GDH

粵海制革有限公司

GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

2011 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 (collectively referred to as the "Group") for the year ended 31 December 2011 together with comparative figures.

CONSOLIDATED INCOME STATEMENT

	Notes	**2011** ***HK$'000***	2010 *HK$'000*
REVENUE	*4*	**587,020**	520,737
Cost of sales		**(558,823)**	(488,857)
Gross profit		**28,197**	31,880
Other income and gains	*4*	**6,843**	12,561
Selling and distribution costs		**(1,956)**	(2,192)
Administrative expenses		**(22,492)**	(23,188)
Finance costs	*5*	**(5,385)**	(4,781)
PROFIT BEFORE TAX	*5*	**5,207**	14,280
Income tax expense	*6*	**(4,018)**	(8,068)
PROFIT FOR THE YEAR		**1,189**	6,212
EARNINGS PER SHARE	*7*		
- Basic		**HK 0.22 cent**	HK1.16 cents
- Diluted		**HK 0.22 cent**	HK1.15 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2011	2010
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**1,189**	6,212
OTHER COMPREHENSIVE INCOME		
Surplus on revaluation of buildings	**184**	123
Income tax effect	**(46)**	(31)
	138	92
Exchange differences on translation of foreign operations	**22,404**	15,026
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**22,542**	15,118
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**23,731**	21,330

CONSOLIDATED BALANCE SHEET

	Notes	**2011** ***HK$'000***	2010 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**108,967**	103,519
Prepaid land lease payments		**14,566**	8,133
Total non-current assets		**123,533**	111,652
CURRENT ASSETS			
Inventories		**185,092**	151,878
Receivables, prepayments and deposits	*9*	**220,874**	168,121
Tax recoverable		**-**	514
Pledged deposits		**33,490**	32,314
Restricted bank balances		**1,850**	8,226
Cash and cash equivalents		**81,672**	107,718
Total current assets		**522,978**	468,771
CURRENT LIABILITIES			
Trade payables	*10*	**48,722**	46,539
Other payables and accruals		**30,149**	43,777
Interest-bearing bank and other borrowings		**90,357**	39,011
Due to a PRC joint venture partner		**1,131**	1,131
Loans from the immediate holding company		**142,379**	87,779
Provision		**3,934**	3,748
Tax payable		**796**	-
Total current liabilities		**317,468**	221,985
NET CURRENT ASSETS		**205,510**	246,786
TOTAL ASSETS LESS CURRENT LIABILITIES		**329,043**	358,438
NON-CURRENT LIABILITIES			
Loan from a fellow subsidiary		**-**	54,600
Deferred tax liabilities		**633**	717
Total non-current liabilities		**633**	55,317
Net assets		**328,410**	303,121
EQUITY			
Issued capital		**53,802**	53,762
Reserves		**274,608**	249,359
Total equity		**328,410**	303,121

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 buildings, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

(2) CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendment to HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendment most applicable to the Group are as follows:

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

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 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial & Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Asset*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that except for the adoption of HKAS 1 Amendments and HKAS 27 (2011), these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial positions.

(3) OPERATING SEGMENT INFORMATION

No separate analysis of operating 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 the People's Republic of China (the "PRC" or "Mainland China") during the year.

Information about a major customer

Revenue of approximately HK$111,570,000 (2010: HK$103,200,000) was derived from sales to a single customer, which constituted 19% (2010: 20%) of total revenue, during the year ended 31 December 2011.

(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:

	2011	2010
	HK$'000	*HK$'000*
Revenue		
Processing and sale of leather	**587,020**	520,737
Other income		
Gross rental income	**-**	97
Interest income	**1,066**	937
Sale of scrap materials	**2,761**	2,084
Others	**1,088**	6,514
	4,915	9,632
Gains		
Surplus on revaluation of buildings	**-**	895
Foreign exchange gain, net	**1,890**	99
Gain on disposal of an investment property	**-**	1,570
Gain on disposal of items of property, plant and equipment	**38**	365
	1,928	2,929
	6,843	12,561

(5) PROFIT BEFORE TAX

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

	2011	2010
	HK$'000	*HK$'000*
Cost of inventories sold	**571,490**	488,512
Auditors' remuneration	**1,150**	1,128
Depreciation	**8,542**	8,277
Interest on:		
Bank loans and discounting bills receivable to banks	**2,314**	225
Convertible notes	**-**	2,620
Loans from the immediate holding company	**1,798**	917
Loan from a fellow subsidiary	**1,273**	1,019
	5,385	4,781
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	**29,917**	26,743
Pension scheme contribution (defined contribution schemes)*	**2,331**	2,694
Equity-settled share option expense	**447**	239
	32,695	29,676
Provision/(reversal of provision) for inventories	**(12,667)**	345
Minimum lease payments under operating leases in respect of land and buildings	**756**	675
Amortisation of prepaid land lease payments	**232**	172
Rental income on an investment property less direct operating expenses (2010: HK$26,000)	**-**	(71)
Deficit/(surplus) on revaluation of buildings	**521**	(895)
Gain on disposal of items of property, plant and equipment	**(38)**	(365)
Impairment of trade and other receivables, net	**331**	258

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

(6) INCOME 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 (2010: Nil). Taxes on profits assessable in Mainland China have been calculated at the rate of tax prevailing in Mainland China in which the Group operates.

	2011	2010
	HK$'000	*HK$'000*
Group:		
Current - Mainland China		
Charge for the year	**3,668**	7,844
Underprovision in prior years	**480**	-
Deferred	**(130)**	224
Total tax charge for the year	**4,018**	8,068

(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 of 537,829,411 (2010: 537,619,000) 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:

	2011	2010
	HK$'000	*HK$'000*
Earnings		
Profit for the year, used in the basic earnings per share calculation	**1,189**	6,212
Interest on convertible notes	**-**	2,620*
Profit for the year, before interest on convertible notes	**1,189**	8,832

	Number of shares	
	2011	2010
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**537,829,411**	537,619,000
Effect of dilution - weighted average number of ordinary shares:		
Share options	**503,943**	3,020,316
Convertible notes	**-**	19,864,456*
	538,333,354	560,503,772

* Because the diluted earnings per share amount is increased when taking the convertible notes into account, the convertible notes had an anti-dilutive effect on the basic earnings per share for the prior year and were ignored in the calculation of diluted earnings per share. Therefore, diluted earnings per share amount is based on the profit for the prior year of HK$6,212,000 and the weighted average number of ordinary shares of 540,639,316 in issue in the prior year.

(8) DIVIDEND

The Board does not recommend the payment of a final dividend (2010: Nil).

(9) RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 31 December 2011, included in the Group's receivables, prepayments and deposits were trade and bills receivables with a net balance of HK$216,780,000 (2010: HK$161,109,000) 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2011	2010
	HK$'000	*HK$'000*
Current	**216,042**	160,771
Less than 3 months	**1,096**	902
3 to 6 months	**409**	115
Over 6 months	**695**	375
	218,242	162,163
Impairment	**(1,462)**	(1,054)
	216,780	161,109

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

	2011	2010
	HK$'000	*HK$'000*
At 1 January	**1,054**	763
Impairment losses recognised	**1,051**	567
Impairment losses reversed	**(703)**	(309)
Exchange realignment	**60**	33
At 31 December	**1,462**	1,054

The above provision for impairment of trade receivables is a provision for individually fully impaired trade receivables. The individually impaired trade receivables relate to customers that were in default or delinquency payments.

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

	2011	2010
	HK$'000	*HK$'000*
Neither past due nor impaired	**216,042**	160,771
Less than 1 month past due	**629**	236
1 to 3 months past due	**109**	102
	216,780	161,109

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 the credit quality and the balances are still considered fully recoverable.

(10) TRADE PAYABLES

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

	2011	2010
	HK$'000	*HK$'000*
Within 3 months	**24,486**	23,481
3 to 6 months	**20,234**	18,691
Over 6 months	**4,002**	4,367
	48,722	46,539

The trade payables of the Group are non-interest-bearing and are normally settled on terms of 60 to 90 days. Other payables of the Group 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 a maturity date on the third anniversary of the date of issue of the convertible notes (the "Maturity Date"). GDH had 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. Any convertible notes not converted would be redeemed on the Maturity Date at a price of HK$1.0623 per HK$1 note. The notes carried interest at a rate of 1% per annum, payable semi-annually in arrears on 13 February and 13 August.

The convertible notes have been split into the liability and equity components as follows:

	2010
	HK$'000
Nominal value of convertible notes	61,500
Equity component	(5,599)
Direct transaction costs attributable to the liability component	(537)
Liability component at the issuance date	55,364
Interest expense	11,813
Interest paid	(1,845)
Redeemed during the year	(65,332)
Liability component at 31 December	-

No convertible notes were converted, and the Company redeemed in full, the convertible notes on the Maturity Date, i.e., 12 August 2010 at a price of HK$1.0623 per HK$1 note.

CHAIRMAN'S STATEMENT

Results

I would like to present to the shareholders that the consolidated profit attributable to shareholders of the Group for 2011 was HK$1,189,000 (2010: HK$6,212,000), representing a decrease of 80.9% over last year. Basic earnings per share was HK0.22 cent (2010: HK1.16 cents), representing a decrease of 81.0% compared with last year.

Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: Nil).

Review

Since 2011, the competition in tannery industry has been heating up in the wake of the economic downturn and the deepening effects of the domestic macroeconomic policies, which has imposed adverse impacts on the operating results of the Group. Upholding the core value of the corporate culture, the Group proactively strengthened the construction of hardware indices in response to the domestic and international macroeconomic trends and industrial changes, with an aim of defying actual corporate difficulties. Guided by the strategic direction of "comprehensive rationalisation of all production relationships for practical expansion of development foundation", the Group implemented comprehensive budget management, effectively exercised cost control and enhanced energy saving and emission reduction. Such initiatives enabled the Group to pass the environmental protection approval of the new plant of the Relocation & Technical Renovation Project of Xuzhou Nanhai Leather Factory Co., Ltd., and the clean production verification approval in relation to key enterprises, thus laying a solid foundation for the long-term, stable operation and expansion of the Company.

During the year, amidst the adverse environment of the dramatic plunge in sales of footwear leather in both domestic and international markets, together with the surge in raw material prices and increasing labour costs, the Group closely monitored the market of imported cowhides, and carefully analysed the impact of the appreciation of Renminbi and increasing pressure of domestic inflation on raw material prices. Based on such analysis, the Group conducted forecasts on prices of cowhides, determined optimal production plans in line with economies of scale, and formulated a prudent operating strategy of matching production with demand and linking purchase with production, allowing the Group to avoid the soaring prices of cowhides and to mitigate the risks of substantial fluctuations in prices of cowhides. Meanwhile, capitalising on the opportunity brought by the industrial pattern that the increase in prices of hides will push up the prices of finished products, the Group further optimised its inventory composition through active disposal of obsolete stocks and improvement of receivables structure, which led to the achievement of comparative advantages under the unfavourable market condition. Furthermore, through the establishment of strategic supply-and-sales relationship with large footwear manufacturers and customers with strong financial background, the Group sustained the production and sales volume and secured the growth in selling prices, resulting in an increase of 12.7% in consolidated turnover, thus ensuring the operating efficiency of the business.

During the year, efforts had been put into painstaking budget management, strengthened internal control management, enhanced risk control management and refined on-site management. As a result, the Group managed to reduce its operating risks by rebuilding technical system, restructuring management team, sharpening competitive advantage and reinforcing awareness of safe production.

Prospects

The Company's overall operation prospects become uncertain in 2012 given the possibility of downturn in Mainland China's macro-economy and highly unpredictable situations of global economy. On top of scale development of footwear leather, the Group will continue to implement stable operating strategies, forge ahead with all of its scheduled tasks and strive to realise various operating targets by tapping into the improvement of basic management. In terms of production and sales, the Group will closely monitor the trend of leather's end market and link purchase with production in order to reduce the exposure to soaring prices of cowhides; keep enhancing direct sales with renowned brand footwear manufacturers to safeguard the balance of distribution network, and meanwhile, step up efforts for research and development of new products and marketing. In terms of internal control management and corporate governance, the Group will continue to optimise and improve internal control management system; promote team building and constantly enrich its talent pool; strengthen the systems of legal risk management and safety production management and implement "people-oriented" philosophy of corporate governance with an aim to establish a solid foundation for the healthy sustainable development of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's consolidated profit attributable to shareholders for the year ended 31 December 2011 was HK$1,189,000, representing a decrease of HK$5,023,000 or 80.9% as compared to the profit of HK$6,212,000 for last year.

The net asset value of the Group as at 31 December 2011 was HK$328,410,000, representing an increase of HK$25,289,000 and HK$13,245,000, as compared to the net asset values as at 31 December 2010 and 30 June 2011, respectively.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2011.

Business Review

Currently the macro-economic control policies adopted by Mainland China, which aims at curbing inflation, has adversely affected the survival and development capabilities of various light industries as well as small and medium sized enterprises. The increasing prices of various raw materials for production and the overall downturn of tannery industry, coupled with the sluggish growth in peak season in 2011, had adverse impacts on the Group's operating results. During the year, guided by the direction of "comprehensive rationalisation of all production relationships for practical expansion of development foundation", the Group implemented strict control over the procurement and production cycles, carried out comprehensive budget control while striving for technical innovation, strengthening the mechanism of internal control management and optimising team building, in a view to adapting to the changing economic conditions and pursuing stable operations, thus tide over economic ups and downs of the year.

During the year, the total production volume of cowhides was 26,393,000 sq. ft., representing a decrease of 1,447,000 sq. ft. or 5.2% over 27,840,000 sq. ft. for the same period of last year; the production volume of greyhides was 13,933 tons, representing an increase of 1,229 tons or 9.7% over 12,704 tons for the same period of last year.

During the year, the consolidated turnover of the Group was HK$587,020,000, representing an increase of HK$66,283,000 or 12.7% over HK$520,737,000 for the same period of last year, of which cowhides amounted to HK$510,038,000 (2010: HK$463,968,000), representing an increase of 9.9% and greyhides and other products amounted to HK$76,982,000 (2010: HK$56,769,000), representing an increase of 35.6%. Since 2011, apart from the continuous decrease in the sales market of footwear leather in Mainland China, the purchase orders from the overseas market had also plummeted due to the economic downturn in European and American countries, as well as the surge in prices of raw materials. Moreover, the pressure of collecting receivables spurred on by the stringent monetary policies and the increasing costs of leather and labour have intensified the competition in end markets. During the year, in light of the unfavourable conditions in the industry, the Group resolutely initiated the prudent operating strategies in response to the adverse conditions of changing markets. Given the fact that the overall increment of sales prices did not catch up with the increase in costs of raw materials, the Group determined optimal production plans in line with economies of scale and enhanced product research and development. By leveraging on its unique advantage of branding, the Group forged alliances with renowned footwear manufacturers and strategic customers with strong financial background, which led to the establishment of a stable sales network and sustained the steady production for the Group. Meanwhile, the Group persisted in carrying on the sales service according to the credit policy, and strictly adhered to "cash on delivery" policy for customers without credit ranking. While many footwear factories closed due to break of the funding chain during the year, the Group had not been affected and ensured the safety of its assets.

Facing with the problem of soaring costs of raw materials, the Group paid close attention to the macro-economic situation, strictly monitored the markets movement of imported cowhides and chemical materials, constantly kept a watchful eye on the fluctuation of exchange rates and the demands for leather in end markets, and conducted detailed analysis on the effects of increasing domestic inflation upon the prices of raw materials. Based on such analysis, the Group actively conducted forecasts on prices of cowhides, and adopted a balanced procurement strategy of matching production with demand and linking purchase with production. In particular, the Group conducted purchase of cowhides step by step in line with actual production needs in order to avoid the risk of purchasing at high prices while ensuring sufficient inventories were maintained, which had substantially mitigated the adverse effects of the increasing price of cowhides upon the operating efficiency of the business. During the year, the total purchase amounted to HK$553,490,000, representing an increase of 15.6% as compared to that of the same period of last year.

As at 31 December 2011, the Group's consolidated inventory amounted to HK$185,092,000 (31 December 2010: HK$151,878,000), representing an increase of HK$33,214,000 or 21.9% over that of 31 December 2010, mainly due to the increase in purchase price of cowhides. During the year, the Group strengthened the disposal of inventories when there was surge in prices of cowhides through multiple sales channels and diversified technical methods, leading to effective depletion of obsolete inventories. Inventories over a year fell from 17.1% of the total inventories at the end of 2010 to 4.8% as at 31 December 2011, substantially reducing the obsolete inventories and further optimising the inventory composition.

On 1 February 2011, the reduction of the credit standing to the share premium account of the Company to the extent of HK$393,345,845, and the application of the credit arising from such reduction to eliminate the accumulated losses by the same amount (the "Share Premium Reduction") were passed by shareholders at the extraordinary general meeting. The purpose of the Share Premium Reduction is to bring the Company to a position that might permit the payment of dividends in the future if and when allowed by the Company's financial position and considered appropriate by the Board. The Share Premium Reduction was confirmed by an order (the "Order") made by the High Court of Hong Kong Special Administrative Region of the PRC (the "Court") on 22 March 2011 and took effect on 29 March 2011.

Financial Review

As at 31 December 2011, the Group's cash and cash equivalents amounted to HK$81,672,000 (31 December 2010: HK$107,718,000), representing a decrease of HK$26,046,000 or 24.2% as compared to the same as at 31 December 2010, of which 3.8%, 93.7% and 2.5% were denominated in Hong Kong dollars, Renminbi and United States dollars, respectively. During the year, net cash outflow from operating activities was HK$22,303,000, which was mainly attributed to the increase in trade and bills receivables as compared to that of last year. The net cash outflow from investing activities was HK$8,528,000, which was mainly attributed to the purchase of fixed assets and prepaid land lease payments.

As at 31 December 2011, the Group's interest-bearing borrowings amounted to HK$232,736,000 (31 December 2010: HK$181,390,000), of which, interest-bearing borrowings of HK$65,000,000 were denominated in Hong Kong dollars and interest-bearing borrowings of HK$167,736,000 were denominated in United States dollars. The Group's borrowings mainly consist of: (1) balances of short-term loans provided by the banks of HK$90,357,000, which were secured by bank deposits of RMB27,151,000 and (2) balances of short-term unsecured inter-group borrowings of HK$142,379,000. The above interest-bearing borrowings were charged at floating interest rates.

As at 31 December 2011, the gearing ratio of the Group's interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 41.5% (31 December 2010: 37.4%). During the year, the annual interest rate of the borrowings was approximately 1.2% to 5.2%. All of the Group's borrowings are repayable within one year. The Group's interest expenses for the year amounted to HK$5,385,000, representing an increase of 12.6% over last year.

As at 31 December 2011, the total banking facilities of the Group were HK$251,160,000 (31 December 2010: HK$135,148,000), of which banking facilities of HK$90,357,000 (31 December 2010: HK$39,011,000) were utilised and HK$160,803,000 were unutilised (31 December 2010: HK$96,137,000). In view of the existing cash resources and available credit facilities as well as the cash flow generated from the Group's operations, the Group had adequate financial resources to meet its day-to-day operation requirements.

Capital Expenditure

As at 31 December 2011, the net value of non-current assets such as prepaid land lease payments, property, plant and equipment, amounted to HK$123,533,000, representing an increase of HK$11,881,000 over the net value of HK$111,652,000 as at 31 December 2010. The total capital expenditure for the year amounted to HK$9,625,000 (2010: HK$17,732,000), primarily for the payments of the construction works and the acquisition of machinery and equipment to cope with the production requirements of the Group.

Pledge of Assets

As at 31 December 2011, the total bank deposits of the Group of HK$33,490,000 (31 December 2010: HK$32,314,000) were pledged to secure the 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, United States dollars or Renminbi. During the year, the exchange rates of Hong Kong dollars and United States dollars were relatively stable and did not constitute any material foreign exchange risk to the Group. As to the influence of the appreciation of Renminbi, as all of the Group's sales are settled in Renminbi, and the purchases are mainly settled in Renminbi and United States dollars, the Group did not have any material foreign exchange risk.

Remuneration Policy for Employees

As at 31 December 2011, a total of 759 employees (31 December 2010: 849) were employed by the Group. Our remuneration policy is based on the Group's operating results and the employees' performance. The Group has adopted a performance-based appraisal scheme for its employees, focusing on "accountability and performance". The incentive bonuses to the management, key officers and staff with outstanding performance under the incentive scheme are determined by reference to the Group's net operating cash flow and profit after tax, calculated by various profit rankings and by applying a measure that links bonuses with operating results of the Group and further taking into account of the individual performance of the staff concerned, with an aim to motivate the contributions 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 for 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 Group recognises the importance of achieving the highest standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all of its stakeholders and is fully committed to doing so. It is also with these objectives in mind that the Group has applied the principles of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In the opinion of the directors of the Company, the Company has complied with the code provisions set out in the CG Code throughout the year ended 31 December 2011.

AUDIT COMMITTEE

The annual results of the Group for the year ended 31 December 2011 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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Tuesday, 29 May 2012 and Wednesday, 30 May 2012, during such period no transfer of shares of the Company will be registered. In order to determine the identity of the members who are entitled to attend and vote at the annual general meeting of the Company to be held on 30 May 2012, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited at 26th Floor Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 28 May 2012.

By order of the Board
Chen Hong
Chairman

Hong Kong, 13 March 2012

As at the date of this announcement, the Board comprises two Executive Directors, namely Mr. Chen Hong and Mr. Sun Jun; three Non-Executive Directors, namely Mr. Xiong Guangyang, Mrs. Ho Lam Lai Ping, Theresa and Mr. Qiao Jiankang; and three Independent Non-Executive Directors, namely Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat.