GENVON GROUP LIMITED
正峰集團有限公司

# GENVON GROUP LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 2389)**

# ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

The board of directors (the "Board") of Genvon Group Limited (the "Company") announces the audited consolidated annual results of the Company and its subsidiaries (collectively the "Group") prepared in accordance with Hong Kong Financial Reporting Standards for the year ended 31 December 2012, together with the comparative figures for the year 2011, as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2012*

| | *Notes* | **2012** *HK$'000* | 2011 *HK$'000* |
|---|---|---|---|
| Revenue | *4* | **801,574** | 114,040 |
| Cost of sales | | **(530,345)** | (111,166) |
| Gross profit | | **271,229** | 2,874 |
| Other income | *6* | **4,907** | 2,104 |
| Other gains and losses | *7* | **4,964** | 3,772 |
| Selling and distribution expenses | | **(9,219)** | (3,782) |
| Administrative expenses | | **(36,055)** | (43,574) |
| Finance costs | *8* | **(4,943)** | (3,824) |
| Profit (loss) before taxation | | **230,883** | (42,430) |
| Income tax expense | *9* | **(117,170)** | – |
| Profit(loss) for the year | *10* | **113,713** | (42,430) |
| **Other comprehensive income** | | | |
| Exchange differences arising on translation | | **291** | 43,576 |
| Total comprehensive income for the year | | **114,004** | 1,146 |
| Profit(loss) for the year attributable to: | | | |
| Owners of the Company | | **115,988** | (41,669) |
| Non-controlling interest | | **(2,275)** | (761) |
| | | **113,713** | (42,430) |
| Total comprehensive income (expense): | | | |
| Owners of the Company | | **116,312** | (7,323) |
| Non-controlling interest | | **(2,308)** | 8,469 |
| | | **114,004** | 1,146 |
| Earning(loss) per share | *12* | | |
| – Basic and diluted (HK cent) | | **2.75** | (1.0) |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
At 31 December 2012

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **89,205** | 96,033 |
| Prepaid lease payments | | **23,844** | 25,015 |
| Intangible assets | | **4,441** | 5,447 |
| Deferred tax asset | | **15,488** | – |
| | | **132,978** | 126,495 |
| **Current assets** | | | |
| Inventories | | **24,125** | 14,215 |
| Stock of properties | | **999,295** | 937,088 |
| Trade and other receivables | *13* | **111,621** | 158,078 |
| Deposit paid for acquisition of land use rights | | **230,291** | 230,320 |
| Prepaid lease payments | | **632** | 772 |
| Bank balances and cash | | **123,251** | 67,899 |
| | | **1,489,215** | 1,408,372 |
| Assets classified as held for sale | *15* | **2,977** | – |
| | | **1,492,192** | 1,408,372 |
| **Current liabilities** | | | |
| Trade and other payables | *14* | **244,011** | 45,519 |
| Deposits and accrued expenses | | **6,264** | 6,792 |
| Deposits received from pre-sale of properties | | **65,464** | 439,939 |
| Bank and other borrowings – due within one year | | **149,967** | 155,769 |
| Tax payable | | **109,189** | – |
| Loans from related companies | | **63,023** | 22,088 |
| | | **637,918** | 670,107 |
| **Net current assets** | | **854,274** | 738,265 |
| **Total assets less current liabilities** | | **987,252** | 864,760 |
| **Capital and reserves** | | | |
| Share capital | | **422,477** | 422,477 |
| Reserves | | **169,622** | 52,673 |
| | | **592,099** | 475,150 |
| **Non-controlling interest** | | **202,412** | 204,720 |
| **Total equity** | | **794,511** | 679,870 |
| **Non-current liabilities** | | | |
| Bank and other borrowings – due after one year | | **168,209** | 160,355 |
| Deferred income | | **24,532** | 24,535 |
| | | **192,741** | 184,890 |
| | | **987,252** | 864,760 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

### 1. GENERAL INFORMATION

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent and ultimate holding company is Grand Vision Group Limited, which is controlled by Mr. Wang Zheng Chun, an executive director and the ultimate controlling shareholder of the Company.

During the year, the Group was principally involved in property development and manufacturing and trading of power tools.

The functional currency of the Company is United States dollars ("USD"), and the consolidated financial statements are presented in Hong Kong dollars ("HKD"). The directors of the Company selected HKD as the presentation currency because the shares of the Company are listed on the Stock Exchange.

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| Amendments to HKAS 12 | Deferred Tax: Recovery of Underlying Assets |
| Amendments to HKFRS 7 | Financial Instruments: Disclosures – Transfers of Financial Assets |

The application of the amendments to HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

**New and revised HKFRSs issued but not yet effective**

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2009 – 2011 Cycle[1] |
| Amendments to HKFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities[1] |
| Amendments to HKFRS 9 and HKFRS 7 | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3] |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment Entities[2] |
| HKFRS 9 | Financial Instruments[3] |
| HKFRS 10 | Consolidated Financial Statements[1] |

| | |
|---|---|
| HKFRS 11 | Joint Arrangements[1] |
| HKFRS 12 | Disclosure of Interests in Other Entities[1] |
| HKFRS 13 | Fair Value Measurement[1] |
| HKAS 19 (as revised in 2011) | Employee Benefits[1] |
| HKAS 27 (as revised in 2011) | Separate Financial Statements[1] |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[1] |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income[4] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[2] |
| HK(IFRIC) - lnt 20 | Stripping Costs in the Production Phase of a Surface Mine[1] |

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

The Directors of the Company anticipate that the application of the other new and revised standards, amendments and interpretations will have no material impact on the financial performance and financial position of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

## 4. REVENUE

Revenue represents proceeds from sales of power tools and properties. An analysis of the Group's revenue for the year is as follow:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Sales of properties | **666,399** | – |
| Sales of power tools | **135,175** | 114,040 |
| | **801,574** | 114,040 |

## 5. SEGMENT INFORMATION

For the purposes of resources allocation and performance assessment, the Group's chief operating decision maker (i.e. Executive Directors) regularly review internal reports derived from two operating segments which consist of (a) Property Development (b) Manufacturing and Trading of power tools ("Manufacturing and Trading"). These segments are the basis upon which the internal reports are prepared about the components of the Group that are regularly reviewed by the Executive Directors in order to allocate resources to segments and to assess their performance.

The following is an analysis of the Group's revenue and results by operating and reportable segment.

**For the year ended 31 December 2012**

| | **Property Development** | **Manufacturing and Trading** | **Total** |
|---|---|---|---|
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Segment revenue – external | **666,399** | **135,175** | **801,574** |
| RESULTS | | | |
| Segment profit (loss) | **247,395** | **(11,015)** | **236,380** |
| Unallocated corporate income, gains and losses | | | **9,871** |
| Unallocated corporate expenses | | | **(10,425)** |
| Finance costs | | | **(4,943)** |
| Profit before taxation | | | **230,883** |

**For the year ended 31 December 2011**

| | Property Development | Manufacturing and Trading | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment revenue – external | – | 114,040 | 114,040 |
| RESULTS | | | |
| Segment loss | (13,433) | (21,947) | (35,380) |
| Unallocated corporate income, gains and losses | | | 5,876 |
| Unallocated corporate expenses | | | (9,102) |
| Finance costs | | | (3,824) |
| Loss before taxation | | | (42,430) |

Segment profit represents the profit earned or loss incurred by each segment without allocation of central administration costs, finance costs, other income, other gains and losses and impairment loss recognised in respect of property, plant and equipment (if any).

Segment assets and liabilities are not regularly reviewed by the chief operating decision maker for the purposes of performance assessment and resource allocation.

**Other segment information**

**For the year ended 31 December 2012**

| | **Property Development** | **Manufacturing and Trading** | **Unallocated** | **Total** |
|---|---|---|---|---|
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Amounts included in the segment profit: | | | | |
| Depreciation of property, plant and equipment | **186** | **7,175** | **35** | **7,396** |
| Amortisation of intangible assets | **–** | **3,066** | **–** | **3,066** |
| Release of prepaid lease payment | **–** | **769** | **–** | **769** |

**For the year ended 31 December 2011**

| | Property Development and Trading | Manufacturing and Trading | Unallocated | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Amounts included in the segment profit: | | | | |
| Depreciation of property, plant and equipment | 109 | 6,549 | 834 | 7,492 |
| Amortisation of intangible assets | – | 2,429 | – | 2,429 |
| Release of prepaid lease payment | – | 756 | – | 756 |

**Revenue from major products**

An analysis of the Group's revenue for the year from its major products is set out in note 4.

**Information about geographical areas**

The Group's Property Development and Manufacturing and Trading operations are carried out in Hong Kong, Macau and other regions in the PRC. The Group's non-current assets are substantially located in the PRC.

The following tables provides an analysis of the Group's sales by geographical market based on locations of the customers, irrespective of origin of the goods:

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Europe | **23,707** | 27,239 |
| The United States of America | **77,910** | 69,096 |
| The PRC | **698,676** | 11,755 |
| Other countries | **1,281** | 5,950 |
| | **801,574** | 114,040 |

**Information about major customers**

None of the customers of the Group individually contribute more than 10% of the Group's total revenue during the year.

For the year ended 31 December 2011, revenue from largest customer in respect of Manufacturing and Trading segment amounted to approximately HK$50,453,000 which contributed to approximately 44.24% of the Group's total revenue.

## 6. OTHER INCOME

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest income from banks | **386** | 1,161 |
| Sundry income | **4,521** | 943 |
| | **4,907** | 2,104 |

## 7. OTHER GAINS AND LOSSES

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Net exchange (loss) gain | **(82)** | 3,875 |
| Gain (loss) on disposal of property, plant and equipment | **5** | (103) |
| Gain on disposal of a subsidiary | **982** | – |
| Write-back of trade and other payables | **4,059** | – |
| | **4,964** | 3,772 |

## 8. FINANCE COSTS

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on bank and other borrowings wholly repayable within five years | **14,346** | 19,230 |
| Less: Interest capitalised in properties under development held for sale | **(9,403)** | (15,406) |
| | **4,943** | 3,824 |

Borrowing costs capitalised during the year arose from specific borrowings that are used to finance the construction of properties under development for sale.

## 9. INCOME TAX EXPENSE

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax: | | |
| PRC Enterprise Income Tax ("EIT") | **70,860** | – |
| Land Appreciation Tax ("LAT") | **61,746** | – |
| | **132,606** | – |
| Deferred taxation | **(15,436)** | – |
| | **117,170** | – |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

The provision of LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions.

## 10. PROFIT (LOSS) FOR THE YEAR

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit (loss) for the year has been arrived at after charging: | | |
| Depreciation of property, plant and equipment | **7,396** | 7,492 |
| Amortisation of intangible assets | **3,066** | 2,429 |
| Release of prepaid lease payments | **769** | 756 |
| Directors' emoluments | **5,885** | 6,175 |
| Other staff costs: | | |
| Salaries and other benefits | **14,024** | 14,563 |
| Retirement benefits scheme contribution | **1,292** | 1,526 |
| Share-based payment expenses for staffs | **204** | 640 |
| Total staff costs | **21,405** | 22,904 |
| Less: Amount capitalised to properties under development | **(2,429)** | (2,270) |
| | **18,976** | 20,634 |
| Auditors' remuneration | **1,500** | 1,280 |
| Cost of stock of properties recognised as expense | **402,278** | – |
| Cost of inventories recognised as expense | **128,067** | 111,166 |

## 11. DIVIDENDS

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

## 12. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (2011: loss) per share for the year ended 31 December 2012 is based on the profit attributable to the owners of the Company of HK$115,988,000 (2011: loss attributable to the owners of the Company of HK$41,669,000) and on 4,224,775,000 (2011: 4,224,775,000) ordinary shares in issue during the year.

The computation of diluted earnings (loss) per share does not include the Company's outstanding share options since the average market price of the Company's share is lower than the exercise price of the share options.

## 13. TRADE AND OTHER RECEIVABLES

The Group's entire trade customers are receivables for the sales of power tools. The Group has a policy of allowing credit period of 60-120 days to its trade customers. In addition, for certain customers with long-established relationship and good past repayment history, a longer credit period may be granted.

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **12,209** | 15,263 |
| Between 31 to 60 days | **10,692** | 10,953 |
| Between 61 to 90 days | **2,534** | 955 |
| Between 91 to 120 days | **648** | – |
| Over 120 days | **2** | 121 |
| Trade receivables | **26,085** | 27,292 |
| Other receivables | **7,091** | 3,578 |
| Deposits and prepayments | **78,445** | 127,208 |
| | **111,621** | 158,078 |

## 14. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **183,748** | 27,078 |
| Between 31 to 60 days | **17,451** | 4,455 |
| Between 61 to 90 days | **7,137** | 1,965 |
| Between 91 to 120 days | **10,432** | 6,044 |
| Over 120 days | **20,007** | 3,599 |
| Trade payables | **238,775** | 43,141 |
| Other payables | **5,236** | 2,378 |
| | **244,011** | 45,519 |

## 15. DISPOSAL GROUP HELD FOR SALE

On 19 December 2012, the directors entered into a conditional sale agreement to dispose of two wholly-owned subsidiaries (the "Disposal Group") to an independent third party at a consideration of RMB7,200,000 (equivalent to HK$8,880,000) (the "Disposal Transaction"). The Disposal Group are inactive and its major assets including property, plant and equipment and prepaid lease payments. The Disposal Transaction has not been completed up to the date of these consolidated financial statements authorised for issue.

The assets attributable to the Disposal Group, which is expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position (see below). The Disposal Group is included in the Group's manufacturing and trading of power tools activities for segment reporting purposes (see note 5). The net proceeds of Disposal Transaction are expected to exceed the net carrying amount of the relevant assets and accordingly, no impairment loss has been recognised.

The major classes of assets of the Disposal Group classified as held for sale are as follows:

| | 2012 |
|---|---|
| | *HK$'000* |
| Property, plant and equipment | 2,441 |
| Prepaid lease payments | 536 |
| Total assets classified as held for sale | 2,977 |

## 16. EVENT AFTER THE REPORTING PERIOD

On 21 January 2013, the Company entered into a conditional warrant subscription agreement (the "Warrant Subscription Agreement") with an independent third party of the Group (the "Subscriber") in relation to the subscription of a total of 400,000,000 warrants (the "Warrants") by the Subscriber at the issue price HK$0.001 per unit of Warrants (the "Warrant Subscriptions"). The Warrants entitle the Subscriber to subscribe for in aggregate 400,000,000 warrant shares at the subscription price of HK$0.22 per new share (subject to adjustment) for a period commencing on the date falling three months after the date of issue of the Warrants and ending on the date falling 12 months after the date of issue of the Warrants. Each Warrant initially carries the right to subscribe for one new ordinary share in the Company.

The conditions set out in the Warrant Subscription Agreement have been fulfilled and completion of the Warrant Subscriptions took place on 29 January 2013. The net proceeds from the Warrant Subscriptions is approximately HK$290,000.

## MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY REVIEW

### Property development business

In 2012, the central government and relevant ministries continued to adhere to a tightened control policy over the real estate market. On the one hand, in line with a reasonable support from a number of local governments towards the demand for self-occupied properties, great steps were taken to adjust the provident fund system and enhanced the line of credit for first-time home purchases. All these steps helped create a generally stable credit environment, which added favourable fresh impetus to the real estate market. On the other hand, moves to halt speculative investment demand were made through strict implementation of credit policies and limited-purchase policies. Inspection and supervision were carried out to ensure that these policies had been duly put in place. Continued efforts were dedicated to step up land and market management and reform, increase land supply. Endeavours were particularly made to enhance affordable housing land use supply and funding support, in order to furnish the market with larger supply.

In 2012, the PRC's housing market showed apparent signs of picking up, as noted from the rise in terms of both trading volume and price. The first-tier cities were characterized by panic-type home buying, overnight queuing-up home-buying rush and "prime location" phenomenons, and by a relatively smaller rise in property prices but a relatively larger surge in trading volume. In contrast, the second and third-tier cities were featured by a relatively minor volatility in both volume and price, among which some cities even showed a sharp fall in volume and price, such as Ordos xota, Wenzhou in Zhejiang, as well as Sanya and Haikou in Hainan. At the end of 2012, home-buying rush and panic-type home buying phenomenons in the first-tier cities were mainly attributable to two factors: Firstly, the vision and anticipation of growing urbanization led by the future economic development of the PRC; and secondly, the relaxation of the limited-purchase housing policies. This was an indication that the growth momentum of the PRC's economy is considered to remain reliant on the development of the real estate sector, and a testimony that no fall in property prices would be allowed by the local government at the expense of the growth in GDP.

**Power Tools**

During the period under review, the fluctuations of corporate costs in the industry were intensified, and generally followed an upward trend. Enterprises were faced with the challenges of the rise in comprehensive costs. The increase in comprehensive costs and the accelerated fluctuation of Renminbi led to the weakening of the competitiveness of the power tools exports. In 2012, the high worldwide oil prices plus the gradual stabilization and recovery of the global economy in the recent backed up the bottom support of the international oil prices. As at 19 December, the price of delivery of light crude oil futures quoted by the New York Mercantile Exchange in January rose by 1.8% to nearly US$90 per barrel, resulting in persistently high levels of production costs of power tools, whose raw materials were mainly petroleum products including plastics. At the same time, there was a continued rise in labour costs, as evidenced by the raise in the minimum wage standard in 23 regions across the country in 2012 and an average year-on-year increase in the nationwide minimum wage of 12.6% since 2008. In view of a number of factors such as the rising labour costs, the constantly high raw material costs and the appreciation of Renminbi, the overall costs of power tools were maintained at high levels, which resulted in the reduction of the profits of the power tools industry and the weakening of the competitiveness of power tools exports.

## BUSINESS REVIEW

**Property Development Business**

2012 marked a year of remarkable milestones for the Group. The Group reaped fruitful results since its entry into the property business in the PRC four years ago. For the year ended 31 December 2012, the Group's revenue grew by 603% on a year-on-year basis to a record-breaking height of HK$801,574,000, among which our property development business recorded a revenue of HK$666,399,000, accounting for 83% of the Group's total revenue. This business line has now become the Group's core business. The increase in revenue was primarily due to the delivery of the properties under the Shanghai project during the year.

*Recognized revenue*

During the year, the Group's sales revenue of properties amounted to HK$666,399,000 (RMB542,115,000) (2011: nil (RMB nil)), and the total saleable GFA attributed to the accounts was 36,745 square metres (2011: nil), which were all derived from the properties under the Shanghai projects. In 2012, the average selling price of recognized sales was RMB15,621 per square metre. The overall gross margin was accounted as 40% during the year.

The table set out below summarized the recognized sales revenue by projects in 2012:

| Location | Project | Purpose | Gross floor area *(Square metres)* | Sales revenue after deducted business tax *(RMB'000)* | Average selling price after deducted business tax *(RMB)* | The Group's equity |
|---|---|---|---|---|---|---|
| Shanghai | 顓峰南苑一 | Residential | 23,156 | 340,171 | 14,690 | 100% |
| | 瑞麗名邸 | Shops | 1,640 | 34,822 | 21,233 | 100% |
| Shanghai | 顓峰北苑一 | Duplexes | 11,347 | 154,302 | 13,598 | 100% |
| | 中景水岸 | Shops | 602 | 12,820 | 21,296 | 100% |
| | | Total | 36,745 | 542,115 | | |

*Contract sales*

During the year, the Group's total saleable GFA contracted for but not yet recognized was approximately 9,138 square metres, generating contract sales revenue of RMB93,551,066 (2011: 10,822 square metres and RM166,215,000). The recognition of these contract sales will depend on the timeframe for the completion of the construction, the issue of the occupation permits and the delivery to buyers, and all of these procedures are expected to be realized in 2013 and 2014.

In 2012, the contract sales revenue was as follows:

| Project | Purpose | Sales area *(Square metres)* | Contract sales revenue *(RMB'000)* | Approximate contract average selling price per square meter *(RMB'000)* |
|---|---|---|---|---|
| 上海顓峰南苑 | Residential | 322 | 5,059 | 15,711 |
| 上海顓峰北苑 | Residential | 4,165 | 61,366 | 14,734 |
| 江蘇星湖灣 | Residential | 4,651 | 27,126 | 5,832 |
| | Total | 9,138 | 93,551 | |

*Land Bank*

No new land bank was added in 2012 as the Group's land bank is sufficient to cater for its development needs in the coming three to five years. As at 31 December 2012, the Group had a land bank of total GFA of about 547,000 square metres, of which the equity component amounted to approximately 383,000 square metres.

To ensure the continued rapid growth, the Group will continue to replenish its land bank prudently and carefully through a number of channels, thereby establishing a solid foundation for bolstering the future profitability. At present, the management is looking into a number of projects located in the first and second-tier cities including Shanghai, Shandong and Nantong, etc.

**Power Tool Business**

For power tools business, given the softer-than-expected economic recovery in the global markets as well as the continued rise in domestic production costs, the power tools industry was in time of challenges in 2012. Due to high unemployment rate in the U.S. and Europe, consumer confidence and consumption sentiment were subject to the impact of the economic uncertainties to some extent. To stay ahead of the challenges of the market, the Group continued to reinforce the control over operating costs, while improving the productivity and efficiency in the manufacturing process, so as to improve its competitive strengths and mitigate the impact in association therewith. Therefore, there was a slight increase in revenue and sales from the local and export markets. The overall revenue from the power tools business increased to HK$135,175,000 (2011: HK$114,040,000), whereas the gross profit rose to HK$7,108,000 (2011: HK$2,874,000).

Geographically, Europe continued to be the key export market for the power tools business. In the current financial year, sales to Europe and the U.S. was HK$101,617,000, accounting for 75% of the revenue from the power tools business. Due to weakened consumption sentiment in the Europe, sales to the Europe decreased to HK$23,707,000 (2011: HK$27,239,000), representing 18% (2011: 24%) of the revenue from the power tools business. In order to offset the decrease in sales to the U.S., the Group adjusted its marketing strategy by expanding its market share in the PRC with greater resources. Thanks to the establishment of a strong support team, the PRC market has become a growth contributor for the power tools business. The revenue from the PRC market was HK$33,441,000 (2011: HK$17,705,000), accounting for 25% of revenue from the power tools business.

For the year ended 31 December 2012, the turnover days for the Group's accounts receivable was 70 days (2011: 87 days), whereas the turnover day for accounts payable was 198 days (2011: 142 days) and the inventory turnover day was 65 days (2011: 47 days).

### Bank Financing

The Group attributes its notable success to its prudent cash flow management. To ensure that the Group has a sufficient pool of funds to cope with its rapid development needs, the Group was granted a credit borrowing facility of RMB500,000,000 with a term of three years in the PRC.

### Investor Relations

The Group strives for providing investors with the updated and accurate information on the Group's latest major development. The Group believes that effective communication is built on a two-way basis, and therefore welcomes feedbacks from investors to the Group. To facilitate easy access to information on the Group's latest major development, measures have been taken to ensure all necessary information and appropriate updates are made available to investors in a timely manner through the Company's website, www.genvon.com, under the column of "Investor Relations".

## FINANCIAL REVIEW

### Liquidity and Financial Resources

As at 31 December 2012, the Group's cash on hand was HK$123,251,000 (2011: HK$67,899,000). The Group's long-term and short-term debts were HK$318,176,000 (2011: HK$316,124,000) in aggregate. The total debts increased by approximately HK$2,052,000 when compared to 2011.

As at 31 December 2012, the Group was at a net borrowing position of HK$194,925,000 after netting off total bank and other borrowings against cash balance (2011: net cash position of HK$248,225,000). Details are set out as follows:

| | **31 December 2012** | 31 December 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Cash and Bank Balance | 123,251 | 67,899 |
| Less: Bank and other borrowings | (318,176) | (316,124) |
| Net borrowing position | (194,925) | (248,225) |

The net gearing ratio of the Group as at 31 December 2012 was 33% (2011: 52%), calculated by total borrowings less bank balances and cash divided by owners' equity. The net gearing position was mainly due to the construction fee paid for the Jiangsu project during the year. Property development expenditures in the year were HK$464,416,000. These payments were mainly financed by internal resources generated from cash received from property sales and external bank borrowings.

As at 31 December 2012, the Group had a total undrawn bank loan facility of HK$446,473,000 (equivalent to RMB362,000,000), including the 3-year construction loan facility obtained by the Group in 2011. Due to a decrease in the annual average borrowings and borrowing interest rate, the total finance costs decreased by approximately 25% to HK$14,346,000. The finance cost of the Group was 4.5% per annum (total finance cost divided by average borrowings).

**Capital Expenditure**

The Group's capital expenditure in 2012 was approximately HK$5,133,000 (2011: HK$6,693,000), whereas expenditure for development of mould amounted to HK$51,000 (2011: HK$4,085,000).

**Capital Structure**

The Group took full advantage of the financing platform as a listed company by striving for constant optimization of the capital and financing structure, so as to obtain sufficient funds to finance the future property development projects. As at 31 December 2012, the Group's operations were mainly financed by internal resources and bank borrowings.

The Company entered into a conditional warrant subscription agreement dated 21 January 2013 with investors in relation to the subscription of a total of 400,000,000 Warrants by the Subscriber at the Warrant Issue Price of HK$0.001. The Warrants entitle the Subscriber to subscribe for in aggregate 400,000,000 Warrant Shares at the Subscription Price of HK$0.22 per new Share (subject to adjustment) for a period commencing on the date falling three months after the date of issue of the Warrants and ending on the date falling 12 months after the date of issue of the Warrants. Each Warrant initially carries the right to subscribe for one new Share. The total amount of the subscription moneys under the Warrant Subscription Agreement is HK$88,000,000.

**Pledge of Assets**

As at 31 December 2012, the Group had pledged the following assets:

| | | *HK$'000* |
|---|---|---|
| Prepaid lease premium for land | as security for general banking facilities granted to the Group | 24,476 |
| Property, plant and equipment | as security for general banking facilities granted to the Group | 49,988 |
| Properties under development held for sales | as security for construction loan granted to the Group | 660,314 |
| | | 734,778 |

**Contingent Liabilities**

As at 31 December 2012, the Group had no material contingent liabilities (2011: nil).

**Foreign Exchange Risk**

The Group's exposure to foreign exchange risks was primarily related to trade and other receivables, bank balances, trade and other payables and bank borrowings denominated in US dollars and RMB. In respect of the Group's exposure to potential foreign exchange risks arising from the currency exchange rate fluctuations, it did not make any arrangement or use any financial instruments to hedge against potential foreign exchange risks. However, the management will continue to monitor foreign exchange risks and adopt hedging measures where necessary.

**Employee Benefits and Training**

For the year ended 31 December 2012, the Group had approximately 459 employees, of which, 16 employees were management staff and 50 employees were engineers. The total staff cost (including Directors' emoluments) amounted to approximately HK$21,405,000 (2011: HK$22,904,000).

Remuneration for the employees of the Group is based on their merit, qualifications and competence. Employees may also be granted shares options according to the share option scheme and at the discretion of the Board of Directors. Other benefits include contributions to the provident fund scheme or mandatory provident fund and medical insurance.

The Group makes great efforts to enhance the quality of staff through the provision of various kinds of staff training, including the training provided to directors and company secretaries under the requirements of the Listing Rules. During the year under review, the Group organized internal training courses for staff at all levels. Topics of the training courses included directors' responsibilities, corporate internal control, as well as technical and management skill trainings. The Group also organized a series of on-the-job training programs in its production plants in the PRC.

## FUTURE OUTLOOK

### Property Development Business

The Group believes that the landscape of the real estate market will remain relatively unchanged in 2013. Fuelled by the urbanization construction that is put forward at the 18th National Congress, ample impetus is given to the accelerated pace of development of the real estate industry, yet property prices will unceasingly go up along with the economic development and growing urbanization. Therefore, the upmost goal of the real estate policy is to curb the overheating rise in property prices. What is more, it seems unlikely for the PRC economy to sustain a high-speed growth in the coming few years. In order to ensure the soundness of financial operation and the increase in tax revenue, the real estate industry will be unshakably retained as a pillar sector of the entire national economy. As such, the country is bound to continuously favour the healthy development of the real estate market.

According to the analysis and prediction of the Macroeconomic Research Institute, Development Research Centre, State Council, under the backdrop of continued control over speculative investment housing demand together with strong support towards self-occupied housing demand, there will be a largely static growth in real estate demand in the coming year, while consumption will follow a stable yet slight growth trend. To sum up, led by the continuous rational optimization of consumption structure from low level to high level on the basis of higher consumption level and consumption quality, community consumption in the following year will grow steadily at an expected actual growth rate of about 11.5%.

In 2013, the Group will continue to pursue a sales strategy in reaction to the prevailing market conditions. We will strive for sales growth through a positive, flexible sales strategy. A targeted, sophisticated sales strategy will be adopted according to the characteristics of projects, with a view to speeding up the sales of the existing projects and the return of funds.

### Power Tools

Looking ahead towards 2013, the global economic environment will become increasingly complex and ever-changing. The consumption sentiment in most developed countries is dampened by high unemployment rate in those countries. The continued surge in raw material prices and labour costs coupled with the appreciation of Renminbi will continue to put the Group under production cost pressure. The Group will endeavour to mitigate the impact of the said factors on its profit margins by boosting productivity and maintaining competitiveness through the introduction of more stringent cost control measures. The prospect of the overseas power tools market in the short run may turn uncertain due to the economic environment in Europe and the U.S.. The Group is of the view that the power tools business is not going to turn around to a profitable level in the foreseeable future. As part of the resource consolidation measures, the Group intends to dispose of its power tools business for the purpose of more efficient use of the funds of the Group. Following the disposal, the Group will become a company that is principally engaged in real estate development, and will thereafter be able to highlight the performance of the Group's property development business to investors in a more vivid way.

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2012 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

## CORPORATE GOVERNANCE CODE PRACTICES

The Company is committed to maintaining high standards of corporate governance. Corporate governance requirements keep changing, therefore the Board periodically reviews the corporate governance practices of the Company to meet the rising expectations of the shareholders and comply with the increasingly stringent regulatory requirements. Throughout the year under review, the Company has complied with provisions as set out in the Code on Corporate Government Code Practices (the "CG Code") contained in the Appendix 14 of the Rules

Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except for the deviations as listed below:

**Code Provision A.2.1**

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr. Wang Zheng Chun currently holds the offices of Chairman and Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Company will continue to review the effectiveness of the Group's corporate governance structure and consider whether any changes, including the separation of the roles of Chairman and Chief Executive Officer, are necessary.

**Code Provision A.4.1**

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election. None of the independent non-executive directors of the Company has entered into an appointment letter with the Company for a specific term of service but their appointment is subject to retirement by rotation and offers himself for re-election in accordance with the Articles of Association of the Company.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. All the directors have confirmed, following specific enquiry by the Company on each of them, that they had fully complied with the Model Code throughout the year ended 31 December 2012.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

## AUDIT COMMITTEE

The audit committee of the Company has reviewed the annual results of the Group for the year ended 31 December 2012.

## THE ANNUAL REPORT

The annual report of the Company for the year ended 31 December 2012 will be despatched to the shareholders of the Company and published on the websites of The Stock Exchange of Hong Kong Limited and the Company in due course.

By Order of the Board
**Genvon Group Limited**
**Wang Zheng Chun**
*Chairman*

Hong Kong, 27 March 2013

*As at the date of this announcement, the Board comprises five Executive Directors namely Mr. Wang Zheng Chun, Mr. Zheng Wei Chong, Mr. Xu Wen Cong, Mr. Cheung Man and Mr. Liu Hoi Keung and three Independent Non-executive Directors namely Mr. Ang Siu Lun, Lawrence, Mr. Ma Kwai Yuen and Mr. Ho Hao Veng.*