粵海制革有限公司

GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

2008 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "Board") of Guangdong Tannery Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008 together with comparative figures.

CONSOLIDATED INCOME STATEMENT

	Notes	**2008** ***HK$'000***	2007 *HK$'000*
REVENUE	*4*	**525,480**	626,618
Cost of sales		**(493,095)**	(587,381)
Gross profit		**32,385**	39,237
Other income and gains	*4*	**9,306**	8,288
Selling and distribution costs		**(2,046)**	(2,086)
Administrative expenses		**(18,747)**	(17,138)
Finance costs	*5*	**(13,224)**	(10,846)
PROFIT BEFORE TAX	*5*	**7,674**	17,455
Tax	*6*	**(4,624)**	(5,879)
PROFIT FOR THE YEAR		**3,050**	11,576
EARNINGS PER SHARE	*7*		
- Basic		**0.57 cents**	2.16 cents
- Diluted		**0.57 cents**	2.16 cents

CONSOLIDATED BALANCE SHEET

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**64,371**	39,239
Investment property		**2,120**	2,280
Prepaid land lease payments		**5,922**	5,693
Total non-current assets		**72,413**	47,212
CURRENT ASSETS			
Inventories		**209,521**	338,128
Receivables, prepayments and deposits	*9*	**138,009**	125,817
Pledged deposits		**10,771**	19,213
Cash and cash equivalents		**97,653**	60,995
Total current assets		**455,954**	544,153
CURRENT LIABILITIES			
Trade payables	*10*	**42,768**	57,711
Other payables and accruals		**23,192**	22,376
Interest-bearing bank and other borrowings		**6,801**	97,544
Due to a PRC joint venture partner		**1,131**	1,131
Loan from the immediate holding company		**-**	21,358
Provision		**3,617**	3,406
Tax payable		**998**	651
Total current liabilities		**78,507**	204,177
NET CURRENT ASSETS		**377,447**	339,976
TOTAL ASSETS LESS CURRENT LIABILITIES		**449,860**	387,188
NON-CURRENT LIABILITIES			
Loans from the immediate holding company		**67,118**	31,708
Loan from a fellow subsidiary		**54,600**	54,600
Convertible notes	*11*	**59,926**	56,741
Deferred tax liabilities		**980**	957
Total non-current liabilities		**182,624**	144,006
Net assets		**267,236**	243,182
EQUITY			
Issued capital		**53,750**	53,750
Reserves		**213,486**	189,432
Total equity		**267,236**	243,182

Notes:

(1) BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, 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. 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 (collectively referred to as the "Group") for the year ended 31 December 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	*HKFRS 2 - Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

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

HKFRS 1 (Revised)	*First-time Adoption of HKFRS* [2]
HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures* [1]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]

HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [2]
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement* [5]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners* [2]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers*[2]

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
[5] Effective for annual periods ending on or after 30 June 2009
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

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 HKFRS 8 and HKAS 1 (Revised) 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.

(3) SEGMENT INFORMATION

No separate analysis of segment information is presented by the Group as over 90% of the Group's revenue, results and assets related to the processing and sale of semi-finished and finished leather in Mainland China.

(4) REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and value-added tax, during the year.

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

	2008	2007
	HK$'000	*HK$'000*
Revenue		
Processing and sale of leather	**525,480**	626,618
Other income		
Gross rental income	**733**	746
Interest income	**1,104**	1,318
Reinvestment tax refunds #	**-**	1,730
Sale of scrap materials	**1,246**	1,777
Others	**2,483**	2,518
	5,566	8,089
Gains		
Fair value gain on an investment property	**-**	95
Surplus on revaluation of buildings	**36**	104
Foreign exchange gain	**3,704**	-
	3,740	199
	9,306	8,288

\# According to the Income Tax Law of the People's Republic of China (the "PRC" or "Mainland China"), the Group is entitled to refunds of corporate income taxes, subject to the approval from the relevant offices of the Tax Bureau in Mainland China. During the year ended 31 December 2007, the Group reinvested the profit distributions received from its wholly-owned subsidiary into the same subsidiary in Mainland China. Approvals from the Tax Bureau in relation to the reinvestment tax refunds were received by the Group during that year. The refunds were determined based on certain percentages of the profit distributions reinvested.

(5) PROFIT BEFORE TAX

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

	2008	2007
	HK$'000	*HK$'000*
Cost of inventories sold	**493,989**	578,686
Auditors' remuneration	**1,120**	1,200
Depreciation	**6,119**	5,987
Interest on:		
Bank loans and discounting bills receivable to banks	**3,013**	4,347
Convertible notes	**3,800**	1,377
Loans from the immediate holding company	**3,900**	1,621
Loan from a fellow subsidiary	**2,511**	3,501
	13,224	10,846
Employee benefits expense (excluding directors' remuneration):		
Wages and salaries	**21,912**	17,420
Pension scheme contributions (defined contributions scheme)*	**2,424**	1,691
Equity-settled share option expense	**9**	-
	24,345	19,111
Provision/(reversal of provision) for inventories	**(894)**	8,695
Minimum lease payments under operating leases in respect of land and buildings	**662**	641
Recognition of prepaid land lease payments	**122**	-
Net rental income from investment properties	**(397)**	(387)
Other rental income	**(336)**	(359)
Fair value loss/(gain) of an investment property	**160**	(95)
Surplus on revaluation of buildings	**(36)**	(104)
Write-off of items of property, plant and equipment	**117**	-
Gain on disposal of items of property, plant and equipment, net	**-**	(226)
Impairment/(reversal of impairment) of trade receivables	**(204)**	281

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

(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 (2007: Nil). Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in Mainland China 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 the PRC corporate income tax for the first two profit-making years, and is eligible for a 50%-relief from the PRC corporate income tax for the following three years under the PRC tax laws. For the year ended 31 December 2008, which is the fifth profitable year of Xuzhou Tannery, the applicable tax rate of Xuzhou Tannery, after the 50% reduction, was 12.5%.

	2008	2007
	HK$'000	*HK$'000*
Group:		
Current - Mainland China	**4,615**	5,984
Deferred	**9**	(105)
Total tax charge for the year	**4,624**	5,879

(7) EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the profit for the year 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 profit for the year, adjusted to reflect the interest on the convertible notes, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of 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:

	2008	2007
	HK$'000	*HK$'000*
Earnings		
Profit for the year, used in the basic earnings per share calculation	**3,050**	11,576
Interest on convertible notes	**3,800***	1,377*
Profit for the year, before interest on convertible notes	**6,850**	12,953

	Number of shares	
	2008	2007
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**537,504,000**	535,918,932
Effect of dilution - weighted average number of ordinary shares:		
Share options	**16,597**	1,038,687
Convertible notes	**32,368,421***	32,368,421*
	569,889,018	569,326,040

* Because the diluted earnings per share amount is increased when taking convertible notes into account, the convertible notes had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share. Therefore, diluted earnings per share amounts are based on the profit for the year of HK$3,050,000 and the weighted average of 537,520,597 ordinary shares in issue during the year.

(8) DIVIDEND

The Board does not recommend the payment of a final dividend (2007: Nil).

(9) RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 31 December 2008, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK$131,328,000 (2007: HK$107,130,000) 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.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the payment due date, is as follows:

	2008	2007
	HK$'000	*HK$'000*
Current	**127,780**	103,144
Less than 3 months	**1,852**	2,200
3 to 6 months	**471**	1,504
Over 6 months	**1,685**	1,985
	131,788	108,833
Impairment	**(460)**	(1,703)
	131,328	107,130

Movements in the provision for impairment of trade receivables are as follows:

	2008	2007
	HK$'000	*HK$'000*
At 1 January	**1,703**	1,422
Impairment losses recognised	**221**	298
Impairment losses reversed	**(425)**	(17)
Amount written off as uncollectible	**(1,039)**	-
At 31 December	**460**	1,703

The above provision for impairment of trade receivables is individually fully impaired. The individually impaired trade receivables relate to customers that were in default or delinquency payments. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade and bills receivables, that are not considered to be impaired is as follows:

	2008	2007
	HK$'000	*HK$'000*
Neither past due nor impaired	**127,780**	103,144
Less than 1 month past due	**1,104**	1,929
1 to 3 months past due	**748**	271
Over 3 months past due	**1,696**	1,786
	131,328	107,130

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

At 31 December 2007, bills receivable of approximately HK$41,193,000 were pledged to secure the general banking facilities granted to the Group.

(10) TRADE PAYABLES

An aged analysis of the trade payable as at the balance sheet date, based on the payment due date, is as follows:

	2008	2007
	HK$'000	*HK$'000*
Within 3 months	**19,227**	27,313
3 to 6 months	**16,900**	24,718
6 to 12 months	**2,111**	1,253
Over 12 months	**4,530**	4,427
	42,768	57,711

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

(11) CONVERTIBLE NOTES

On 13 August 2007, the Company issued 61,500,000 1% convertible notes with a nominal value of HK$61,500,000 to GDH Limited (“GDH”), with maturity date on the third anniversary of the date of issue of the convertible notes (the "Maturity Date"). GDH has the right to convert the whole or part of the principal amount of the convertible notes into shares at any time and from time to time, from the 7th day after the date of the issue of the convertible notes up to the day which is 7 days prior to the Maturity Date, on the basis of one ordinary share for every 1.9 HK$1 notes held. There was no movement in the number of these convertible notes during the year. Any convertible notes not converted will be redeemed on the Maturity Date at a price of HK$1.0623 per HK$1 note. The notes carry interest at a rate of 1% per annum, which is payable semi-annually in arrears on 13 February and 13 August.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar note without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible notes issued have been split as to the liability and equity components, as follows:

	2008	2007
	HK$'000	HK$'000
Nominal value of convertible notes	**61,500**	61,500
Equity component	**(5,599)**	(5,599)
Direct transaction costs attributable to the liability component	**(537)**	(537)
Liability component at the issuance date	**55,364**	55,364
Interest expense	**5,177**	1,377
Interest paid	**(615)**	-
Liability component at 31 December	**59,926**	56,741

CHAIRMAN'S STATEMENT

Results

I hereby report to the shareholders that the Group's consolidated profit attributable to shareholders for 2008 was HK$3,050,000 (2007: HK$11,576,000), a decrease of 73.7% over last year. The basic earnings per share was HK cents 0.57 (2007: HK cents 2.16), representing a decrease of 73.6% compared with last year.

Dividend

The Board of the Company does not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: Nil).

Review

During the year under review, the Group maintained its stable operation and development under difficult operating environment by controlling its operating risks and continuing its stable operation as its overall direction and implementing its sound corporate development strategies in a timely manner. In the area of production management, in addition to consolidating the existing production scale, the Group adjusted the production management style and optimized the product portfolio as its internal measures and continued to reorganize its supply and marketing network to establish an efficient market as its external measures. As a result, the Group was able to sustain its stable operations with higher risk-resistance under adverse circumstances. In the area of strategic development, in order to improve the Group's future development capacity and synergy between the upstream and downstream processing activities, the Group carried out the Relocation & Technical Renovation Project of Xuzhou Nanhai Leather Factory Co., Ltd. ("Xuzhou Tannery") at the end of 2007. The project was close to completion and is expected to commence operations in the second quarter of 2009. Beside, the Jinsanqiao project in Xuzhou Economic Development Zone was also in the early preparation stage.

2008 was an extraordinary year. The financial tsunami triggered by the sub-prime mortgage in the United States has spread worldwide and caused damages to the real economy. The global economic downturn has materially impacted various sectors, including the tannery industry in the PRC. In addition, the significant fluctuation in raw material prices, tightening working capital in general, substantial decline in imports and exports and difficult operating environment for labor intensive enterprises principally engaged in processing and trading have deeply upset the tannery industry in the PRC. Facing such difficulties, the Group continued to, based on the core enterprise culture of "faith, integrity and efficiency", focus on the core mission of corporate development and consolidated the foundation of management through team building. The Group also adhered to "decreasing the inventory and trade receivables and increasing the cash flow" as its objective and endeavored to enhance its economic efficiency and seek development opportunities during the operating risk control process with an aim to provide a solid foundation for the future development.

Facing the global financial crisis, the Group has adopted various measures to maintain its stable operating and development ability: (1) closely monitor the domestic and international economic dynamic developments, conduct multi-angled research on economic conditions and development trend of the tannery industry as well as analyze the conditions of our own and major competitors in an objective manner so as to formulate practical and suitable production and operating goals and development strategies for the Group; (2) full implementation of Operating Budgetary Control System and improve the transparency and operation management standards by implementing financial plans and setting up a financial-oriented instruction and supervision mechanism; (3) adopt performance-based incentive schemes in respect of product maintenance and product development, recruit talented technical staff and introduce advanced technologies and craftsmanship; (4) implement strategic cooperation mechanism with suppliers to establish a stable and reliable supply market, closely monitor the domestic and foreign cowhides market and the changes in the exchange rate of Renminbi and adopt cautious and pragmatic purchasing strategies to manage the procurement risks; and (5) increase direct sales to renowned footwear manufacturers to establish an extensive high-end customers network covering all footwear industry and introduce a credit rating system to strictly control and reduce the market risks of the Group.

Prospects

The domestic and foreign economic conditions will remain adverse in 2009. It is expected that the competition in the tannery industry will intensify in light of the market uncertainty. The Group will implement its operating and strategic development strategies in a prudent approach, fully utilize its existing capacities, focus on the existing market and manage its overall operating risks. The Group will also continue to decrease its inventory level to maintain a sufficient cash flow and adhere to its long term mission by optimizing and upgrading the quality of its products and developing new products. The Group will further strengthen its effort on team building and refine its internal system by tapping potential and improving efficiency. In addition, the Group will closely monitor the changes in the tannery market and industry developments in 2009 and adjust its expansion strategies in response to the market conditions to accelerate the further improvement of its overall market position and operating results.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's consolidated profit attributable to shareholders for the year ended 31 December 2008 was HK$3,050,000, representing a decrease of HK$8,526,000 or 73.7% as compared to the profit of HK$11,576,000 for the same period of last year.

The net asset value of the Group as at 31 December 2008 was HK$267,236,000, representing an increase of HK$24,054,000 and a decrease of HK$4,638,000 as compared to the net asset value as at 31 December 2007 and 30 June 2008 respectively.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2008.

Business Review

Since the end of 2007, the export trade, which was one of the driving forces for the economic development of the PRC, has been deteriorated with numbers of export-oriented enterprises experienced operational difficulties. In addition, due to the implementation of new Labour Law and the changes in the exchange rates of Renminbi and US dollars, the future economic development remained uncertain. In addition to consolidating the existing operational scale, the Group adhered to "decreasing the inventory and trade receivables and increasing the cash flow" as its objective to strengthen its production management, optimize its product portfolio and reorganize its supply and marketing network. By adopting prudent operating strategies, the Group has effectively managed its operating risks and relieved operational difficulties of the industry.

The Group has adjusted its production scale in response to the demand and prices of the tannery market. The cowhides production volume for the year was 25,495,000 sq. ft., representing a decrease of 6,427,000 sq. ft. or 20.1% as compared to 31,922,000 sq. ft. for the same period of last year, whereas the grey hides production volume was 5,244 tons, representing a decrease of 8,196 tons or 61.0% as compared to 13,440 tons for the same period of last year.

During the year, the consolidated turnover of the Group was HK$525,480,000, representing a decrease of HK$101,138,000 or 16.1% from HK$626,618,000 for the same period of last year. The turnover of cowhides amounted to HK$493,787,000 (2007: HK$542,642,000), representing a decrease of 9.0% and the turnover of grey hides and other products amounted to HK$31,693,000 (2007: HK$83,976,000), representing a decrease of 62.3%. Confronted with the unfavorable conditions such as decrease in sales volume of cowhides and the substantial drop in price and sales volume of grey hides, the Group had adopted the following measures to stabilize its clienteles during the year: (1) fostering an effective marketing network characterized by a high-end client base with direct sales to renowned footwear manufacturers as the main channel and a regional-balanced market; (2) increasing direct sales to renowned footwear manufacturers to ensure higher risk-resistance and stronger sales channels during the market fluctuation; (3) introducing a credit rating system for the customers to strictly control the market risks; (4) adopting customer demerger, market segmentizing, selling with accountability and performance-based evaluation schemes to explore the potentials of the marketing staff. In addition, the Group has worked actively in promoting technology renovation, craftsmanship innovation, and enhancement of new and existing products by recruiting talented staff and introducing advanced technologies. During the year, the Group has developed eight to nine products in five major kinds, including nappa leather, natural dry milled leather, smooth leather, corrected upper leather and emboss leather. As such, the Group has successfully maintained its market share in the tannery industry.

During the year, on the premise that ensures the normal production requirement, the Group had cut down its purchasing plan under the significant fluctuation of prices of raw materials and focused on cost control and risk management. Through closely monitoring the domestic and foreign changes in market supply and conducting research on development trend of market demand and prices, the Group has effectively managed its procurement costs. During the year, total amount of purchases decreased by 51.2% to HK$313,082,000.

As at 31 December 2008, the consolidated inventories of the Group amounted to HK$209,521,000 (as at 31 December 2007: HK$338,128,000), representing a decrease of HK$128,607,000 as compared to the same as at 31 December 2007. The substantial decrease in inventories was mainly due to the decrease of raw material purchases and the effort in maintaining sufficient cash by decreasing the inventory level so as to provide sufficient operating cash flow for the Group during the year.

In the area of strategic development, the Relocation & Technical Renovation Project of Xuzhou Tannery was close to completion during the year and is expected to commence its operations in the second quarter of 2009. In addition, Jinsangiao project in Xuzhou Economic Development Zone was also in the early preparation stage. During the year, the Group had injected a registered capital of US$9,000,000 into Jinsanqiao project and the project has been commenced smoothly.

Financial Review

Liquidity and Financial Resources

As at 31 December 2008, the Group's cash and cash equivalents amounted to HK$97,653,000 (as at 31 December 2007: HK$60,995,000), representing an increase of HK$36,658,000 or 60.1% as compared to the same as at 31 December 2007, which were denominated in Hong Kong dollars (2.8%), Renminbi (81.8%) and US dollars (15.4%) respectively. During the year, net cash inflow from operating activities was HK$89,113,000, which mainly represented the modified purchase strategy with control of quantity purchased that decreased cash paid for raw materials. The net cash outflow from financing activities was HK$36,722,000, which was mainly used to repay bank loans.

As at 31 December 2008, the Group's interest-bearing borrowings amounted to HK$188,445,000 (as at 31 December 2007: HK$261,951,000), of which interest-bearing borrowings in Hong Kong dollars amounted to HK$81,414,000, interest-bearing borrowings in Euros amounted to HK$6,801,000, and interest-bearing borrowings in US dollars amounted to HK$100,230,000. The Group's borrowings mainly consist of: (1) balance of short-term bank borrowings of HK$6,801,000 which were secured by the pledge of the bank deposits of RMB5,999,000; (2) balances of long-term and short-term unsecured intra-group borrowings of HK$121,718,000; and (3) balance of convertible notes held by the Group's immediate holding company of HK$59,926,000. Other than the convertible notes, which was charged at 1% per annum, the above interest-bearing borrowings were charged at floating interest rate.

As at 31 December 2008, after deduction of the cash and bank balances, the Group's gearing ratio of the net value of interest-bearing borrowings to adjusted capital (including shareholders' equity and convertible notes) plus net value of interest-bearing borrowings was 8.62% (as at 31 December 2007: 32.5%). During the year, the annual interest rate of the borrowings was approximately 3.0% to 7.8%. Of the Group's total borrowings, all are repayable within one year except for the amount due to immediate holding company and convertible notes with an aggregate amount of HK$121,718,000 and HK$59,926,000 respectively. The Group's interest expenses for the year amounted to HK$13,224,000, representing an increase of 21.9% from the same period of last year.

As at 31 December 2008, the total banking facilities of the Group was HK$78,239,000, of which utilized banking facilities amounted to HK$6,801,000 and unutilized banking facilities amounted to HK$71,438,000. Taking into account of the existing cash resources and available credit facilities as well as the cash flow generated by the Group's operating business, the Group had adequate financial resources to meet its day-to-day operational requirements.

Capital Expenditure

As at 31 December 2008, the net value of non-current assets including land, property, machinery and equipments and investment property amounted to HK$72,413,000, representing an increase of HK$25,201,000 over the net value as at 31 December 2007 of HK$47,212,000. The capital expenditure for the year amounted to HK$28,122,000 (2007: HK$15,826,000), which mainly represented the payment of the construction works of Relocation & Technical Renovation Project of Xuzhou Tannery and the acquisition of machinery and equipments for that project to cope with the production and development requirements of the Group.

Pledge of Assets

As at 31 December 2008, certain of the Group's bank deposits, plant and machinery with a total net book value of HK$16,707,000 (2007: HK$91,844,000) were pledged to secure general banking facilities granted to the Group.

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 and US dollars, the Group does not have material exposure to foreign exchange.

Remuneration Policy for Employees

As at 31 December 2008, a total of 873 employees (2007: 993) were employed by the Group. The remuneration policy is based on the Group's operating results and the employees' performance. The Group has adopted a performance-based evaluation scheme for its employees focusing on "accountability and performance" with an aim to motivate the contribution of its employees. In addition, the Group offered social and medical insurance and provident fund to all employees in different areas. The Company has adopted a new share option scheme in November 2008, with the purpose to provide incentives to the senior management 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.

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 2008.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the annual results of the Group for the year ended 31 December 2008, including the accounting principles and practices adopted by the Group.

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, 14 April 2009

As at the date of this announcement, the Board comprises two Executive Directors, namely Mr. Zhang Chunting and Mr. Ren Yingguo; three Non-Executive Directors, namely Mr. Xiong Guangyang, Mr. Zhang Yaping 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.