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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)

### INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2013

The board of directors (the "Board") of Guangdong Tannery Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2013 together with comparative figures. The interim financial information has not been audited, but has been reviewed by the Company's audit committee ("Audit Committee") and the auditors, Messrs. Ernst & Young.

#### CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2013

|                                     | <i>Notes</i> | <b>2013</b><br><i>HK\$'000</i><br><b>(Unaudited)</b> | 2012<br><i>HK\$'000</i><br>(Unaudited) |
|-------------------------------------|--------------|------------------------------------------------------|----------------------------------------|
| <b>REVENUE</b>                      |              |                                                      |                                        |
| Processing and sale of leather      | 3            | 321,787                                              | 262,188                                |
| Cost of sales                       |              | <u>( 300,691)</u>                                    | <u>( 255,342)</u>                      |
| <b>Gross profit</b>                 |              | <b>21,096</b>                                        | 6,846                                  |
| Other income and gains, net         | 3            | 3,639                                                | 7,906                                  |
| Selling and distribution costs      |              | <u>( 1,086)</u>                                      | <u>( 1,023)</u>                        |
| Administrative expenses             |              | <u>( 12,593)</u>                                     | <u>( 13,358)</u>                       |
| Finance costs                       | 4            | <u>( 3,112)</u>                                      | <u>( 3,039)</u>                        |
| <b>PROFIT/(LOSS) BEFORE TAX</b>     | 4            | <b>7,944</b>                                         | <u>( 2,668)</u>                        |
| Income tax expense                  | 5            | <u>( 4,564)</u>                                      | <u>( 968)</u>                          |
| <b>PROFIT/(LOSS) FOR THE PERIOD</b> |              | <u><b>3,380</b></u>                                  | <u>( 3,636)</u>                        |
| <b>EARNINGS/(LOSS) PER SHARE</b>    | 6            |                                                      |                                        |
| - Basic                             |              | <u><b>HK0.63 cent</b></u>                            | <u>(HK0.68 cent)</u>                   |
| - Diluted                           |              | <u><b>HK0.63 cent</b></u>                            | <u>N/A</u>                             |

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30 JUNE 2013**

|                                                                         | <b>2013</b><br><i>HK\$'000</i><br><b>(Unaudited)</b> | 2012<br><i>HK\$'000</i><br>(Unaudited) |
|-------------------------------------------------------------------------|------------------------------------------------------|----------------------------------------|
| <b>PROFIT/(LOSS) FOR THE PERIOD</b>                                     | <u><b>3,380</b></u>                                  | <u>( 3,636)</u>                        |
| <b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>                                |                                                      |                                        |
| Item that may be reclassified to profit or loss in subsequent periods:  |                                                      |                                        |
| Exchange differences on translation of foreign operations               | <b>8,559</b>                                         | ( 2,624)                               |
| Items not to be reclassified to profit or loss in subsequent periods:   |                                                      |                                        |
| Deficit on revaluation of buildings                                     | ( 367)                                               | ( 27)                                  |
| Income tax effect                                                       | <u>92</u>                                            | <u>7</u>                               |
|                                                                         | <u>( 275)</u>                                        | <u>( 20)</u>                           |
| <b>OTHER COMPREHENSIVE INCOME/(LOSS)<br/>FOR THE PERIOD, NET OF TAX</b> | <u><b>8,284</b></u>                                  | <u>( 2,644)</u>                        |
| <b>TOTAL COMPREHENSIVE INCOME/(LOSS)<br/>FOR THE PERIOD</b>             | <u><u><b>11,664</b></u></u>                          | <u><u>( 6,280)</u></u>                 |

**CONDENSED CONSOLIDATED BALANCE SHEET**  
**30 JUNE 2013**

|                                              | <i>Notes</i> | <b>30 June<br/>2013<br/>HK\$'000<br/>(Unaudited)</b> | 31 December<br>2012<br>HK\$'000<br>(Audited) |
|----------------------------------------------|--------------|------------------------------------------------------|----------------------------------------------|
| <b>NON-CURRENT ASSETS</b>                    |              |                                                      |                                              |
| Property, plant and equipment                |              | <b>103,129</b>                                       | 103,560                                      |
| Prepaid land lease payments                  |              | <b>14,348</b>                                        | 14,252                                       |
|                                              |              | <hr/>                                                | <hr/>                                        |
| Total non-current assets                     |              | <b>117,477</b>                                       | 117,812                                      |
| <b>CURRENT ASSETS</b>                        |              |                                                      |                                              |
| Inventories                                  |              | <b>190,481</b>                                       | 200,679                                      |
| Receivables, prepayments and deposits        | 8            | <b>236,179</b>                                       | 236,455                                      |
| Pledged bank balances                        |              | <b>11,963</b>                                        | 13,005                                       |
| Cash and bank balances                       |              | <b>56,829</b>                                        | 44,513                                       |
|                                              |              | <hr/>                                                | <hr/>                                        |
| Total current assets                         |              | <b>495,452</b>                                       | 494,652                                      |
| <b>CURRENT LIABILITIES</b>                   |              |                                                      |                                              |
| Trade payables                               | 9            | <b>50,176</b>                                        | 39,995                                       |
| Other payables and accruals                  |              | <b>37,409</b>                                        | 37,212                                       |
| Interest-bearing bank borrowings             |              | <b>31,705</b>                                        | 53,731                                       |
| Due to a PRC joint venture partner           |              | <b>1,131</b>                                         | 1,131                                        |
| Loans from the immediate holding company     |              | <b>142,379</b>                                       | 142,379                                      |
| Provision                                    |              | <b>4,004</b>                                         | 3,934                                        |
| Tax payable                                  |              | <b>4,528</b>                                         | 4,200                                        |
|                                              |              | <hr/>                                                | <hr/>                                        |
| Total current liabilities                    |              | <b>271,332</b>                                       | 282,582                                      |
| <b>NET CURRENT ASSETS</b>                    |              | <b>224,120</b>                                       | 212,070                                      |
|                                              |              | <hr/>                                                | <hr/>                                        |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |              | <b>341,597</b>                                       | 329,882                                      |
| <b>NON-CURRENT LIABILITIES</b>               |              |                                                      |                                              |
| Deferred tax liabilities                     |              | <b>201</b>                                           | 309                                          |
|                                              |              | <hr/>                                                | <hr/>                                        |
| Total non-current liabilities                |              | <b>201</b>                                           | 309                                          |
|                                              |              | <hr/>                                                | <hr/>                                        |
| Net assets                                   |              | <b>341,396</b>                                       | 329,573                                      |
|                                              |              | <hr/>                                                | <hr/>                                        |
| <b>EQUITY</b>                                |              |                                                      |                                              |
| Issued capital                               |              | <b>53,802</b>                                        | 53,802                                       |
| Reserves                                     |              | <b>287,594</b>                                       | 275,771                                      |
|                                              |              | <hr/>                                                | <hr/>                                        |
| Total equity                                 |              | <b>341,396</b>                                       | 329,573                                      |
|                                              |              | <hr/>                                                | <hr/>                                        |

Notes:

## (1) ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial information is prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting".

The accounting policies and basis of preparation adopted in the preparation of this unaudited interim condensed consolidated financial information are the same as those used in the annual financial statements for the year ended 31 December 2012.

The Group has adopted the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's unaudited interim condensed consolidated financial information.

|                                                      |                                                                                                                         |
|------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| HKFRS 1 Amendments                                   | Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i>          |
| HKFRS 7 Amendments                                   | Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> |
| HKFRS 10                                             | <i>Consolidated Financial Statements</i>                                                                                |
| HKFRS 11                                             | <i>Joint Arrangements</i>                                                                                               |
| HKFRS 12                                             | <i>Disclosure of Interests in Other Entities</i>                                                                        |
| HKFRS 10, HKFRS 11 and HKFRS 12 Amendments           | Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – <i>Transition Guidance</i>                                              |
| HKFRS 13                                             | <i>Fair Value Measurement</i>                                                                                           |
| HKAS 1 Amendments                                    | Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>  |
| HKAS 19 (2011)                                       | <i>Employee Benefits</i>                                                                                                |
| HKAS 27 (2011)                                       | <i>Separate Financial Statements</i>                                                                                    |
| HKAS 28 (2011)                                       | <i>Investments in Associates and Joint Ventures</i>                                                                     |
| HK(IFRIC)-Int 20                                     | <i>Stripping Costs in the Production Phase of a Surface Mine</i>                                                        |
| <i>Annual Improvements to HKFRSs 2009-2011 Cycle</i> | Amendments to a number of HKFRSs issued in June 2012                                                                    |

Other than as further explained below regarding the impact of amendment to HKAS 1 and HKFRS 13, the adoption of the new and revised HKFRSs has had no significant financial effect on the unaudited interim condensed consolidated financial information.

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, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains or losses on defined benefit plans and revaluation of land and buildings). The Group's presentation of other comprehensive income in the unaudited interim condensed consolidated financial information has been modified accordingly.

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 provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. Some of the disclosures are specifically required for financial instruments in the unaudited interim condensed consolidated financial information.

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in this unaudited interim condensed consolidated financial information.

|                                                  |                                                                                                                                       |
|--------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| HKFRS 9                                          | <i>Financial Instruments</i> <sup>2</sup>                                                                                             |
| HKAS 32 Amendments                               | Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> <sup>1</sup> |
| HKAS 36 Amendments                               | <i>Recoverable Amount Disclosures for Non-financial Assets</i> <sup>1</sup>                                                           |
| HKAS 39 Amendments                               | Amendments to HKAS 39 – <i>Novation of Derivatives and Continuation of Hedge Accounting</i> <sup>1</sup>                              |
| HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments | Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i> <sup>1</sup>                                         |
| HK(IFRIC)-Int 21                                 | <i>Levies</i> <sup>1</sup>                                                                                                            |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial positions.

## (2) 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 relate to the processing and sale of semi-finished and finished leather in the People's Republic of China (the "PRC" or "Mainland China").

Information about a major customer

During the period, revenue of approximately HK\$63,520,000 (six months ended 30 June 2012: HK\$69,192,000) was derived from sales to a single customer, which contributed approximately 20% (six months ended 30 June 2012: 26%) of the total revenue.

## (3) REVENUE, OTHER INCOME AND GAINS, NET

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.

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

|                                | <b>Six months ended 30 June</b> |                       |
|--------------------------------|---------------------------------|-----------------------|
|                                | <b>2013</b>                     | <b>2012</b>           |
|                                | <b>HK\$'000</b>                 | <b>HK\$'000</b>       |
|                                | <b>(Unaudited)</b>              | <b>(Unaudited)</b>    |
| <b>Revenue</b>                 |                                 |                       |
| Processing and sale of leather | <u><b>321,787</b></u>           | <u><b>262,188</b></u> |

**Other income and gains, net**

|                                                            |              |              |
|------------------------------------------------------------|--------------|--------------|
| Interest income                                            | 70           | 286          |
| Foreign exchange gains, net                                | 2,660        | 129          |
| Sale of scrap materials                                    | 539          | 623          |
| Government subsidies                                       | -            | 4,311        |
| Surplus on valuation of buildings                          | -            | 1,670        |
| Gain on disposal of items of property, plant and equipment | 314          | 8            |
| Others                                                     | 56           | 879          |
|                                                            | <u>3,639</u> | <u>7,906</u> |

**(4) PROFIT/(LOSS) BEFORE TAX**

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

|                                                   | <b>Six months ended 30 June</b> |                    |
|---------------------------------------------------|---------------------------------|--------------------|
|                                                   | <b>2013</b>                     | <b>2012</b>        |
|                                                   | <b>HK\$'000</b>                 | <b>HK\$'000</b>    |
|                                                   | <b>(Unaudited)</b>              | <b>(Unaudited)</b> |
| Cost of inventories sold                          | 298,565                         | 256,196            |
| Depreciation                                      | 4,986                           | 3,981              |
| Interest on:                                      |                                 |                    |
| Bank loans                                        | 1,076                           | 1,369              |
| Loans from the immediate holding company          | 2,036                           | 1,670              |
|                                                   | <u>3,112</u>                    | <u>3,039</u>       |
| Provision/(reversal of provision) for inventories | 2,126                           | ( 854)             |
| Write-back of impairment for trade receivables    | <u>( 96)</u>                    | <u>( 892)</u>      |

**(5) INCOME TAX EXPENSE**

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 period (six months ended 30 June 2012: Nil). Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in Mainland China in which the Group operates.

|                                 | <b>Six months ended 30 June</b> |                    |
|---------------------------------|---------------------------------|--------------------|
|                                 | <b>2013</b>                     | <b>2012</b>        |
|                                 | <b>HK\$'000</b>                 | <b>HK\$'000</b>    |
|                                 | <b>(Unaudited)</b>              | <b>(Unaudited)</b> |
| Group:                          |                                 |                    |
| Current - Mainland China        | 4,564                           | 550                |
| Deferred                        | -                               | 418                |
|                                 | <u>4,564</u>                    | <u>968</u>         |
| Total tax charge for the period | <u>4,564</u>                    | <u>968</u>         |

**(6) EARNINGS/(LOSS) PER SHARE**

The calculation of basic earnings/(loss) per share amounts is based on the profit/(loss) for the period and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts for the period ended 30 June 2013 is based on the profit for the period. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, 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 share options into ordinary shares.

Diluted loss per share for the period ended 30 June 2012 has not been disclosed, as the share options outstanding during the period had an anti-dilutive effect on the basic loss per share.

The calculations of basic earnings/(loss) per share and diluted earnings per share are based on:

|                                                                                                                                | <b>Six months ended 30 June</b> |                    |
|--------------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------------|
|                                                                                                                                | <b>2013</b>                     | <b>2012</b>        |
|                                                                                                                                | <b>HK\$'000</b>                 | <b>HK\$'000</b>    |
|                                                                                                                                | <b>(Unaudited)</b>              | <b>(Unaudited)</b> |
| <b>Earnings/(loss)</b>                                                                                                         |                                 |                    |
| Profit/(loss) for the period, used in the basic earnings/(loss) per share calculations                                         | <u>3,380</u>                    | <u>( 3,636)</u>    |
|                                                                                                                                |                                 |                    |
|                                                                                                                                | <b>Number of shares</b>         |                    |
|                                                                                                                                | <b>30 June</b>                  | <b>30 June</b>     |
|                                                                                                                                | <b>2013</b>                     | <b>2012</b>        |
|                                                                                                                                | <b>(Unaudited)</b>              | <b>(Unaudited)</b> |
| <b>Shares</b>                                                                                                                  |                                 |                    |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculations | <b>538,019,000</b>              | 538,019,000        |
| Effect of dilution - weighted average number of ordinary shares:                                                               |                                 |                    |
| Share options                                                                                                                  | <u>71,460</u>                   | <u>N/A</u>         |
|                                                                                                                                | <u><b>538,090,460</b></u>       | <u>N/A</u>         |

**(7) DIVIDEND**

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

**(8) RECEIVABLES, PREPAYMENTS AND DEPOSITS**

As at 30 June 2013, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK\$233,400,000 (31 December 2012: HK\$232,532,000).

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 for 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 Group's trade and bills receivables as at the balance sheet dates, based on the settlement due date, is as follows:

|                    | <b>30 June<br/>2013<br/>HK\$'000<br/>(Unaudited)</b> | 31 December<br>2012<br>HK\$'000<br>(Audited) |
|--------------------|------------------------------------------------------|----------------------------------------------|
| Current            | <b>232,775</b>                                       | 231,787                                      |
| Less than 3 months | <b>733</b>                                           | 845                                          |
| 3 to 6 months      | <b>-</b>                                             | 7                                            |
| Over 6 months      | <b>73</b>                                            | 166                                          |
|                    | <b>233,581</b>                                       | 232,805                                      |
| Impairment         | <b>( 181)</b>                                        | ( 273)                                       |
|                    | <b>233,400</b>                                       | 232,532                                      |

#### (9) TRADE PAYABLES

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

|                 | <b>30 June<br/>2013<br/>HK\$'000<br/>(Unaudited)</b> | 31 December<br>2012<br>HK\$'000<br>(Audited) |
|-----------------|------------------------------------------------------|----------------------------------------------|
| Within 3 months | <b>34,810</b>                                        | 30,267                                       |
| 3 to 6 months   | <b>12,338</b>                                        | 6,808                                        |
| Over 6 months   | <b>3,028</b>                                         | 2,920                                        |
|                 | <b>50,176</b>                                        | 39,995                                       |

The trade payables of the Group are non-interest-bearing and are normally settled on terms of 60 to 90 days.



## **BUSINESS AND FINANCIAL REVIEW**

### **Results**

The unaudited consolidated profit attributable to shareholders for the six months ended 30 June 2013 of the Group was HK\$3,380,000, representing a turnaround and an increase of HK\$7,016,000 as compared to the unaudited consolidated loss attributable to shareholders of HK\$3,636,000 for the same period of last year.

The unaudited net asset value of the Group as at 30 June 2013 was HK\$341,396,000, representing an increase of HK\$18,689,000 and HK\$11,823,000 as compared to the net asset value as at 30 June 2012 and 31 December 2012, respectively.

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

### **Business Review**

During the first half of 2013, the growth in the macro-economy of China declined. The increase in cost of raw materials and labour for the tannery industry resulted in difficult situations arising from the operations of certain footwear manufacturers in China. Notwithstanding such complex environment, the Group insisted on carrying out a stable and sound operation during the period. Comprehensive budget management was implemented strictly. More efforts were devoted to the research and development of new products. More varieties in marketing strategies were adopted, whilst the Group also further promoted the comprehensive collaboration with well-known branded footwear manufacturers. These initiatives ensured the achievement of performance indicators in a steady manner. In addition, the Group further improved the management of its fundamental operation features with an aim to pursue innovation continuously within the industry. The Group also devoted efforts to the establishment of the branding. Subsequent to being awarded the title of "Eco-Leather Mark" by the State in 2012 as the first tannery enterprise in Jiangsu Province, the Group was also selected by "World Leather", the authoritative journal in the industry as the "Most Innovative Tannery in the World" in its annual awards ceremony in April this year, by virtue of the continuous innovation and pursuit of excellence in environmental treatment and clean production. The said award considerably enhanced the reputation of the Group. Meanwhile, the Group was awarded by China Leather Industry Association in May this year as the Best Supplier of Branded Genuine Leather Products, upon the mutual assessment by industry experts together with upstream and downstream suppliers. The said title further promoted the Group's branding in the industry's supply chain.

During the period, the production volume of cowhides was 14,115,000 sq. ft., representing an increase of 2,438,000 sq. ft. or 20.9% as compared to 11,677,000 sq. ft. for the same period of last year. The production volume of grey hides was 6,137 tons, representing a decrease of 681 tons or 10.0% as compared to 6,818 tons for the same period of last year.

During the period, the consolidated turnover of the Group was HK\$321,787,000, representing an increase of HK\$59,599,000 or 22.7% from HK\$262,188,000 for the same period of last year, of which the sales value of cowhides amounted to HK\$275,890,000 (six months ended 30 June 2012: HK\$222,661,000), representing an increase of 23.9%; and the sales value of grey hides and other products amounted to HK\$45,897,000 (six months ended 30 June 2012: HK\$39,527,000), representing an increase of 16.1%. During the period, the decline in the volume of cattle slaughtered resulted in higher price of hides. The pressure on funding continued to expand whilst the enormous inventory of the footwear manufacturers as a whole led to a fall in demand. Coupled with rising costs in raw materials and production, there persisted an irreconcilable conflict with the price of finished products which was difficult to shift upward. Faced with the negative factors above, the Group resolved from strengthening internal control, purchasing and marketing systems. Both sales volume and pricing rose during the period.

In terms of sales, the Group conducted its businesses by strictly adhering to the credit policy measures. As the growth of macro-economy in China slowed down, the business environment turned complicated upon the increase in raw materials and labour costs. Hence, the Group placed more attention to its strategic customers. As to those customers without credit rating, the cash-on-delivery principle has been implemented stringently so as to secure the safety of the Group's assets. Moreover, the Group upheld its market-oriented direction in enhancing the marketing and sales system. Endeavours were used to promote key customers placing orders during low seasons as well as offering products to fulfill customers' needs. The Group closely monitored the market trend and visited its customers. More emphasis was paid on the strategic cooperation relationship with its key customers, whilst business relationship was proactively maintained with customers with lower order volume.

In terms of purchasing, the Group conducted a dynamic analysis on the change in market demand. The change in product cycle of raw materials and the sales cycle of domestic and overseas market were tracked. Through collective research and analysis, the Group captured correct opportunities for purchasing and executed its purchasing strategies in a steady manner. During the period, total purchases amounted to HK\$272,596,000, representing an increase of 1.0% as compared with the same period of last year.

As at 30 June 2013, the Group's consolidated inventory amounted to HK\$190,481,000 (31 December 2012: HK\$200,679,000), representing a decrease of HK\$10,198,000 or 5.1% over that of 31 December 2012. Such decrease was primarily attributable to the extension of scope where our products were applicable upon consolidation of the demand from exports market during the period. Endeavours were used to expand our market horizontally that can increase the uses of our products. A considerable amount of inventory on finished products were disposed of after such reform on product composition, which greatly reduced the pressure brought by excess inventory and improved cash flow accordingly.

## **Financial Review**

As at 30 June 2013, the Group's cash and cash equivalents amounted to HK\$56,829,000 (31 December 2012: HK\$44,513,000), representing an increase of HK\$12,316,000 or 27.7% as compared to the same as at 31 December 2012, which were denominated in Hong Kong dollars (3.0%), Renminbi (96.4%) and United States dollars (0.6%), respectively. During the period, net cash inflow from operating activities was HK\$12,990,000, which was mainly attributable to the increase in cash inflow as a result of the decrease in inventory and bills receivable. The net cash outflow from investing activities was HK\$1,552,000, which mainly represented the expenditures for the acquisition of machinery and equipment.

As at 30 June 2013, the Group's interest-bearing borrowings amounted to HK\$174,084,000 (31 December 2012: HK\$196,110,000), of which interest-bearing borrowings in Hong Kong dollars amounted to HK\$65,000,000 and interest-bearing borrowings in United States dollars amounted to HK\$109,084,000. The Group's borrowings mainly consisted of: (1) balances of short-term loans provided by the bank of HK\$31,705,000, which were secured by bank balances of RMB9,530,000; 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 30 June 2013, the Group's gearing ratio of the interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 33.8% (31 December 2012: 37.3%). During the period, the annual interest rate of the borrowings was approximately 1.8% to 3.1%. Of the Group's total borrowings, all were repayable within one year. The Group's interest expenses during the period amounted to HK\$3,112,000, representing an increase of 2.4% from the same period of last year.

As at 30 June 2013, the total banking facilities of the Group was HK\$477,014,000 (31 December 2012: HK\$341,661,000), of which banking facilities of HK\$31,705,000 (31 December 2012: HK\$53,731,000) were utilised and banking facilities of HK\$445,309,000 (31 December 2012: HK\$287,930,000) were unutilised. Taking into account of the existing cash resources and available credit facilities, as well as the cash flow being generated from the operating activities of the Group, the Group had adequate financial resources to meet its day-to-day operational requirements.

## **Capital Expenditure**

As at 30 June 2013, the net value of non-current assets including prepaid land lease payments and, property, plant and equipment amounted to HK\$117,477,000, representing a decrease of HK\$335,000 over the net value as at 31 December 2012 of HK\$117,812,000. The capital expenditure for the period amounted to HK\$3,539,000 (six months ended 30 June 2012: HK\$2,548,000), which mainly represented the payment of expenditures for the acquisition of machinery and equipment to cope with the production requirements of the Group.

### **Pledge of Assets**

As at 30 June 2013, certain of the Group's bank balances with a total of HK\$11,963,000 (31 December 2012: HK\$13,005,000) 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, 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 period. 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 30 June 2013, a total of 742 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.

## **Prospects**

In the second half of 2013, as the fiscal policies of the State tends to maintain the growth rate of economy at a desired minimum level, overall economic development will slowdown gradually. The outflow of funds arising from diversification of investment made by the footwear manufacturers in China will multiply, whilst excess production capacity of footwear manufacturers will be inevitable as there is no sign that the sluggish position pertaining in exports can relieve. The Group will continue to adhere to the principles of “pragmatism, steady advancement and keeping a watchful eye on business opportunities”, in order to mark a milestone of expanding the environmental standards and proactively explore further development. The main tasks of the Group from now on are: strengthening the core business of the footwear leather production, establishing various systems, creating a team with solid foundations, building hardware support, so as to transform the Group into a distinguish enterprise in the industry. In the meantime, the Group will continue to strengthen its internal control and budget management, and achieve the predetermined operating targets, with a view to guarantee annual operating results and lay a solid foundation for the future development of the Group.

## **CORPORATE GOVERNANCE AND OTHER INFORMATION**

### **Corporate Governance Code**

The Company has complied with the applicable code provisions in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2013, save for Code Provision A.6.7, 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.

At the Board meeting of the Company held on 23 August 2013, the Company has approved and adopted a diversity policy (the “Policy”) which sets out its approach to achieve diversity on the Company’s Board of Directors. The Nomination Committee of the Company is responsible for monitoring the Company’s performance in meeting the requirements of the Policy, including the achievement of those measurable objectives as set out in the Policy.

### **Review of Interim Results**

The Audit Committee has reviewed the unaudited interim financial information of the Group and the Company’s interim report for the six months ended 30 June 2013. In addition, the Company’s auditors, Messrs. Ernst & Young, have also reviewed the aforesaid unaudited interim financial information.

## **Purchase, Sale and Redemption of the Company's Listed Securities**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2013.

By order of the Board  
**Chen Hong**  
Chairman

Hong Kong, 23 August 2013

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