beating out a path to operate the business at high efficiency.

During the year, the turnover of cowhides amounted to HK$373,013,000 (2005: HK$237,370,000), an increase of 57.1%; the turnover of coated cow split and other products amounted to HK$46,962,000 (2005: HK$21,173,000), an increase of 121.8%.

As at 31 December 2006, the Group's consolidated inventories amounted to HK$210,076,000, an increase of HK$87,608,000 and HK$42,502,000 compared with 31 December 2005 and 30 June 2006 respectively. The increase in inventories was mainly due to the implementation of an extensive foresighted strategy in procurement of hides and imported chemicals on a large scale, which has secured the production and at the same time significantly reduced costs.

As at 31 December 2006, the trade receivables of the Group was HK$25,453,000. After deducting the impairment of trade receivables of HK$1,422,000, the balance net of impairment amounted to HK$24,031,000, an increase of HK$2,166,000 and a decrease of HK$7,936,000 as compared with 31 December 2005 and 30 June 2006 respectively. Trade receivables turnover was 18 times, and the average collection period was 20 days, a decrease of 14 days compared with 34 days in 2005.

Financial Review

As at 31 December 2006, the Group's interest-bearing borrowings amounted to HK$100,309,000 (as at 31 December 2005: HK$84,176,000). Of which, interest-bearing borrowings in Hong Kong dollars amounted to HK$10,350,000, interest-bearing borrowings in Renminbi amounted to HK$19,908,000, and interest-bearing borrowings in US dollars amounted to HK$70,051,000. All of these interest-bearing borrowings were charged at floating interest rate.

As at 31 December 2006, the Group's cash and bank balances amounted to HK$54,424,000 (as at 31 December 2005: HK$69,832,000), which were denominated in Hong Kong dollars (HK$10,143,000), Renminbi (equivalent to HK$43,575,000) and US dollars (equivalent to HK$706,000).

As at 31 December 2006, after deduction of cash and bank balances, the ratio of the net value of our interest-bearing borrowings to shareholders' equity was 22.97% (as at 31 December 2005: 8.32%). The annual interest rate of the borrowings was approximately 4.15% to 6.5%. Of the Group's total borrowings, all are repayable within one year except for the amount due to immediate holding company amounted to HK$30,258,000. During the year, the Group's interest expenses amounted to HK$5,726,000, an increase of 53.3% from the same period of last year.

During the year, net cash outflow from operating activities was HK$27,578,000, which mainly represented our forward-looking purchase strategy on a mass scale of raw materials to ensure our production and minimize the effect of rise in prices of raw materials. Our net cash inflow from financing activities was HK$18,248,000, and the cash and cash equivalents was decreased by HK$17,335,000.

As at 31 December 2006, the net value of non-current assets including property, plant and equipment and investment property amounted to HK$34,785,000, a decrease of HK$51,540,000 over the net value as at 31 December 2005. The decrease was mainly due to the disposal of subsidiaries and provision for depreciation. The capital expenditure for the year amounted to HK$6,525,000 (2005: HK$987,000), which was mainly due to the renewal and purchase of leather manufacturing machines and equipments to cope with the production requirements of the production base in Xuzhou.

As at 31 December 2006, certain of the Group's bank deposits, machinery and equipments with a total net book value of HK$16,568,000 (as at 31 December 2005: HK$40,220,000) were pledged to secure general banking facilities granted to the Group.

Major Customers and Suppliers

For the year ended 31 December 2006, the amount of purchases attributable to the Group's largest supplier represented 25.1% of the Group's total purchases; and the aggregate amount of purchases (excluding the purchases of items of a capital nature) attributable to the Group's five largest suppliers represented 69.8% of the Group's total purchases. In addition, the amount of turnover attributable to the Group's largest customer represented 8.9% of the Group's total turnover; and the aggregate amount of the turnover attributable to the Group's five largest customers represented 29.0% of the Group's total turnover. None of the Directors of the Company or their associates, or any shareholders (which, to the best knowledge of the Directors of the Company, owns more than 5% of the Company's issues share capital) had any beneficial interest in the Group's five largest suppliers or customers.

Risk of Exchange Rate

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

Disposal of Subsidiaries

On 1 November 2006, the Group disposed its subsidiary, Sun Perfect Limited and its subsidiary, for a total consideration of HK$8,500,000, which recorded a gain of HK$14,119,000. Details of the disposal were set out in the announcement of the Company dated 1 November 2006 and in the notes to the financial statements.

Employees

As at 31 December 2006, a total of 871 employees (2005: 622) were employed by the Group. The remuneration policy is based on the Group's operating results and the employee's performance. The Group offered social and medical insurance and provident fund to all employees in different areas. The Company has adopted a share option scheme in May 2002, and the purpose of which is to provide incentives to participants to contribute to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

CONSOLIDATED INCOME STATEMENT

	Notes	2006 HK$'000	2005 HK$'000
REVENUE	3	**419,975**	258,543
Cost of sales		**(383,245)**	(234,971)
Gross profit		**36,730**	23,572
Other income		**3,609**	3,201
Selling and distribution costs		**(1,346)**	(1,419)
Administrative expenses		**(21,966)**	(22,891)
Gain on disposal of subsidiaries		**14,119**	—
Reversal of impairment for an amount due from an associate		—	6,141
Finance costs	4	**(5,726)**	(3,734)
PROFIT BEFORE TAX	4	**25,420**	4,870
Tax	5	**(4,763)**	533
PROFIT FOR THE YEAR		**20,657**	5,403
EARNINGS PER SHARE	6		
— Basic		**3.94 cents**	1.03 cents
— Diluted		**3.92 cents**	1.03 cents

CONSOLIDATED BALANCE SHEET

	Notes	**31 December 2006** **HK$'000**	31 December 2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**32,600**	80,313
Investment property		**2,185**	2,280
Prepaid land lease payments		**—**	3,732
Interest in an associate		**1,219**	4,336
Total non-current assets		**36,004**	90,661
CURRENT ASSETS			
Inventories		**210,076**	122,468
Receivables, prepayments and deposits	*7*	**81,358**	91,257
Tax recoverable		**—**	7,206
Loan to an officer		**—**	873
Pledged and frozen bank balances		**12,888**	13,918
Cash and cash equivalents		**41,536**	55,914
Total current assets		**345,858**	291,636
CURRENT LIABILITIES			
Trade and bills payables	*8*	**51,403**	26,123
Other payables and accruals		**23,736**	19,601
Interest-bearing bank borrowings		**15,451**	—
Due to a PRC joint venture partner		**1,131**	1,131
Loans from the immediate holding company		**—**	29,576
Loan from a fellow subsidiary		**54,600**	54,600
Provisions	*9*	**3,162**	74,115
Tax Payable		**1,212**	—
Total current liabilities		**150,695**	205,146
NET CURRENT ASSETS		**195,163**	86,490
TOTAL ASSETS LESS CURRENT LIABILITIES		**231,167**	177,151
NON-CURRENT LIABILITIES			
Loans from the immediate holding company		**30,258**	—
Deferred tax liabilities		**1,188**	4,717
Total non-current liabilities		**31,446**	4,717
Net assets		**199,721**	172,434
EQUITY			
Issued capital		**52,415**	52,415
Reserves		**147,306**	120,019
Total equity		**199,721**	172,434

Notes:

(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 properties and buildings, which have been measured at fair value. 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) 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 in 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
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

(3) 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.

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 — 2006

	Leather processing *HK$'000*	Property investment *HK$'000*	Corporate and others *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
Segment revenue:					
Sales to external customers	**419,975**	**—**	**—**	**—**	**419,975**
Intersegment sales	**—**	**—**	**—**	**—**	**—**
Other income	**2,520**	**337**	**—**	**—**	**2,857**
Total	**422,495**	**337**	**—**	**—**	**422,832**
Segment results	**37,717**	**124**	**(7,447)**	**—**	**30,394**
Interest income					**752**
Finance costs					**(5,726)**
Profit before tax					**25,420**
Tax					**(4,763)**
Profit for the year					**20,657**
Assets and liabilities					
Segment assets	**323,849**	**9,026**	**121**	**(6,777)**	**326,219**
Interest in an associate	**—**	**1,219**	**—**	**—**	**1,219**
Unallocated assets					**54,424**
Total assets					**381,862**
Segment liabilities	**(95,904)**	**(602)**	**(6,366)**	**6,777**	**(96,095)**
Unallocated liabilities					**(86,046)**
Total liabilities					**(182,141)**
Other segment information:					
Capital expenditure	**6,525**	**—**	**—**	**—**	**6,525**
Changes in fair value of investment property	**—**	**95**	**—**	**—**	**95**
Depreciation	**11,776**	**—**	**13**	**—**	**11,789**
Provision for inventories	**2,576**	**—**	**—**	**—**	**2,576**
Recognition of prepaid land lease payments	**79**	**—**	**—**	**—**	**79**
Deficit on revaluation of buildings	**93**	**—**	**—**	**—**	**93**
Reversal of impairment of an amount due from an associate	**—**	**—**	**—**	**—**	**—**
Impairment of trade receivables	**184**	**—**	**—**	**—**	**184**
Other non-cash income, net	**—**	**—**	**—**	**—**	**—**

Group — 2005

	Leather processing *HK$'000*	Property investment *HK$'000*	Corporate and others *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
Segment revenue:					
Sales to external customers	258,543	—	—	—	258,543
Intersegment sales	—	—	480	(480)	—
Other income	1,895	563	35	—	2,493
Total	260,438	563	515	(480)	261,036
Segment results	9,665	6,544	(8,313)	—	7,896
Interest income					708
Finance costs					(3,734)
Profit before tax					4,870
Tax					533
Profit for the year					5,403
Assets and liabilities					
Segment assets	304,815	8,794	74	(6,427)	307,256
Interest in an associate	—	4,336	—	—	4,336
Unallocated assets					70,705
Total assets					382,297
Segment liabilities	(124,330)	(532)	(2,535)	6,427	(120,970)
Unallocated liabilities					(88,893)
Total liabilities					(209,863)
Other segment information:					
Capital expenditure	954	—	33	—	987
Changes in fair value of investment property	—	—	—	—	—
Depreciation	9,888	—	19	—	9,907
Provision for inventories	6,460	—	—	—	6,460
Recognition of prepaid land lease payments	93	—	—	—	93
Deficit on revaluation of buildings	80	—	—	—	80
Reversal of impairment of an amount due from an associate	—	(6,141)	—	—	(6,141)
Impairment of trade receivables	645	—	—	—	645
Other non-cash income, net	(36)	—	—	—	(36)

(4) PROFIT BEFORE TAX

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

	2006	2005
	HK$'000	*HK$'000*
Cost of inventories sold	**380,669**	228,511
Auditors' remuneration	**990**	780
Depreciation	**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
Loans 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)		
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
Minimum lease payments under operating leases in respect of land and buildings	**464**	374
Recognition of prepaid land lease payments	**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	**95**	—
Deficit on revaluation of buildings	**93**	80
Write-off of items of property, plant and equipment	**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.

(5) 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%.

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	**(30)**	(533)
Total tax charge/(credit) for the year	**4,763**	(533)

(6) 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

(7) 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.

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. During the year, the pledge over those bills receivable was released.

(8) TRADE AND BILLS PAYABLES

As at 31 December 2006, the aged analysis of the Group's trade and bills payables, 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 payables of the Group are non-interest-bearing and are normally settled on 60 to 90 day terms. Other payables and accruals of the Group and the Company are non-interest-bearing and have an average term of three months.

(9) PROVISIONS

Group

	Tax claim and tax penalty by the PRC authorities	**Early termination of a joint venture agreement**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
	(Note a)	*(Note b)*	
At 1 January 2006	71,052	3,063	74,115
Disposal of subsidiaries	(71,052)	—	(71,052)
Exchange realignment	—	99	99
At 31 December 2006	—	3,162	3,162

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

During the year 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.

(10) COMMITMENTS

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	—

(11) 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
	HK$'000	*HK$'000*
Buildings	**—**	7,590
Bills receivable	**—**	22,485
Bank balances	**12,888**	4,900
Plant and machinery	**3,680**	5,245
	16,568	40,220

(12) 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.

(13) COMPARATIVE AMOUNTS

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

DIVIDEND

The Board does not recommend the payment of a final dividend (2005: Nil).

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2006.

REVIEW OF RESULTS

The results of the Group for the year ended 31 December 2006 have been reviewed by the audit committee of the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

By order of the Board
Zhang Chunting
Chairman

Hong Kong, 30 March 2007

As at the date of this announcement, the Board comprises two Executive Directors, namely Mr. Zhang Chunting and Mr. Deng Rongjun; three Non-Executive Directors, namely Mr. Zhang Yaping, Mr. Xiong Guangyang and Mrs. Ho Lam Lai Ping Theresa; and three Independent Non-Executive Directors, namely Mr. Fung Lak, Mr. Choi Kam Fai Thomas and Mr. Chan Cheong Tat.

"*Please also refer to the published version of this announcement in* ***China Daily***."