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粵海制革有限公司

GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

2009 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 (the “Group”) for the year ended 31 December 2009 together with comparative figures.

CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	2009 HK\$'000	2008 HK\$'000
REVENUE	4	467,259	525,480
Cost of sales		<u>(417,795)</u>	<u>(493,095)</u>
Gross profit		49,464	32,385
Other income and gains	4	10,256	9,306
Selling and distribution costs		(2,505)	(2,046)
Administrative expenses		(24,131)	(18,747)
Finance costs	5	<u>(6,731)</u>	<u>(13,224)</u>
PROFIT BEFORE TAX	5	26,353	7,674
Income tax expense	6	<u>(11,653)</u>	<u>(4,624)</u>
PROFIT FOR THE YEAR		<u>14,700</u>	<u>3,050</u>
EARNINGS PER SHARE	7		
- Basic		<u>HK\$2.73 cents</u>	<u>HK\$0.57 cents</u>
- Diluted		<u>HK\$2.73 cents</u>	<u>HK\$0.57 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
PROFIT FOR THE YEAR	14,700	3,050
OTHER COMPREHENSIVE INCOME		
Surplus/(deficit) on revaluation of buildings	(4)	57
Deferred tax	<u>1</u>	<u>(14)</u>
	(3)	43
Exchange differences on translation of foreign operations	<u>(1,051)</u>	<u>20,926</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	<u>(1,054)</u>	<u>20,969</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>13,646</u></u>	<u><u>24,019</u></u>

CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		90,423	64,371
Investment property		1,990	2,120
Prepaid land lease payments		7,963	5,922
Total non-current assets		100,376	72,413
CURRENT ASSETS			
Inventories		106,373	209,521
Receivables, prepayments and deposits	9	165,435	138,009
Pledged deposits		1,353	10,771
Restricted bank balance		6,246	-
Cash and cash equivalents		157,014	97,653
Total current assets		436,421	455,954
CURRENT LIABILITIES			
Trade payables	10	54,596	42,768
Other payables and accruals		49,021	23,192
Interest-bearing bank and other borrowings		-	6,801
Due to a PRC joint venture partner		1,131	1,131
Provision		3,622	3,617
Convertible notes	11	63,327	-
Tax payable		6,235	998
Total current liabilities		177,932	78,507
NET CURRENT ASSETS		258,489	377,447
TOTAL ASSETS LESS CURRENT LIABILITIES		358,865	449,860
NON-CURRENT LIABILITIES			
Loans from the immediate holding company		22,779	67,118
Loan from a fellow subsidiary		54,600	54,600
Convertible notes	11	-	59,926
Deferred tax liabilities		462	980
Total non-current liabilities		77,841	182,624
Net assets		281,024	267,236
EQUITY			
Issued capital		53,762	53,750
Reserves		227,262	213,486
Total equity		281,024	267,236

Notes:

(1) BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment property and buildings, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("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 2009. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies, the adoption of these new and revised HKFRSs has had no significant effect on these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 <i>Revenue – Determining whether an entity is acting as a principal or as an agent</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement – Embedded Derivatives</i>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers</i> (adopted from 1 July 2009)
Improvements to HKFRSs** (October 2008)	Amendments to a number of HKFRSs

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

**The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*, which are effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKFRS 7 Amendments, HKFRS 8 and HKAS 1(Revised), the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

(a) Amendments to HKFRS 7 *Financial Instruments: Disclosures*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

(b) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segment determined in accordance with HKFRS 8 is the same as the business segment previously identified under HKAS 14. The adoption of the standard has no effect on the financial position or results of operations of the Group and on the presentation and disclosures of financial statements because as over 90% of the Group's revenue, results and assets was related to the processing and sale of semi-finished and finished leather in the People's Republic of China (the "PRC" or "Mainland China").

(c) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

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

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i> ¹
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i> ²
HKFRS 1 Amendment	<i>Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters</i> ⁴
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i> ²
HKFRS 3 (Revised)	<i>Business Combinations</i> ¹
HKFRS 9	<i>Financial Instruments</i> ⁶
HKAS 24 (Revised)	<i>Related Party Disclosures</i> ⁵
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> ¹

HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> ³
HKAS 39 Amendment	Amendment to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i> ¹
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> ⁵
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i> ¹
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ⁴
Amendments to HKFRS 5 included in <i>Improvements to HKFRS</i> issued in October 2008	Amendments to HKFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a Subsidiary</i> ¹
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i> ²

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

¹ Effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 January 2010

³ Effective for annual periods beginning on or after 1 February 2010

⁴ Effective for annual periods beginning on or after 1 July 2010

⁵ Effective for annual periods beginning on or after 1 January 2011

⁶ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that except for the adoption of HKAS 24 (Revised) and HKAS 27 (Revised), 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 segment information is presented by the Group as over 90% of the Group's revenue, results and assets related to the processing and sale of semi-finished and finished leather in Mainland China.

(4) REVENUE, OTHER INCOME AND GAINS

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

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

	2009	2008
	HK\$'000	HK\$'000
<u>Revenue</u>		
Processing and sale of leather	<u>467,259</u>	<u>525,480</u>

<u>Other income</u>		
Gross rental income	367	733
Interest income	1,103	1,104
Sale of scrap materials	1,651	1,246
Others	6,893	2,483
	<u>10,014</u>	<u>5,566</u>
<u>Gains</u>		
Surplus on revaluation of buildings	-	36
Foreign exchange gain	242	3,704
	<u>242</u>	<u>3,740</u>
	<u>10,256</u>	<u>9,306</u>

(5) PROFIT BEFORE TAX

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Cost of inventories sold	413,752	493,989
Auditors' remuneration	1,085	1,120
Depreciation	7,564	6,119
Interest on:		
Bank loans and discounting bills receivable to banks	253	3,013
Convertible notes	4,016	3,800
Loans from the immediate holding company	1,145	3,900
Loan from a fellow subsidiary	1,317	2,511
	<u>6,731</u>	<u>13,224</u>
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	22,424	21,912
Pension scheme contribution (defined contribution scheme)*	2,074	2,424
Equity-settled share option expense	48	9
	<u>24,546</u>	<u>24,345</u>
Provision/(reversal of provision) for inventories	4,043	(894)
Minimum lease payments under operating leases in respect of land and buildings	683	662
Recognition of prepaid land lease payments	138	122
Rental income on investment properties less direct operating expenses of HK\$103,000 (2008: HK\$129,000)	(264)	(397)
Other rental income	-	(336)
Fair value loss on an investment property	130	160
Deficit/(surplus) on revaluation of buildings	2,067	(36)
Write-off of items of property, plant and equipment	78	117
Loss on disposal of items of property, plant and equipment	469	-
Impairment/(reversal of impairment) of trade and other receivables	990	(204)

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

(6) INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2008: 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.

Xuzhou Nanhai Leather Factory Co., Ltd. ("Xuzhou Tannery"), a wholly-owned PRC subsidiary of the Company, was exempt from the PRC corporate income tax for the first two profit-making years, and is eligible for a 50%-relief from the PRC corporate income tax for the following three years under the PRC tax laws. For the year ended 31 December 2008, which is the fifth profitable year of Xuzhou Tannery, the applicable tax rate of Xuzhou Tannery, after the 50% reduction, was 12.5%. For the year ended 31 December 2009, the applicable tax rate of Xuzhou Tannery was 25%.

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Group:		
Current - Mainland China	12,170	4,615
Deferred	(517)	<u>9</u>
Total tax charge for the year	<u>11,653</u>	<u>4,624</u>

(7) EARNINGS PER SHARE

The calculation of basic earnings per share amount is based on the profit for the year and the weighted average number of ordinary shares of 537,539,918 (2008: 537,504,000) in issue during the year.

The calculation of diluted earnings per share amount is based on the profit for the year, adjusted to reflect the interest on the convertible notes, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the impact of the convertible notes outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Earnings		
Profit for the year, used in the basic earnings per share calculation	14,700	3,050
Interest on convertible notes	<u>4,016*</u>	<u>3,800*</u>
Profit for the year, before interest on convertible notes	<u>18,716</u>	<u>6,850</u>

Shares	Number of shares	
	2009	2008
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	537,539,918	537,504,000
Effect of dilution - weighted average number of ordinary shares:		
Share options	313,881	16,597
Convertible notes	<u>32,368,421*</u>	<u>32,368,421*</u>
	<u>570,222,220</u>	<u>569,889,018</u>

* Because the diluted earnings per share amount is increased when taking convertible notes into account, the convertible notes had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share. Therefore, diluted earnings per share amount is based on the profit for the year of HK\$14,700,000 and the weighted average number of ordinary shares of 537,853,799 in issue during the year.

(8) DIVIDEND

The Board does not recommend the payment of a final dividend (2008: Nil).

(9) RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 31 December 2009, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK\$162,157,000 (2008: HK\$131,328,000) due from the Group's customers.

The Group's trading terms with customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well-established customers, where the terms are extended to two to three months. Each customer has a maximum credit limit. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	2009	2008
	HK\$'000	HK\$'000
Current	158,157	127,780
Less than 3 months	4,037	1,852
3 to 6 months	309	471
Over 6 months	<u>417</u>	<u>1,685</u>
	162,920	131,788
Impairment	<u>(763)</u>	<u>(460)</u>
	<u>162,157</u>	<u>131,328</u>

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
At 1 January	460	1,703
Impairment losses recognised	484	221
Impairment losses reversed	(181)	(425)
Amount written off as uncollectible	-	(1,039)
At 31 December	<u>763</u>	<u>460</u>

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

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Neither past due nor impaired	158,156	127,780
Less than 1 month past due	3,522	1,104
1 to 3 months past due	417	748
Over 3 months past due	<u>62</u>	<u>1,696</u>
	<u>162,157</u>	<u>131,328</u>

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

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

(10) TRADE PAYABLES

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Within 3 months	24,836	19,227
3 to 6 months	22,487	16,900
6 to 12 months	3,098	2,111
Over 12 months	<u>4,175</u>	<u>4,530</u>
	<u>54,596</u>	<u>42,768</u>

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 and the Company are non-interest-bearing and have an average term of three months.

(11) CONVERTIBLE NOTES

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

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

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

	2009 <i>HK\$'000</i>	2008 HK\$'000
Nominal value of convertible notes	61,500	61,500
Equity component	(5,599)	(5,599)
Direct transaction costs attributable to the liability component	(537)	(537)
Liability component at the issuance date	55,364	55,364
Interest expense	9,193	5,177
Interest paid	(1,230)	(615)
Liability component at 31 December	<u>63,327</u>	<u>59,926</u>

CHAIRMAN'S STATEMENT

Results

I am pleased to report to the shareholders that Group's consolidated profit attributable to shareholders for 2009 was HK\$14,700,000 (2008: HK\$3,050,000), an increase of 382.0% over last year. The basic earnings per share was HK cents 2.73 (2008: HK cents 0.57), representing an increase of 378.9% compared with last year.

Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: Nil).

Review

In consolidating the existing scale of operation, the Group conducted researches on the growth trends of the tannery market during the year and carried out an indepth analysis on its own conditions. It continued to focus on the development of its dominant cowhides operations and made full use of the

existing production capacity through strengthening its production management, optimizing its product mix and reinforcing its sales network, meanwhile effectively controlled the operational risks so as to allow the Group to have stronger ability to control risks and to maintain its solid and sound operational capabilities in times of adversity. In terms of strategic development, construction of the production plant, warehouse and complex under the Relocation & Technical Renovation Project of Xuzhou Tannery was completed and the operation of the plant and facilities commenced during the year. That would provide a sound foundation for improving the synergy between the upstream and downstream processing activities of the Group.

The impacts of the global financial and economic crisis further extended in 2009, the tannery market experienced a new round of marked downward adjustments in the first half of the year primarily attributable to the fluctuation in the prices of raw materials, decline in overseas sales orders for tannery products in the downstream tannery manufacturing industry, shrinking domestic market demand and the deterioration of overseas sales of China-made tannery products as a result of Russia's two large-scale closures of China-made leather footwear product market. Besides, as the PRC Government imposed stricter regulations on environmental protection, the profitability of the enterprises was reduced despite that those enterprises with stronger capabilities were able to maintain normal production and sales. Facing the above difficulties, the Group continued to implement the strategies and measures such as "decreasing the inventory, reducing the receivables and increasing the market share" and endeavored to enhance the economic efficiency in the course of monitoring and controlling the operational risks at full scale, establishing a solid foundation for the profit contributions in this year and the years ahead.

Under severe austerity measures and unfavorable external market environment, the Group adopted a number of measures to maintain its sound operational and development capabilities. The Group consolidated the market share of direct sales to major footwear manufacturers and established a sound sales network in adherence to the pragmatic objectives of effective sales and risk management. Meanwhile, the Group conducted focused product development to utilise large quantities of obsolete and high-cost products whilst creating the historical record in production volume. During the year, the Group implemented a forward-looking strategy to purchase imported cowhides which maximized the competitive advantages of the Group over the costs of the products in the market.

Prospects

Under the backdrop of the PRC Government's macro policies on energy saving and emission reduction, the pressure of environmental protection on the tannery industry will increase gradually. The sizable operations with a set of comprehensive procedures established and that meet the sewage and emission standards are prerequisite conditions for and the basis of the survival and development of the tannery manufacturers. The Group refined its development strategies in a timely manner according to the land planning and development proposals issued by the People's Government of Xuzhou City in respect of the environmental polices and proposed to relocate the Jinsanqiao project to the specialised zone of Suining County for centralized development and construction. At the same time, it will continue to consolidate the existing scale of operations in a prudent manner focusing on "integration of resources and optimization of structure" and reintegrate the existing production capacity and gradually accelerate the energy saving and emission reduction efforts capitalizing on its innovation and creativity so as to break the bottleneck in the upstream processing activities. Moreover, the Group will constantly strengthen its own brand building and drive the globalization of genuine leather and eco-leather, diversify the domestic and overseas markets and consolidate the existing market share. In addition, it will conduct research on the industry development and respond swiftly to the changes in policies, and strengthen team building and policy development based on the core values of "credibility, integrity, fairness and profitability" with a view to enhancing its position in the overall industry and its operating results.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's consolidated profit attributable to shareholders for the year ended 31 December 2009 was HK\$14,700,000, representing an increase of HK\$11,650,000 or 382.0% as compared to the profit of HK\$3,050,000 for the same period of last year.

The net asset value of the Group as at 31 December 2009 was HK\$281,024,000, representing an increase of HK\$13,788,000 and HK\$17,290,000 as compared to the net asset value as at 31 December 2008 and 30 June 2009 respectively.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2009.

Business Review

At the beginning of 2009, the PRC Government launched the RMB4 trillion investment plan to tackle the financial crisis. Despite the economy of China bottomed out gradually from financial breakdown in the second half of 2009, enterprises faced new challenges under the dual pressure of oversupply in the manufacturing industry and expected inflation. In consolidating the existing scale of operation, the Group focused on utilizing its existing production capacity, activating the existing market to build up a stable supply and sales market adhering to the market-oriented approach through minimizing the inventory, optimizing the product mix and exploring cost efficiency enhancement, as well as made greater efforts to achieve the operational objectives and carry out budget management and effectively controlled the operational risks, enabling the Group to have stronger ability to resist risks and to maintain its solid and sound operational capabilities.

During the year, the total production volume of cowhides was 29,219,000 sq.ft., an increase of 3,724,000 sq.ft. or 14.6% from 25,495,000 sq.ft. for the same period of last year, whereas the production volume of grey hides was 10,667 tons, an increase of 5,423 tons or 103.4% from 5,244 tons for the same period of last year.

During the year, the consolidated turnover of the Group was HK\$467,259,000, representing a decrease of HK\$58,221,000 or 11.1% from HK\$525,480,000 for the same period of last year. Of which, the turnover of cowhides amounted to HK\$439,170,000 (2008: HK\$493,787,000), representing a decrease of 11.1% and the turnover of grey hides and other products amounted to HK\$28,089,000 (2008: HK\$31,693,000), representing a decrease of 11.4%. The decline in turnover was primarily attributable to the combined effects of the increase in the sales volume, offset by the decrease in the selling price of cowhides. In response to the unfavorable conditions such as the shrinking sales in the footwear market and the falling prices of grey hides, the Group swiftly adjusted its marketing strategies; cultivated and consolidated the relationship with its strategic partners; and stepped up the efforts on direct sales to footwear manufacturers. In addition, the establishment of strategic supply-and-sales alliance relationship with major footwear manufacturers and the arrangement of designated personnel for follow-up with key customers which allowed both the footwear manufacturers and the Company to gain competitive advantages in the market. During the year, the Group closely monitored the market trends, and developed products and refined sales policies according to market feedbacks in a timely manner. At the same time, it strengthened the fundamental work of marketing management, expanded its market position leveraging on the values of honesty and integrity, and set up a comprehensive incentive and check mechanism, service mechanism and risk control and management mechanism in order to establish a sound sales network for the Group.

During the year, the price of raw materials fluctuated significantly. The Group closely monitored the changes in the domestic and overseas supply market and actively studied the market demand and price trends. In addition, it conducted forward-looking purchases according to the production schedule and change of patterns of the raw materials market and captured the opportunity to purchase low-cost cowhides, which effectively lowered the purchase cost, ensured the inventory of the raw materials required for production and established strategic inventory. In the meantime, it enhanced the competitive advantage of the Group in the market. During the year, the purchase volume of cowhides increased but the total purchase amount decreased by 13.1% to HK\$271,939,000.

As at 31 December 2009, the consolidated inventories of the Group amounted to HK\$106,373,000 (as at 31 December 2008: HK\$209,521,000), representing a decrease of HK\$103,148,000 or 49.2% as compared to the same as at 31 December 2008. The substantial decrease in inventories was mainly due to the effort in maintaining sufficient cash by minimizing the inventory level through the development of obsolete products and the successful utilisation of obsolete inventory during the year. At the same time, the Group purchased large quantities of low-cost cowhides in a timely manner which lowered the total costs of purchase during the year, providing sufficient operating cash flow.

In terms of strategic development, the Relocation & Technical Renovation Project of Xuzhou Tannery completed its construction and commenced its production during the year. In addition, the Group has recently refined its growth strategies according to the land planning and development proposals issued by the People's Government of Xuzhou City in respect of the environmental polices. In February 2010, the Board approved to relocate the Jinsanqiao project to the specialised zone of Suining County for centralized development and construction. Currently, the preparatory work of the project is under way.

Financial Review

Liquidity and Financial Resources

As at 31 December 2009, the Group's cash and cash equivalents amounted to HK\$157,014,000 (as at 31 December 2008: HK\$97,653,000), representing an increase of HK\$59,361,000 or 60.8% as compared to the same as at 31 December 2008, which were denominated in Hong Kong dollars (6.1%), Renminbi (83.5%) and US dollars (10.4%) respectively. During the year, net cash inflow from operating activities was HK\$140,303,000, which was mainly due to the decrease in cash payment for the purchase of raw materials as a result of the decline in raw materials prices. The net cash outflow from financing activities was HK\$44,306,000, which was mainly used to repay loans of the Group's immediate holding company. The cash outflow from investing activities was HK\$35,127,000, which mainly represented the payment for the construction works of Relocation & Technical Renovation Project of Xuzhou Tannery and the acquisition of machinery and equipment.

As at 31 December 2009, the Group's interest-bearing borrowings amounted to HK\$140,706,000 (as at 31 December 2008: HK\$188,445,000), of which interest-bearing borrowings in Hong Kong dollars amounted to HK\$63,327,000 and interest-bearing borrowings in US dollars amounted to HK\$77,379,000. The Group's borrowings mainly consist of: (1) balances of long-term unsecured intra-group borrowings of HK\$77,379,000; and (2) balance of convertible notes held by the Group's immediate holding company of HK\$63,327,000. Other than the convertible notes, which was charged at 1% per annum, the above interest-bearing borrowings were charged at floating interest rate.

As at 31 December 2009, the Group's gearing ratio of the interest-bearing borrowings to adjusted capital (including shareholders' equity and convertible notes) plus interest-bearing borrowings was 18.4% (as at 31 December 2008: 28.2%). During the year, the annual interest rate of the borrowings was approximately 1.3% to 4.0%. Of the Group's total borrowings, all are repayable within one year except for the loans from the immediate holding company and from a fellow subsidiary amounting to HK\$22,779,000 and HK\$54,600,000 respectively. The Group's interest expenses for the year amounted to HK\$6,731,000, representing a decrease of 49.1% from the same period of last year.

As at 31 December 2009, the total banking facilities of the Group was HK\$158,998,000 (as at 31 December 2008: HK\$78,239,000) and all of the facilities were unutilised. Taking into account of the existing cash resources and available credit facilities as well as the cash flow generated by the Group's operating business, the Group had adequate financial resources to meet its day-to-day operational requirements.

Capital Expenditure

As at 31 December 2009, the net value of non-current assets including prepaid land lease payments, property, machinery and equipment and investment properties amounted to HK\$100,376,000, representing an increase of HK\$27,963,000 over the net value as at 31 December 2008 of HK\$72,413,000. The capital expenditure for the year amounted to HK\$36,095,000 (2008: HK\$28,122,000), which mainly represented the payment for the construction works of Relocation & Technical Renovation Project of Xuzhou Tannery and the acquisition of machinery and equipment for that project to cope with the production and development requirements of the Group.

Pledge of Assets

As at 31 December 2009, certain of the Group's bank deposits, plant and machinery with a total net book value of HK\$16,208,000 (2008: HK\$16,707,000) were pledged to secure general banking facilities granted to the Group.

Risk of Exchange Rate

The assets, liabilities and transactions of the Group are basically denominated in Hong Kong dollars, US dollars or Renminbi. During the year, the exchange rates of Hong Kong dollars and US dollars were relatively stable without causing any material risk of exchange rate; as to the appreciation of Renminbi, since the sales of the Group are settled in Renminbi, whereas the purchases are made in Renminbi and US dollars, the Group does not have material exposure to foreign exchange risk.

Remuneration Policy for Employees

As at 31 December 2009, a total of 932 employees (2008: 873) were employed by the Group. The remuneration policy is based on the Group's operating results and the employees' performance. The Group has adopted a performance-based evaluation scheme for its employees focusing on "accountability and performance". 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 cashflow and profits 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

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 its fully committed to doing so. It is also with these objectives in mind that the Group has applied the principles of the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In the opinion of the directors of the Company, the Company has met with the code provisions set out in the CG Code throughout 2009 except for the following:

Under the CG Code, there should be a clear division of responsibilities for the roles of chairman and chief executive officer and these two roles should be performed by two persons (the Company regards that the term “chief executive officer” has the same meaning as the Managing Director of the Company). On 20 September 2009, Mr. Ren Yingguo resigned as an Executive Director and the Managing Director of the Company. The Chairman of the Company took up the duties of the Managing Director temporarily while the Company was in the process of identifying the new Managing Director. Such temporary arrangement ended once Mr. Sun Jun was appointed as the new Managing Director on 5 February 2010.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the annual results of the Group for the year ended 31 December 2009, including the accounting principles and practices adopted by the Group.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the year.

By order of the Board
Chen Hong
Chairman

Hong Kong, 18 March 2010

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.