GDH

粵海制革有限公司

GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

2012 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 2012 together with comparative figures.

CONSOLIDATED INCOME STATEMENT

	Notes	**2012** *HK$'000*	2011 *HK$'000*
REVENUE	*4*	**622,869**	587,020
Cost of sales		**(592,478)**	(558,823)
Gross profit		**30,391**	28,197
Other income and gains	*4*	**13,235**	6,843
Selling and distribution expenses		**(2,125)**	(1,956)
Administrative expenses		**(24,187)**	(22,492)
Impairment on items of property, plant and equipment		**(5,300)**	-
Finance costs	*5*	**(5,923)**	(5,385)
PROFIT BEFORE TAX	*5*	**6,091**	5,207
Income tax expense	*6*	**(5,058)**	(4,018)
PROFIT FOR THE YEAR		**1,033**	1,189
EARNINGS PER SHARE	*7*		
- Basic		**HK 0.19 cent**	HK0.22 cent
- Diluted		**HK 0.19 cent**	HK0.22 cent

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2012	2011
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**1,033**	1,189
OTHER COMPREHENSIVE INCOME		
Surplus on revaluation of buildings	**529**	184
Income tax effect	**(132)**	(46)
	397	138
Exchange differences on translation of foreign operations	**(48)**	22,404
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**349**	22,542
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,382**	23,731

CONSOLIDATED BALANCE SHEET

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**103,560**	108,967
Prepaid land lease payments		**14,252**	14,566
Total non-current assets		**117,812**	123,533
CURRENT ASSETS			
Inventories		**200,679**	185,092
Receivables, prepayments and deposits	*9*	**236,455**	220,874
Pledged bank balances		**13,005**	33,490
Restricted bank balances		**-**	1,850
Cash and bank balances		**44,513**	81,672
Total current assets		**494,652**	522,978
CURRENT LIABILITIES			
Trade payables	*10*	**39,995**	48,722
Other payables and accruals	*10*	**37,212**	30,149
Interest-bearing bank and other borrowings		**53,731**	90,357
Due to a PRC joint venture partner		**1,131**	1,131
Loans from the immediate holding company		**142,379**	142,379
Provision		**3,934**	3,934
Tax payable		**4,200**	796
Total current liabilities		**282,582**	317,468
NET CURRENT ASSETS		**212,070**	205,510
TOTAL ASSETS LESS CURRENT LIABILITIES		**329,882**	329,043
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**309**	633
Total non-current liabilities		**309**	633
Net assets		**329,573**	328,410
EQUITY			
Issued capital		**53,802**	53,802
Reserves		**275,771**	274,608
Total equity		**329,573**	328,410

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 classified as property, plant and equipment, 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 2012. 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 it 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 revised HKFRSs for the first time for the current year's 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*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments*: *Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax*: *Recovery of Underlying Assets*

Other than as further explained below regarding the impact of amendments to HKFRS 7, the adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

Amendments to HKFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets

The HKFRS 7 Amendments require additional disclosures about financial assets that have been transferred but not derecognised to enable users of the Group's financial statements to understand the relationship of those assets that have not been derecognised with their associated liabilities. In addition, the amendments require disclosures about the entity's continuing involvement in derecognised assets to enable users to evaluate the nature of, and risks associated with, such involvement.

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 – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments*: *Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments*: *Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements to HKFRSs 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 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 these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

(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$140,133,000 (2011: HK$111,570,000) was derived from sales to a single customer, which constituted 22.5% (2011: 19.0%) of the total revenue, during the year ended 31 December 2012.

(4) REVENUE, OTHER INCOME AND GAINS

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

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

	2012	2011
	HK$'000	*HK$'000*
Revenue		
Processing and sale of leather	**622,869**	587,020
Other income		
Interest income	**327**	1,066
Sale of scrap materials	**2,771**	2,761
Government grants*	**6,881**	-
Others	**249**	1,088
	10,228	4,915
Gains		
Surplus on revaluation of buildings	**1,688**	-
Foreign exchange gain, net	**1,319**	1,890
Gain on disposal of items of property, plant and equipment	**-**	38
	3,007	1,928
	13,235	6,843

* During the year ended 31 December 2012, the Group received HK$6,881,000 from the PRC local government to support the Group's PRC operations.

(5) PROFIT BEFORE TAX

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

	2012	2011
	HK$'000	*HK$'000*
Cost of inventories sold	**593,637**	571,490
Auditors' remuneration	**1,190**	1,150
Depreciation	**8,687**	8,542
Interest on:		
Bank loans and discounting bills receivable to banks	**2,347**	2,314
Loans from the immediate holding company	**3,576**	1,798
Loan from a fellow subsidiary	**-**	1,273
	5,923	5,385

Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	**33,708**	29,917
Pension scheme contribution (defined contribution schemes)*	**3,008**	2,331
Recognition/(forfeiture) of equity-settled share options	**(69)**	447
	36,647	32,695
Reversal of provision for inventories**	**(1,159)**	(12,667)
Minimum lease payments under operating leases in respect of land and buildings	**768**	756
Amortisation of prepaid land lease payments	**311**	232
Deficit/(surplus) on revaluation of buildings	**(1,688)**	521
Loss/(gain) on disposal of items of property, plant and equipment	**184**	(38)
Provision/(reversal of provision) for trade and other receivables, net	**(1,060)**	331

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

** This item is included in the "cost of sales" on the face of the consolidated income statement.

(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 (2011: 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.

	2012	2011
	HK$'000	*HK$'000*
Group:		
Current - Mainland China		
Charge for the year	**5,534**	3,668
Under/(over)-provision in prior years	**(20)**	480
Deferred	**(456)**	(130)
Total tax charge for the year	**5,058**	4,018

(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 538,019,000 (2011: 537,829,411) in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year. 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 of all dilutive potential ordinary share options into ordinary shares.

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

	2012	2011
	HK$'000	*HK$'000*
Earnings		
Profit for the year, used in the basic earnings per share calculation	**1,033**	1,189

	Number of shares	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**538,019,000**	537,829,411
Effect of dilution - weighted average number of ordinary shares:		
Share options	**141,865**	503,943
	538,160,865	538,333,354

(8) DIVIDEND

The Board does not recommend the payment of a final dividend (2011: Nil).

(9) RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 31 December 2012, included in the Group's receivables, prepayments and deposits were trade and bills receivables with a net balance of HK$232,532,000 (2011: HK$216,780,000) 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. The carrying amounts of trade receivables approximate their fair values.

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

	2012	2011
	HK$'000	*HK$'000*
Current	**231,787**	216,042
Less than 3 months	**845**	1,096
3 to 6 months	**7**	409
Over 6 months	**166**	695
	232,805	218,242
Impairment	**(273)**	(1,462)
	232,532	216,780

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

	2012	2011
	HK$'000	*HK$'000*
At 1 January	**1,462**	1,054
Impairment losses recognised	**-**	1,051
Impairment losses reversed	**(1,060)**	(703)
Bad debt written off	**(125)**	-
Exchange realignment	**(4)**	60
At 31 December	**273**	1,462

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:

	2012	2011
	HK$'000	*HK$'000*
Neither past due nor impaired	**231,787**	216,042
Less than 3 months past due	**745**	738
	232,532	216,780

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, OTHER PAYABLES AND ACCRUALS

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

	2012	2011
	HK$'000	*HK$'000*
Within 3 months	**30,267**	24,486
3 to 6 months	**6,808**	20,234
Over 6 months	**2,920**	4,002
	39,995	48,722

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. The carrying amounts of trade and other payables approximate their fair values.

CHAIRMAN'S STATEMENT

Results

I would like to present to the shareholders that the consolidated profit attributable to the shareholders of the Group for 2012 was HK$1,033,000 (2011: HK$1,189,000), representing a decrease of 13.1% compared with last year. Basic earnings per share was HK0.19 cent (2011: HK0.22 cent), representing a decrease of 13.6% compared with last year.

Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: Nil).

Review

In 2012, the competition in the tannery industry intensified further as the overall leather market was on the wane while production costs continued to surge. To cope with constant market change and uphold the core value of its corporate culture, the Group stepped up its efforts to enhance the establishment of fundamentals, to strengthen the comprehensive budget management system and bring out its merit with the aims of providing practical solutions to the actual difficulties faced by the Group, improving corporate governance and minimising production costs. Meanwhile, the Group has also rigorously promoted brand-building and achieved strategic successes. The Group’s immediate holding company, GDH Limited, has authorised the Group to use "GDH" as its corporate and product logo, thereby promoting the Group’s corporate image, influence and appeal in Jiangsu Province as well as the whole industry. Furthermore, in view of imperfect operation in the industry, the Group put the spotlight on its systematic operations as a new selling point, and positioned itself as a model enterprise in the industry with "formality, integrity and reliability" so as to elicit greater cooperation from renowned shoe brands. During the year, General Administration of Quality Supervision, Inspection and Quarantine of the PRC approved the Group’s plan to expand its capacity as a designated processor of imported hide. This approval paved the way for the Group’s scale expansion in the future.

The footwear leather market remained uncertain during the year amidst the plunge in sales of footwear leather in both domestic and international markets, thus making the forecasts and analysis of the leather market more difficult and hindering the Group's operation plans. Coupled with the persistent surge in labour cost, increasing shortage of hide supply and the unprecedented and dramatic rise in raw material prices, such uncertainties has intensified competition in the market and exerted rising pressure on the Group's operation. Facing the aforementioned hardship, the Group closely monitored the domestic and overseas primary supply of hide and reduced its costs at the source. It also actively visited modernised factories in advanced countries so as to adopt their forward thinking and enhance its production automation and competitiveness. Moreover, the Group has also reduced its inventory by carrying on its balanced demand-oriented approach in production and procurement while securing stable sales through strengthening its alliances with strategic customers with strong financial background by encouraging them to build up their stocks. As a result, the Group was able to maintain its operating efficiency in the time of a flagging industry. At the same time, it has minimised its operational risks through promoting budget management, pursuing strategic corporate targets, optimising resource allocation, improving corporate governance, reducing production costs, and reinforcing internal control and risk management.

Prospects

2013 presents an opportunity to remodel the international political and economic status quo. A new Chinese government is inaugurated this year amidst the inextricably intertwined financial, debt and geopolitical crises. In light of the unfavourable circumstances brought by the general slowdown of the Chinese economy and the shrinking demand in the leather industry, the operating environment will subject to an unprecedented degree of uncertainties, and it is expected that the waning trend of the leather industry will continue. Building on the scale development of its footwear business and the improvement in basic management, the Group will continue to pursue future development. The Group will adhere to the principles of "pragmatism, steady advancement and keeping a watchful eye on business opportunities". The Group will enhance product research, development and marketing while adopting a conservative procurement strategy, and will continue to strengthen risk control in order to improve future profitability. The Group will also continue to nurture its workforce, improve its training system and enhance production safety in order to lay the foundations for its sustainable development.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's consolidated profit attributable to shareholders for the year ended 31 December 2012 was HK$1,033,000, representing a decrease of HK$156,000 or 13.1% as compared to the profit of HK$1,189,000 for the same period last year.

The net asset value of the Group as at 31 December 2012 was HK$329,573,000, representing an increase of HK$1,163,000 and HK$6,866,000 as compared to those as at 31 December 2011 and 30 June 2012, respectively.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2012.

Business Review

Since 2012, profits of large industrial enterprises have been dwindling, and the gross domestic product (GDP) growth target was set below 8% for the first time in eight years. In view of the general economic environment, the footwear leather market experienced plunge in sales in the international market and sluggish sales in the domestic market. In the meantime, footwear leather manufacturing enterprises had a hard time to make ends meet due to a tumble in the prices of finished products and rising labour and energy costs as well as surging raw hide prices. All the above factors suggest that the overall market was on the wane. Facing such unfavourable environment, the Group has stepped up efforts to improve its turnover by developing new products and expanding markets. On the other hand, the Group strictly adhered to comprehensive budget management and adjusted its operating strategies with the aim of lowering production cost. Capitalising on risk control under a strengthened internal control system and a mature management team, the Group managed to significantly mitigate the negative impacts of the unfavorable factors and sustain its operating profit. Moreover, the Group has also vigorously promoted brand building, as proved by the title of "Eco-Leather Mark" awarded by the State in April 2012. Being the first tannery enterprise in Jiangsu Province to receive such recognition marked a milestone in the corporate development history of the Group.

During the year, the total production volume of cowhides was 26,538,000 sq. ft., representing an increase of 145,000 sq. ft. or 0.5% as compared to 26,393,000 sq. ft. for the same period last year. The production volume of grey hides was 14,422 tons, representing an increase of 489 tons or 3.5% as compared to 13,933 tons for the same period last year.

The consolidated turnover of the Group for 2012 was HK$622,869,000, representing an increase of HK$35,849,000 or 6.1% from HK$587,020,000 for the same period last year, of which the sales value of cowhides amounted to HK$538,234,000 (2011: HK$510,038,000), representing an increase of 5.5%, and that of grey hides and other products amounted to HK$84,635,000 (2011: HK$76,982,000), representing an increase of 9.9%. During the year, raw material prices showed no signs of decline, while energy and transportation costs and labour costs grew inexorably. The Group’s development was further hindered by higher spending on the upgrade and acquisition of equipment. To cope with the adversity, the Group has paid close attention to the changes in the international and domestic markets and the State’s tightening measures on the market, and has adroitly adjusted its operating strategies, strengthened internal control system, developed new products and new technologies as well as lowered production cost. By maximising production efficiency, the Group was able to achieve the goal set at the beginning of the year. On the sales front, the Group adhered to its credit control policy, under which customers without credit ratings were subject to a cash-on-delivery requirement, so as to secure the Group’s assets. Furthermore, the Group strengthened its alliances with strategic customers with strong financial background by encouraging customers to build up their stocks to ensure a stable operation in the time of a flagging industry. In response to market demand, the Group has applied new techniques to the expansion of research and development capability and development of new products. Meanwhile, market expansion has also taken place to create greater demand for the Group’s products and to boost the Group’s market share.

In terms of purchase, the Group has adopted a balanced demand-oriented approach in production and procurement. Apart from enhancing the purchase of cowhides, the Group also increased application of obsolete chemicals, reduced stocks in raw cowhides, reduced inventory on chemicals and controlled inventory level to avoid surplus. To guarantee product quality, the Group has implemented stringent supplier assessment and product examination policy. During the year, total purchases amounted to HK$568,148,000, representing an increase of 2.7% as compared to that of the same period last year.

As at 31 December 2012, the Group's consolidated inventory amounted to HK$200,679,000 (31 December 2011: HK$185,092,000), representing an increase of HK$15,587,000 or 8.4% over that of 31 December 2011. It was mainly due to the increase in stock level. During the year, the Group devoted extra efforts to expanding the markets and the product mix, and consuming stockpiles by optimising them for better use.

General Administration of Quality Supervision, Inspection and Quarantine of the PRC has approved the Group's plan to expand its capacity as a designated processor of imported hide. This approval paved the way for the Group's scale expansion in the future. The Group will continue its prudent and pragmatic strategies in new product development and market expansion, and make better allocation of its resources, in order to reduce production cost, sustain profit growth and create greater value for the shareholders.

Financial Review

Liquidity and Financial Resources

As at 31 December 2012, the Group's cash and cash equivalents amounted to HK$44,513,000 (31 December 2011: HK$81,672,000), representing a decrease of HK$37,159,000 or 45.5% as compared to the same as at 31 December 2011, which were denominated in Hong Kong dollars (2.2%), Renminbi (96.4%) and United States dollars (1.4%), respectively. During the year, net cash outflow from operating activities was HK$55,439,000, which was mainly attributable to the increase in cash outflow as a result of the repayment of trust receipt loans. The net cash inflow from investing activities was HK$18,403,000, which mainly represented the decrease in pledged bank deposits.

As at 31 December 2012, the Group's interest-bearing borrowings amounted to HK$196,110,000 (31 December 2011: HK$232,736,000), of which interest-bearing borrowings of HK$65,000,000 were denominated in Hong Kong dollars and interest-bearing borrowings of HK$131,110,000 were denominated in United States dollars. The Group's borrowings mainly consisted of: (1) balances of short-term loans of HK$53,731,000 provided by banks, which were secured by bank deposits of RMB10,545,000; and (2) balances of short-term unsecured intra-group borrowings of HK$142,379,000. The above interest-bearing borrowings were charged at floating interest rates.

As at 31 December 2012, the Group's gearing ratio of the interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 37.3% (31 December 2011: 41.5%). During the year, the annual interest rate of the borrowings was approximately 1.5% to 6.1%. All the Group's borrowings were repayable within one year. The Group's interest expenses during the year amounted to HK$5,923,000, representing an increase of 10.0% as compared to the same period last year.

As at 31 December 2012, the total banking facilities of the Group were HK$341,661,000 (31 December 2011: HK$251,160,000), of which HK$53,731,000 (31 December 2011: HK$90,357,000) were utilised and HK$287,930,000 (31 December 2011: HK$160,803,000) were unutilised. Taking into account of the existing cash resources and available credit facilities, the Group had adequate financial resources to meet its day-to-day operational requirements.

Capital Expenditure

As at 31 December 2012, the net value of non-current assets including prepaid land lease payments, property, plant and equipment amounted to HK$117,812,000, representing a decrease of HK$5,721,000 as compared to the net value as at 31 December 2011 of HK$123,533,000. The total capital expenditure for the year amounted to HK$6,609,000 (2011: HK$9,625,000), which mainly represented the payment for the acquisition of machinery and equipment to meet the Group's production requirements.

Pledge of Assets

As at 31 December 2012, the Group's total bank deposits of HK$13,005,000 (31 December 2011: HK$33,490,000) were pledged to secure the general banking facilities granted to the Group.

Foreign Exchange Exposure

The assets, liabilities and transactions of the Group are generally 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 appreciation of Renminbi, since the sales of the Group were settled in Renminbi, whereas the purchases were made in Renminbi and United States dollars, the Group was not subject to any material exposure to foreign exchange risk.

Remuneration Policy for Employees

As at 31 December 2012, the Group had 730 employees (31 December 2011: 759). The 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 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, and are calculated by various profit rankings and by applying a measure that takes into account of the individual performance of the staff concerned with the aim of motivating the employees. In addition, the Group offered social and medical insurance and provident fund to all employees in different areas. The Company 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.

CORPORATE GOVERNANCE CODE

The Group recognises the importance of achieving and monitoring 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 (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (collectively the "CG Code") as set out 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 complied with the code provisions set out in the CG Code throughout the year ended 31 December 2012, save for new code provision A.6.7 of the CG Code as two non-executive directors were unable to attend the annual general meeting of the Company held on 30 May 2012 as they were out of town or they had other engagements.

REVIEW OF ANNUAL RESULTS

The annual results of the Group for the year ended 31 December 2012 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 Wednesday, 29 May 2013 and Thursday, 30 May 2013, 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 forthcoming annual general meeting of the Company, 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 Tuesday, 28 May 2013.

By order of the Board
Chen Hong
Chairman

Hong Kong, 26 March 2013

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.