GDH

粵海制革有限公司

GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

2013 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "Board") of Guangdong Tannery Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013 together with comparative figures.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**2013** *HK$'000*	2012 *HK$'000*
REVENUE	*4*	**594,644**	622,869
Cost of sales		**(556,922)**	(592,478)
Gross profit		**37,722**	30,391
Other income and gains	*4*	**8,631**	13,235
Selling and distribution expenses		**(2,324)**	(2,125)
Administrative expenses		**(25,340)**	(24,187)
Impairment on items of property, plant and equipment		**-**	(5,300)
Finance costs	*5*	**(6,035)**	(5,923)
PROFIT BEFORE TAX	*5*	**12,654**	6,091
Income tax expense	*6*	**(6,923)**	(5,058)
PROFIT FOR THE YEAR		**5,731**	1,033
EARNINGS PER SHARE	*7*		
- Basic		**HKD1.07 cents**	HKD0.19 cent
- Diluted		**HKD1.06 cents**	HKD0.19 cent

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2013 *HK$'000*	2012 *HK$'000*
PROFIT FOR THE YEAR	**5,731**	1,033
OTHER COMPREHENSIVE INCOME		
Other comprehensive income not to be reclassified to the statement of profit or loss in subsequent periods:		
Surplus on revaluation of buildings	**4,521**	529
Income tax effect	**(1,130)**	(132)
	3,391	397
Other comprehensive income/(loss) to be reclassified to the statement of profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**15,031**	(48)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**18,422**	349
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**24,153**	1,382

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**2013** **HK$'000**	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**107,057**	103,560
Prepaid land lease payments		**14,377**	14,252
Total non-current assets		**121,434**	117,812
CURRENT ASSETS			
Inventories		**276,049**	200,679
Receivables, prepayments and deposits	*9*	**178,654**	236,455
Pledged bank balances		**4,618**	13,005
Cash and bank balances		**56,569**	44,513
Total current assets		**515,890**	494,652
CURRENT LIABILITIES			
Trade payables	*10*	**49,686**	39,995
Other payables and accruals	*10*	**26,811**	37,212
Interest-bearing bank borrowings		**57,372**	53,731
Due to a PRC joint venture partner		**1,131**	1,131
Loans from the immediate holding company		**142,379**	142,379
Provision		**4,056**	3,934
Tax payable		**1,773**	4,200
Total current liabilities		**283,208**	282,582
NET CURRENT ASSETS		**232,682**	212,070
TOTAL ASSETS LESS CURRENT LIABILITIES		**354,116**	329,882
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**1,304**	309
Total non-current liabilities		**1,304**	309
Net assets		**352,812**	329,573
EQUITY			
Issued capital		**53,802**	53,802
Reserves		**299,010**	275,771
Total equity		**352,812**	329,573

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 2013. 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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control for subsidiaries. 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, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

(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 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*
HKFRS 13	*Fair Value Measurement*

HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

Other than as further explained below regarding the impact of HKFRS 10, HKFRS 12, HKFRS 13 and amendments to HKAS 1, and certain amendments included in *Annual Improvements 2009-2011 Cycle*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled.

As a result of the application of HKFRS 10, the Group has changed the accounting policy with respect to determining which investees are controlled by the Group.

The application of HKFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investees as at 1 January 2013.

(b) HKFRS 12 sets out the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

(c) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended.

(d) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The consolidated statement of comprehensive income has been presented to reflect the changes. In addition, the Group has chosen to use the new title "statement of profit or loss" as introduced by the amendments in these financial statements.

(e) *Annual Improvements 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of standards. 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 have had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

  In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

- HKAS 16 *Property, Plant and Equipment:* Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventories.

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 9	*Financial Instruments*[3]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[3]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1]
HKFRS 14	*Regulatory Deferred Accounts*[4]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 36 Amendments	Amendments to HKAS 36 – *Recoverable Amount Disclosures for Non-Financial Asset*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]
Annual Improvements 2010-2012 Cycle	Amendments to HKFRSs issued in January 2014[2]
Annual Improvements 2011-2013 Cycle	Amendments to HKFRSs issued in January 2014[2]

[1] Effective for annual periods beginning on or after 1 January 2014
[2] Effective for annual periods beginning on or after 1 July 2014
[3] No mandatory effective date yet determined but is available for adoption
[4] Effective for the first annual HKFRS financial statements for a period beginning on or after 1 January 2016

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. The Group is not yet in a position to state whether they would 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$89,205,000 (2012: HK$140,133,000) was derived from sales to a single customer, which constituted 15.0% (2012: 22.5%) of the total revenue, during the year ended 31 December 2013.

(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:

	2013	2012
	HK$'000	*HK$'000*
Revenue		
Processing and sale of leather	**594,644**	622,869
Other income		
Interest income	**178**	327
Sale of scrap materials	**2,269**	2,771
Government grants*	**1,502**	6,881
Others	**514**	249
	4,463	10,228
Gains		
Surplus on revaluation of buildings	**-**	1,688
Foreign exchange gain, net	**4,168**	1,319
	4,168	3,007
	8,631	13,235

* During the year ended 31 December 2013, the Group received HK$1,502,000 (2012: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):

	2013	2012
	HK$'000	*HK$'000*
Cost of inventories sold	**553,355**	593,637
Auditors' remuneration	**1,237**	1,190
Depreciation	**10,160**	8,687
Interest on:		
Bank loans and discounting bills receivable to banks	**1,948**	2,347
Loans from the immediate holding company	**4,087**	3,576
	6,035	5,923
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	**34,588**	33,708
Pension scheme contribution (defined contribution schemes)*	**3,090**	3,008
Forfeiture of equity-settled share options	**(284)**	(69)
	37,394	36,647
Provision/(reversal of provision) for inventories**	**3,567**	(1,159)
Minimum lease payments under operating leases in respect of land and buildings	**775**	768
Amortisation of prepaid land lease payments	**316**	311
Deficit/(surplus) on revaluation of buildings	**429**	(1,688)
Loss/(gain) on disposal of items of property, plant and equipment	**(308)**	184
Provision/(reversal of provision) for trade and bills receivables, net	**530**	(1,060)
Provision for other receivables	**259**	-

* At 31 December 2013 and 2012, 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 statement of profit or loss.

(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 (2012: 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.

	2013 HK$'000	2012 HK$'000
Group:		
Current - Mainland China		
Charge for the year	**7,030**	5,534
Over-provision in prior years	**-**	(20)
Deferred	**(107)**	(456)
Total tax charge for the year	**6,923**	5,058

(7) EARNINGS PER SHARE

The calculation of the 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 (2012: 538,019,000) in issue during the year.

The calculation of the 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:

	2013 HK$'000	2012 HK$'000
Earnings		
Profit for the year, used in the basic earnings per share calculation	**5,731**	1,033

	Number of shares 2013	2012
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**538,019,000**	538,019,000
Effect of dilution - weighted average number of ordinary shares: Share options	**138,568**	141,865
	538,157,568	538,160,865

(8) DIVIDEND

The Board does not recommend the payment of a final dividend (2012: Nil).

(9) RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 31 December 2013, included in the Group's receivables, prepayments and deposits were trade and bills receivables with a net balance of HK$174,486,000 (2012: HK$232,532,000) 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 end of the reporting period, based on the settlement due date, is as follows:

	2013	2012
	HK$'000	*HK$'000*
Current	**174,486**	231,787
Less than 3 months	**745**	845
3 to 6 months	**-**	7
Over 6 months	**73**	166
	175,304	232,805
Impairment	**(818)**	(273)
	174,486	232,532

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

	2013	2012
	HK$'000	*HK$'000*
At 1 January	**273**	1,462
Impairment losses recognised/(reversed)	**530**	(1,060)
Bad debt written off	**-**	(125)
Exchange realignment	**15**	(4)
At 31 December	**818**	273

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade and bills receivables of HK$818,000 (2012: HK$273,000) with a carrying amount before provision of HK$1,257,000 (2012: HK$273,000). The individually impaired trade and bills receivables relate to debtors that were in default or delinquency payments and only a portion of receivables is expected to be recovered.

The aged analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	2013	2012
	HK$'000	*HK$'000*
Neither past due nor impaired	**174,047**	231,787
Less than 3 months past due	**-**	745
	174,047	232,532

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

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

As at 31 December 2013, a provision of HK$384,000 (2012: HK$117,000) was recognised for other receivables with carrying amount of HK$2,093,000 (2012: HK$1,681,000).

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

	2013	2012
	HK$'000	HK$'000
At 1 January	**117**	117
Impairment losses recognised	**259**	-
Exchange realignment	**8**	-
At 31 December	**384**	117

The carrying amount of other receivables approximate their carrying values.

(10) TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

An aged analysis of the trade payables as at the end of the reporting period, based on the date of receipt of goods is as follows:

	2013	2012
	HK$'000	*HK$'000*
Within 3 months	**31,418**	30,267
3 to 6 months	**14,879**	6,808
Over 6 months	**3,389**	2,920
	49,686	39,995

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 am pleased to present to the shareholders that the consolidated profit attributable to the shareholders of the Group for 2013 was HK$5,731,000 (2012: HK$1,033,000), representing an increase of 454.8% compared with last year. Basic earnings per share was HK$1.07 cents (2012: HK$0.19 cent), representing an increase of 463.2% compared with last year.

Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: Nil).

Review

During the year, the leather market was fiercely changing and wildly swinging. Against this backdrop, the Group conformed to the economic situation with targets precisely defined and was committed to the promotion of comprehensive budget management and the adoption of robust sales strategies to keep its operational risks in strict control, effectively eliminate unfavourable factors including market downturn, increasing costs and more stringent environmental protection requirements, and magnify its economic benefits, hence laying a solid foundation for profit contribution of this year. Moreover, the Group promoted brand building by ways of improving its corporate management system, establishing innovative thinking, adding advanced technology features to products. It actively enhanced its visibility in the industry and gradually accumulated its successful experiences in standardisation management to promote a stronger position of its brand. This year, great emphasis was laid on safety production across China. During the year, the Group developed its safety production implementation plans with reference to the safety production standards in order to raise the level of its production safety management. The Group also passed the test of "安全生產標準化三級企業評價" (Evaluation of Level Three Enterprise for the Standardisation of Safety Production) held by the work safety department of Xuzhou City in Jiangsu Province to ensure production safety within the Company. Furthermore, the Group succeeded in passing through the national inspection on the environmental protection control capability of the manufacturing industry during the year. For leather manufacturing enterprises, passing the environmental protection verification has borne more powerful testimony to the production hardware of the Group.

In face of circumstances such as shrinking footwear leather market and rising raw material and labour costs, the Group, at the beginning of the year, remoulded its business model and, taking market information into account, set various business targets and prepared a comprehensive budget management plan in a scientific manner. With respect to marketing, the Group proactively linked up with markets and analysed the needs of strategic customers. Through product mix research and adjustment, the Group expanded direct sales business and developed new customer base to ensure its sales targets are met. With respect to purchasing, the Group strengthened the control over labour and production costs, raised leather yield and improved product quality, endeavouring to lower its production costs. At the same time, with the strengthening of its budget management task, the Group continued to refine cost management within the budget targets, implementing dynamic tracking of budget management indicators and reinforcing the administration of production and operating activities, as a result of which the operational risks were effectively controlled and the level of internal control and risk management improved. The Group's intensive work on budget management was fruitful which maximised its competitive advantages, hence ensuring positive growth.

Prospects

We expect that, in 2014, the internal and external environment of the leather industry will still be influenced by the unfavourable situation, where there is a chance of weakening sales in the international market, lagging sales in the domestic market and non-convergence between upstream and downstream sectors, therefore the footwear leather industry will remain bogged down. We foresee that the market will show no signs of recovery in the short term and the Group will face new challenges. The leather industry is currently undergoing the shift from a phase of rapid development into a phase of self-adjustment and thus it is not suitable to rush to the market blindly. The Group will adhere to its prudent operating strategies with its corporate culture of "pursuing honesty and strictness" as the objective in carrying out its operations while strengthening receivables management and controlling production costs strictly to prevent operational risks and turn challenges into opportunities. The Group will embrace the modern management philosophy of advanced enterprises to improve its corporate governance standard. Meanwhile, it will also enhance technological upgrade, develop products in line with the market, invest its workforce, improve system structure and enhance production safety in order to deliver the scheduled business targets, hence laying a solid foundation for its sustainable development.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's consolidated profit attributable to shareholders for the year ended 31 December 2013 was HK$5,731,000, representing an increase of HK$4,698,000 or 454.8% as compared to HK$1,033,000 for last year.

The net asset value of the Group as at 31 December 2013 was HK$352,812,000, representing an increase of HK$23,239,000 and HK$11,416,000 as compared to those as at 31 December 2012 and 30 June 2013, respectively.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2013.

Business Review

Recent years have seen weakening sales in the international market, lagging sales in the domestic market and non-convergence between upstream and downstream sectors leading to product backlog and the leather industry overall continued to face difficulties in such a sluggish market. During the year, on the basis of consolidating the existing scale of operations, the Group solidified comprehensive budget management and promoted system construction, striving to develop new products and markets and lower production costs, hence eliminating unfavourable market factors and significantly improving the profitability of the Group. In addition, the Group continuously devoted its efforts in brand building to enhance its influence to the market. By virtue of the continuous innovation and pursuit of excellence in environmental treatment and clean production, the Group was awarded by "World Leather", the authoritative journal in the industry, as the "Most Innovative Tannery in the World" in its annual awards ceremony held in April this year. Such award considerably enhanced the reputation of the Group. During the year, the Group actively put systems into practice and developed and improved various corporate management systems which standardised production processes and enhanced workflow management, providing guarantee to the standardised operation management of the Company.

During the year, the production volume of cowhides was 25,177,000 sq. ft., representing a decrease of 1,361,000 sq. ft. or 5.1% as compared to 26,538,000 sq. ft. for last year. The production volume of grey hides was 11,787 tons, representing a decrease of 2,635 tons or 18.3% as compared to 14,422 tons for last year.

The consolidated turnover of the Group for 2013 was HK$594,644,000, representing a decrease of HK$28,225,000 or 4.5% from HK$622,869,000 for last year, of which the sales value of cowhides amounted to HK$498,722,000 (2012: HK$538,234,000), representing a decrease of 7.3%, and that of grey hides and other products amounted to HK$95,922,000 (2012: HK$84,635,000), representing an increase of 13.3%. The reduction in turnover was mainly attributable to the decline in the sales volume of cowhides as affected by the downturn in the footwear manufacturing industry. During the year, the demand for cowhides and the slaughtering volume were unbalanced. The fall in the slaughtering volume led to hovering cowhide prices and funding pressure continued to expand. The operating difficulties of downstream footwear manufacturers brought about a decrease in demand. In face of the above unfavourable factors, the Group flexibly adjusted its operating strategies and actively responded to market changes, improving production technologies for better product quality, raising leather yield and reinforcing cost control, which effectively kept its operating risks in control.

In terms of sales, in order to adapt to the unusual market changes, the Group has diverted its business focus to its strategic customers so as to expand its direct sales business. At the same time, the Group has strictly implemented its credit rating system and cash-on-delivery policy for all customers to safeguard its assets. Moreover, to accomplish the goals of widening market coverage, diversifying product range and achieving a breakthrough during off-season, the Group has been committed to its market-oriented approach in enhancing the marketing and sales system. Endeavours have been used to encourage key customers to stockpile during low seasons and to match the right products with the right customers. The Group has kept abreast with the market trend and stressed the importance of market research. Stronger efforts have been put on product development. In tandem with developing strategic alliance with customers, the Group has also proactively advanced the business relationship with customers with lower order volume.

In terms of purchase, the Group has adhered to the principle of direct purchasing at fixed quantity and price and has adopted a balanced procurement approach of matching production with demand and linking purchase with production. Through dynamic tracking of changes in the supply and demand of the cowhide market, the Group has undertaken research and analysis of cowhide prices and has taken hold of opportunities for cowhide purchases at a steady pace, and thus successfully avoiding the periodic risk of peaking cowhide prices. To maintain product quality, the Group has also implemented stringent supplier assessment and product examination policy. During the year, the Group vigorously strengthened the management of chemical purchases, sped up the digestion of obsolete chemicals and raw cowhides and invigorated the inventory on chemicals. During the year, total purchases amounted to HK$586,162,000, representing an increase of 3.2% as compared to that of last year.

As at 31 December 2013, the Group's consolidated inventory amounted to HK$276,049,000 (31 December 2012: HK$200,679,000), representing an increase of HK$75,370,000 or 37.6% over that of 31 December 2012. Such increase was primarily attributable to the increase in inventory of hides in support of its purchase strategy. During the year, the Group has strengthened it research and development capacity with a focus on product development, and has diversified its highly concentrated product portfolio. These initiatives have effectively eliminated its aged inventory and further optimised the age structure of inventory.

Financial Review

Liquidity and Financial Resources

As at 31 December 2013, the Group's cash and cash equivalents amounted to HK$56,569,000 (31 December 2012: HK$44,513,000), representing an increase of HK$12,056,000 or 27.1% as compared to the same as at 31 December 2012, which were denominated in Hong Kong dollars (3.9%), Renminbi (94.5%) and United States dollars (1.6%), respectively. During the year, net cash inflow from operating activities was HK$8,046,000, which was mainly attributable to the increase in cash inflow as a result of the decrease in bills receivables. The net cash inflow from investing activities was HK$2,506,000, which mainly represented the decrease in pledged bank deposits.

As at 31 December 2013, the Group's interest-bearing borrowings amounted to HK$199,751,000 (31 December 2012: HK$196,110,000), of which interest-bearing borrowings of HK$65,000,000 were denominated in Hong Kong dollars and interest-bearing borrowings of HK$134,751,000 were denominated in United States dollars. The Group's borrowings mainly consisted of: (1) balances of short-term loans of HK$57,372,000 provided by banks, which were secured by bank deposits of RMB3,631,000; 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 2013, the Group's gearing ratio of the interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 36.2% (31 December 2012: 37.3%). During the year, the annual interest rate of the borrowings was approximately 1.8% to 3.4%. All the Group's borrowings were repayable within one year. The Group's interest expenses during the year amounted to HK$6,035,000, representing an increase of 1.9% as compared to last year.

As at 31 December 2013, the total banking facilities of the Group were HK$433,877,000 (31 December 2012: HK$341,661,000), of which HK$57,372,000 (31 December 2012: HK$53,731,000) were utilised and HK$376,505,000 (31 December 2012: HK$287,930,000) 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 2013, the carrying value of non-current assets including prepaid land lease payments, property, plant and equipment amounted to HK$121,434,000, representing an increase of HK$3,622,000 as compared to the carrying value as at 31 December 2012 of HK$117,812,000. The total capital expenditure for the year amounted to HK$6,880,000 (2012: HK$6,609,000), 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 2013, the Group's total bank deposits of HK$4,618,000 (31 December 2012: HK$13,005,000) were pledged to secure the general banking facilities granted to the Group.

Foreign Exchange Exposure

The assets, liabilities and transactions of the Group are basically denominated in Hong Kong dollars, United States dollars or Renminbi. The Group is exposed to foreign currency risk primarily from import purchases from overseas suppliers that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is mainly the United States Dollar against Renminbi. The Group did not hedge its exposure to risks arising from fluctuations in exchange rates during the year. Should the Group consider that its exposure to foreign currency risk justifies hedging, the Group may use forward or hedging contracts to reduce the risks.

Remuneration Policy for Employees

As at 31 December 2013, a total of 654 employees (31 December 2012: 730) were employed by the Group. The remuneration policy is based on the Group's operating results and the employees' performance. The Group has adopted a performance-based 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 operating net cash flow and profit after tax, calculated by various profit rankings and by applying a measure that links bonuses with the operating results of the Group and further taking into account of the individual performance of the staff concerned with an aim to motivate the contribution of its employees. In addition, the Group offered social and medical insurance and provident fund to all employees in different areas. The Company has adopted a new share option scheme in November 2008, with the purpose to provide incentives to the senior management to contribute to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

CORPORATE GOVERNANCE CODE

The Group recognizes the importance of achieving the highest standard of corporate governance consistent with the needs and requirements of its business 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 Corporate Governance Code (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 complied with the applicable code provisions in the CG Code throughout the year ended 31 December 2013, save for Code Provision A.6.7 as a non-executive director was unable to attend the annual general meeting of the Company held on 30 May 2013 as he was out of town and had other engagement.

REVIEW OF ANNUAL RESULTS

The annual results of the Group for the year ended 31 December 2013 have been reviewed by the audit committee of the Company.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed 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 Monday, 23 June 2014 and Tuesday, 24 June 2014, 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 Friday, 20 June 2014.

**Note: Tricor Tengis Limited will relocate to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014.*

By order of the Board
Chen Hong
Chairman

Hong Kong, 26 March 2014

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.