粵海制革有限公司

GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

2005 ANNUAL RESULTS ANNOUNCEMENT

CHAIRMAN'S STATEMENT

I am pleased to report that the Group's audited consolidated profit attributable to shareholders for the year ended 31 December 2005 was HK$5,403,000, an increase of 8% over the previous year.

We have successfully implemented the strategic shift of operations to the north, demonstrated by the opening of Xuzhou Gangwei Leather Co. Ltd. ("Xuzhou Gangwei") in March 2005, and the full operations of the production base in Xuzhou. This marked a new phase of growth for the Group as our production capacity will be steadily expanded, and the overall operations will start to grow on a normal track again following the issue of Tongyuan Tannery.

Significant strides were made by all of the Group's businesses in 2005. As operations have continued to improve on all fronts, the Group is developing on a healthy track of rapid growth with market share further expanded and profitability markedly enhanced. To further improve the quality of production management, the Group has continued to upgrade the production equipment and rationalize the flow of operations, establishing a stronger technology platform for innovative products. In the meantime, we have set up a professional team specialized in the development and marketing of new products, and established a responsibility system and incentive mechanism based on individual performance in the areas of product development, marketing, production and sales. These measures enabled the Group to achieve much stronger capability on product development, and delivered remarkable results in technology innovation.

To seek the most effective ways to offset the impact of rising costs has been at the core of the Group's strategic framework on raw materials sourcing. Our measures include creating new effective sourcing channels, strengthening market research and analysis, as well as stepping up efforts in direct sourcing and merchandising. On the front of distribution, we are focused on strengthening our marketing efforts, expanding the coverage of direct sales, and improving further the overall strategic planning in sales and marketing.

Bottle neck problems associated with environmental protection have been major hurdles in the path of the Group's development. To resolve the problem arising from the lack of synergy between the upstream and downstream processing, the Xuzhou Nanhai Tannery has applied the provincial government fund on anti-pollution awarded to it to upgrade its existing sewage facilities and enhance its water treatment capability. Another approach pursued by Xuzhou Nanhai Tannery is outsourcing part of the upstream processing. We are considering plans to set up upstream processing plants in adjacent areas of the Xuzhou production base, a move to create synergy with the downstream processing of Xuzhou Gangwei. This strategic move will help provide a solid platform for the Group's future development following a disciplined approach to operations. In addition, it is the Group's intention to operate the merchandise trading business as well as actively explore effective ways to deal with the idle assets of Tongyuan Tannery.

I am cautiously optimistic about the prospects of the Group. I believe the Group is poised for promising future growth if all the staff shares the same mission of shouldering greater responsibilities, and discharging their duties in the most pragmatic and effective way.

Zhang Chunting
Chairman

Hong Kong, 31 March 2006

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's audited consolidated profit attributable to shareholders for the year ended 31 December 2005 was HK$5,403,000, a rise of 8% when compared with the profit (restated) for the same period last year.

The audited net asset value of the Group as at 31 December 2005 was HK$172,434,000, an increase of HK$13,287,000 and HK$12,345,000 over the net asset value as at 31 December 2004 (restated) and 30 June 2005 respectively.

No final dividend is recommended by the Board of Directors (the "Board") for the year ended 31 December 2005.

Privatisation

On 12 July 2005, the Board of the Company announced that GDH Limited ("GDH"), the major shareholder of the Company, requested the Board of the Company to put forward a proposal (the "Proposal") to our shareholders regarding a proposed privatisation of the Company by way of a scheme of arrangement (the "Scheme") under section 166 of the Companies Ordinances. GDH will pay to other shareholders HK$0.28 in cash consideration for each ordinary share of the Company held by them. The Proposal did not proceed as the resolution to approve the Scheme was not approved by Independent Shareholders at the Court Meeting held on 22 September 2005. Details of the Court Meeting were set out in the Company's announcement dated 22 September 2005.

Operations Review

The opening of Xuzhou Gangwei Leather Co. Ltd. in March 2005 marked a solid achievement of the Group in the course of its strategic shift of operations to the north. In the meantime, the momentum of steady growth in turnover of the Xuzhou production base has continued. Over the past year, we were steadfast in enhancing the management of production, and accelerating efforts in quality control as well as product and technology development. On the back of these measures, breakthrough achievement was recorded in terms of marketing and distribution.

The Group's customer base has been further strengthened with the addition of certain valued customers – leading shoe manufacturers in China. It was contributed by our customer-oriented marketing strategy with sales personnel specifically assigned to focus on the needs of each of these customers. On the other hand, our new distribution strategy of "one agent for one product and one market" has proved its worth. It helped minimize any possible harmful impact on the Group due to direct competition among various agents, and represented a fundamental change to the Group's traditional passive approach to distribution.

Consolidated turnover for the year was HK$258,543,000, a drop of HK$23,408,000 or 8.3% from HK$281,951,000 for the previous year. The decrease was primarily attributable to the suspended operations of Foshan City Nanhai Tong Yuan Tanning Co., Ltd in the first half of 2004, resulting in a drop of HK$66,037,000 in turnover. However, this negative impact was largely offset by the increase in turnover of the Xuzhou production base as a result of the Group's strategic shift of operations to the north. During the year, turnover of the Xuzhou production base was HK$255,212,000, a rise of 20.05% over the previous year. Turnover of cowhides for the year decreased by 6.88% to HK$237,370,000 (2004: HK$254,917,000) whereas cow split, coated cow split and others dropped by 21.68% to HK$21,173,000 (2004: HK$27,034,000).

Total leather production of the Group declined by 3,342,000 sq.ft. to 14,211,000 sq.ft. for the year. Production of cowhides dropped by 17.95% to 13,411,000 sq.ft. (2004: 16,344,000 sq.ft.) whereas cow split, coated cow split and others down by 33.83% to 800,000 sq.ft. (2004: 1,209,000 sq.ft.).

As at 31 December 2005, the Group's consolidated inventories amounted to HK$122,468,000, reduced by HK$18,621,000 and HK$9,197,000 as compared with 31 December 2004 and 30 June 2005 respectively. It was primarily a function of our active attempts to clear the inventories through a number of astute and responsive measures, such as the processing of low-quality leather by refined production technologies, and the tie-in sale of well-received, profitable products with less popular and unprofitable items. These measures have proved effective as our inventory level was reduced, and problems on recovering trade receivables were alleviated.

Balance of trade receivables as at 31 December 2005 was HK$24,856,000. After deducting the provisions for doubtful debts of HK$2,991,000, trade receivables amounted to HK$21,865,000, a reduction of HK$4,044,000 and HK$13,279,000 as compared with 31 December 2004 and 30 June 2005 respectively. Trade receivables turnover was 10.8 times and average collection period was 34 days, an increase of 6 days as compared with 28 days in 2004.

Financial Review

As at 31 December 2005, the Group's interest-bearing borrowings amounted to HK$84,176,000 (as at 31 December 2004: HK$100,626,000). Of the total interest-bearing borrowings, HK$10,350,000 was denominated in Hong Kong dollars, HK$19,226,000 in Renminbi and HK$54,600,000 in US dollars. All of these interest-bearing borrowings are charged at fixed rate.

As at 31 December 2005, the Group's cash and bank balances amounted to HK$69,832,000 (as at 31 December 2004: HK$98,040,000), and denominated in Hong Kong dollars (HK$2,731,000), Renminbi (equivalent to HK$63,386,000) and US dollars (equivalent to HK$3,715,000) respectively.

As at 31 December 2005, after deduction of cash and bank deposits, the Group's ratio of net interest-bearing borrowings to shareholders' equity was 8.32% (as at 31 December 2004 (restated): 1.62%). Loan facilities bear interest at approximately 3.8% to 4.15% per annum. All of the Group's total borrowings are repayable within one year. Interest expense incurred by the Group during the year was HK$3,734,000, a drop of 34.88% as compared with the same period last year.

Net cash outflow from operating activities for the year was HK$17,540,000 and net cash outflow from financing was HK$15,241,000. Net decrease in cash and cash equivalents for the year amounted to HK$28,609,000.

As at 31 December 2005, net non-current assets including properties, plant and equipment, investment properties and prepaid land lease payments were HK$86,325,000, a reduction of HK$8,706,000 as compared with the restated figure as at 31 December 2004. The Group's capital expenditure for the year amounted to HK$987,000 (2004: HK$2,186,000). It was incurred mainly for the replacement of the leather manufacture machinery and equipment, a move to cope with the production requirement of the Xuzhou production base.

As at 31 December 2005, certain of the Group's buildings, investment properties, bank deposits, bank notes, and machinery and equipment with a total net book value of HK$40,220,000 (31 December 2004: HK$20,969,000) were pledged to secure general banking facilities granted to the Group.

Freezing of Tongyuan Tannery's Bank Accounts

Details of the freezing of bank accounts of Foshan City Nanhai Tong Yuan Tanning Co., Ltd by the Guangzhou Customs in the PRC were set out in notes to the Financial Statements headed "Contingent Liabilities".

Major Customers and Suppliers

For the year ended 31 December 2005, the amount of purchases attributable to the Group's largest supplier represented 26.6% of the Group's total purchases; and the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented 84.6% of the Group's total purchases. In addition, the amount of turnover attributable to the Group's largest customer represented 25.5% of the Group's total turnover; and the aggregate amount of the turnover attributable to the Group's five largest customers represented 50.3% of the Group's total turnover. None of the Directors of the Company or their associates holds or any shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers or customers.

Employees

As at 31 December 2005, a total of 622 employees (2004: 448 employees) were employed by the Group. The pay levels of employees are made with reference to 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 ("the 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.

The Directors of Guangdong Tannery Limited (the "Company") announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005 together with the comparative figures for 2004 as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	**2005** ***HK$'000***	2004 *HK$'000* (Restated)
REVENUE	*3*	**258,543**	281,951
Cost of sales		**(234,971)**	(255,513)
Gross profit		**23,572**	26,438
Other income and gains		**3,201**	2,922
Selling and distribution costs		**(1,419)**	(1,630)
Administrative expenses		**(22,267)**	(20,015)
Other operating income/(expenses), net	*4*	**(624)**	4,226
Reversal of provision for an amount due from an associate		**6,141**	–
Financial costs	*5*	**(3,734)**	(5,734)
PROFIT BEFORE TAX		**4,870**	6,207
Tax	*6*	**533**	(1,203)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**5,403**	5,004
EARNING PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*7*		
– Basic		**1.03 cents**	0.95 cents
– Diluted		**1.03 cents**	N/A

CONSOLIDATED BALANCE SHEET

	Notes	**31 December 2005 *HK$'000***	31 December 2004 *HK$'000* (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**80,313**	84,556
Investment properties		**2,280**	6,740
Prepaid land lease payments		**3,732**	3,735
Interest in an associate		**4,336**	–
Total non-current assets		**90,661**	95,031
CURRENT ASSETS			
Inventories		**122,468**	141,089
Receivables, prepayments and deposits	*8*	**91,257**	54,791
Tax recoverable		**7,206**	7,040
Loan to an officer		**873**	923
Pledged and frozen deposits		**13,918**	14,794
Cash and cash equivalents		**55,914**	83,246
Total current assets		**291,636**	301,883
CURRENT LIABILITIES			
Trade and bills payables	*9*	**(26,123)**	(38,864)
Other payables and accruals	*9*	**(19,601)**	(19,781)
Due to a PRC joint venture partner		**(1,131)**	(1,131)
Loans from the immediate holding company		**(29,576)**	(46,026)
Loan from a fellow subsidiary		**(54,600)**	(54,600)
Provisions	*10*	**(74,115)**	(72,600)
Total current liabilities		**(205,146)**	(233,002)
NET CURRENT ASSETS		**86,490**	68,881
TOTAL ASSETS LESS CURRENT LIABILITIES		**177,151**	163,912
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**(4,717)**	(4,765)
Net assets		**172,434**	159,147
EQUITY			
Issued capital		**52,415**	52,415
Reserves		**120,019**	106,732
Total equity		**172,434**	159,147

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 Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain buildings which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

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

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

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

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

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

(a) HKAS 17 – Leases

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

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

The effects of the change in accounting policy are summarized below.

(b) HKAS 40 – Investment Property

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

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. The adoption of HKAS 40 has had no effect on these financial statements because the Group's investment properties had a net revaluation deficit position as at 1 January 2005 and 2004 and the changes in fair value thereof had been dealt with in the income statement.

(c) HKFRS 2 – Share-based Payment

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

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

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

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

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

SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

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

Adjustments/presentation taken effect retrospectively

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

Adjustments/presentation taken effect retrospectively

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

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

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

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

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

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

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

Intersegment transactions mainly represented management services provided and charged by the Company to its subsidiaries at the bases determined by the Group.

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

Group – 2005

	Leather processing *HK$'000*	Property investment *HK$'000*	Corporate and other *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
Segment revenue:					
Sales to external customers	**258,543**	**–**	**–**	**–**	**258,543**
Intersegment sales	**–**	**–**	**480**	**(480)**	**–**
Other income and gains	**2,510**	**563**	**128**	**–**	**3,201**
Total	**261,053**	**563**	**608**	**(480)**	**261,744**
Segment results	**10,280**	**6,544**	**(8,220)**	**–**	**8,604**
Finance costs					**(3,734)**
Profit before tax					**4,870**
Tax					**533**
Profit for the year					**5,403**
Assets and liabilities					
Segment assets	**368,867**	**8,794**	**5,854**	**(6,427)**	**377,088**
Interest in an associate	**–**	**4,336**	**–**	**–**	**4,336**
Unallocated assets					**873**
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**
Depreciation	**9,888**	**–**	**19**	**–**	**9,907**
Provision for inventories	**6,460**	**–**	**–**	**–**	**6,460**
Recognition of prepaid land lease payments	**93**	**–**	**–**	**–**	**93**
Changes in fair value of investment properties	**–**	**–**	**–**	**–**	**–**
Deficit/(surplus) on revaluation of buildings	**80**	**–**	**–**	**–**	**80**
Reversal of impairment of items of property, plant and equipment	**–**	**–**	**–**	**–**	**–**
Reversal of provision for an amount due from an associate	**–**	**6,141**	**–**	**–**	**6,141**
Provision for bad and doubtful debts	**645**	**–**	**–**	**–**	**645**
Other non-cash expenses/ (income), net	**(36)**	**–**	**–**	**–**	**(36)**

Group – 2004

	Leather processing *HK$'000* (Restated)	Property investment *HK$'000*	Corporate and other *HK$'000* (Restated)	Eliminations *HK$'000*	Consolidated *HK$'000* (Restated)
Segment revenue:					
Sales to external customers	281,951	–	–	–	281,951
Intersegment sales	–	–	480	(480)	–
Other income and gains	1,773	1,066	83	–	2,922
Total	283,724	1,066	563	(480)	284,873
Segment results	19,080	342	(7,481)	–	11,941
Finance costs					(5,734)
Profit before tax					6,207
Tax					(1,203)
Profit for the year					5,004
Assets and liabilities					
Segment assets	369,840	12,924	19,331	(6,104)	395,991
Interest in an associate	–	–	–	–	–
Unallocated assets					923
Total assets					396,914
Segment liabilities	(136,312)	(433)	(1,735)	6,104	(132,376)
Unallocated liabilities					(105,391)
Total liabilities					(237,767)
Other segment information:					
Capital expenditure	2,165	–	21	–	2,186
Depreciation	8,527	–	452	–	8,979
Provision for inventories	11,021	–	–	–	11,021
Recognition of prepaid land lease payments	93	–	–	–	93
Changes in fair value of investment properties	–	234	–	–	234
Deficit/(surplus) on revaluation of buildings	(138)	–	–	–	(138)
Reversal of impairment of items of property, plant and equipment	(5,162)	–	–	–	(5,162)
Provision for bad and doubtful debts	–	–	–	–	–
Reversal of provision for an amount due from an associate	–	–	–	–	–
Other non-cash expenses/(income), net	25	–	71	–	96

(4) PROFIT BEFORE TAX

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

	2005 *HK$'000*	2004 *HK$'000* (Restated)
Cost of inventories sold	**228,511**	244,492
Auditors' remuneration	**780**	720
Depreciation	**9,907**	8,979
Employee benefits expense (excluding directors' remuneration)		
Wages and salaries	**8,719**	9,912
Redundancy payments (included in other operating income/(expenses), net below)	**–**	1,257
Pension scheme contributions (defined contributions scheme)*	**778**	714
	9,497	11,883
Provision for inventories	**6,460**	11,021
Minimum lease payments under operating leases in respect of land and buildings	**374**	251
Recognition of prepaid land lease payments	**93**	93
Other rental income	**(211)**	(449)
Gross rental income from investment properties	**(563)**	(855)
Less: Outgoings from investment properties	**86**	158
Net rental income	**(477)**	(697)
Expenses/(income) included in other operating income/(expenses), net:		
Changes in fair value of investment properties	**–**	234
Deficit/(surplus) on revaluation of buildings	**80**	(138)
Write-off of items of property, plant and equipment	**581**	83
Loss/(gain) on disposal of items of property, plant and equipment, net	**(617)**	13
Reversal of impairment of items of property, plant and equipment	**–**	(5,162)
Provision for bad and doubtful debts, net	**645**	–
Foreign exchange differences, net	**(65)**	(513)
Redundancy payments	**–**	1,257
	624	(4,226)

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

(5) FINANCE COSTS

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

(6) TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2004: Nil). No provision for Mainland China and overseas profits tax has been made (2004: Nil) as there were either no assessable profits arising from certain subsidiaries of the Company operating in Mainland China and overseas during the year or certain subsidiaries of the Company operating in Mainland China and overseas with available tax losses brought forward from prior years to offset the assessable profits during the year.

In addition, certain subsidiaries of the Company established in the PRC were exempt from PRC corporate income tax for two years commencing from their first profit-making year of operations, and are eligible for a 50%-relief from PRC corporate income tax for the following three years under the PRC tax laws. The standard PRC corporate income tax rate applicable to those PRC subsidiaries ranged from 24% to 33% for the years ended 31 December 2004 and 2005.

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

(7) EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

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

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

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

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

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

(8) RECEIVABLES, PREPAYMENTS AND DEPOSITS

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

The Group's trading terms with customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well-established customers, where the terms are extended to two to three months. Each customer has a maximum credit limit. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

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

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

(9) TRADE AND BILLS PAYABLES, AND OTHER PAYABLES AND ACCRUALS

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

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

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

(10) PROVISIONS

Group

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

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

With respect to the tax claim of RMB36,989,000 (equivalent to approximately HK$35,526,000 as at 31 December 2005 (2004: HK$34,800,000)) made by the Anti-Smuggling Bureau of Guangzhou Customs (廣州海關緝私局) (the "Guangzhou Customs") to Tongyuan Tannery, a wholly-owned subsidiary of the Company established in Mainland China, provisions of HK$71,052,000 (2004: HK$69,600,000) in aggregate were made as at 31 December 2005 for (a) the tax claim of HK$35,526,000 (2004: HK$34,800,000) made by the Guangzhou Customs; and (b) the tax penalty of HK$35,526,000 (2004: HK$34,800,000) that may be imposed by the relevant PRC authorities, which were provided for by the directors with reference to a PRC legal opinion obtained by them. Details of the tax claim and tax penalty by the Guangzhou Customs are set out in note 11.

(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 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.

(11) CONTINGENT LIABILITIES

Following the change in senior management of the Company in June 2002, it was discovered that certain former executives (the "Former Executives") of Nanhai Tannery & Leather Products Co., Ltd. ("Nanhai Tannery") (one of whom was also a former director of the Company) had been involved in certain irregularities. Nanhai Tannery was until 31 December 2003 a wholly-owned subsidiary of the Company established in Nanhai, the PRC.

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

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

Based on the findings of the special investigations and having regard to the professional advice received, the directors of the Company were of the opinion that the Parallel Operation should not be (and it had not been) incorporated in the financial statements of the Group and that the Parallel Operation appeared to have involved various irregularities in its transactions under the applicable PRC laws and regulations.

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

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

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

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

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

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

In addition, the PRC legal advice also indicated that, under the existing PRC laws and regulations, the relevant PRC authorities may also impose a tax penalty on Tongyuan Tannery of an amount equal to 1 to 5 times the Potential Tax Liability, i.e. RMB36,989,000 to RMB184,945,000 (equivalent to approximately HK$35,526,000 to HK$177,630,000 as at 31 December 2005 (2004 and 2003: HK$34,800,000 to HK$174,000,000) (the "Potential Penalty"). In light of the PRC legal advice, the directors of the Group considered it appropriate to carry a provision of RMB36,989,000 (equivalent to approximately HK$35,526,000 as at 31 December 2005 (2004 and 2003: HK$34,800,000)) for the Potential Penalty which was made during the year ended 31 December 2003.

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

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

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

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

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

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

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

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

SUMMARY OF REPORT OF THE AUDITORS

An extract from the report of the auditors to the Company for the year ended 31 December 2005 is as follows:

Fundamental uncertainty – Contingent liabilities

In arriving at our audit opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the irregularities involving certain former executives of a former subsidiary of the Company in a previous year and the related provisions of HK$71,052,000 for the tax claim and tax penalty made by the Group as detailed in the financial statements. As the actions taken by the authorities of the People's Republic of China (the "PRC") have not yet been concluded, it is not possible to ascertain with any degree of reasonable certainty the amount of any tax penalty which may finally be imposed by the PRC authorities and the other consequential actions that may be taken by the PRC authorities for the apparent breaches of certain PRC laws and regulations, or the existence or otherwise of any other penalties and claims arising as a result of the aforesaid irregularities. As of the date of this report, no further provision other than that disclosed in the financial statements has been made in the financial statements for such contingencies. We consider that appropriate disclosures and estimates have been made in the financial statements and our audit opinion is therefore not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

DIVIDENDS

The Directors do not recommend the payment of a final dividend (2004: Nil).

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has compiled throughout the year ended 31 December 2005 with the Code of Corporate Governance Practices (the "New CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which became effective on 1 January 2005.

To ensure compliance with the New CG Code, the Company has undertaken to review and propose the necessary amendments to the Articles of Association (the "Articles") of the Company to bring the constitution of the Company in alignment with certain provisions of the New CG Code. At the forthcoming 2006 annual general meeting of the Company, a special resolution will be proposed to amend the Articles of the Company so that (i) any director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the Company's first general meeting after the appointment rather than the Company's next following annual general meeting after the appointment and (ii) every director shall be subject to retirement by rotation at least once every three years.

In the opinion of the directors of the Company, the Company has met the code provisions set out in the New CG Code.

REVIEW OF RESULTS

The results of the Group for the year ended 31 December 2005 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, 31 March 2006

As at the date of this announcement, the Board of the Company comprises Zhang Chunting,Deng Rongjun, Xiong Guangyang, Ho Lam Lai Ping Theresa; and three independent non-executive directors, Fung Lak, Choi Kam Fai Thomas and Chan Cheong Tat.

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