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GDH

粵海制革有限公司

GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

2015 ANNUAL RESULTS ANNOUNCEMENT

HIGHLIGHTS

	For the year ended 31 December		
	2015	2014	Change
Sales volume of cowhides (in thousand square feet)	**27,278**	29,907	-8.8%
Revenue (in thousand HK$)	**652,729**	767,185	-14.9%
Profit/(loss) for the year (in thousand HK$)	**(38,349)**	1,998	Not applicable
Basic earnings/(loss) per share (in HK cent)	**(7.13)**	0.37	Not applicable
Key Indicators (As at 31 December)	**2015**	2014	Change
Current Ratio	**2.79 times**	1.58 times	+76.6%
Quick Ratio	**1.02 times**	0.83 times	+22.9%
Debt to asset ratio	**52.1%**	53.6%	-2.8%
Total assets (in thousand HK$)	**607,018**	759,053	-20.0%
Net asset value per share (HK$)	**0.54**	0.66	-18.2%

FINANCIAL RESULTS

The board of directors (the "Board") of Guangdong Tannery Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2015 together with comparative figures.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**2015** ***HK$'000***	2014 *HK$'000*
REVENUE	*4*	**652,729**	767,185
Cost of sales		**(644,356)**	(729,758)
Gross profit		**8,373**	37,427
Other income and gains	*4*	**7,139**	4,893
Selling and distribution expenses		**(3,536)**	(3,343)
Administrative expenses		**(37,329)**	(27,010)
Impairment on items of property, plant and equipment		**(3,004)**	-
Finance costs	*5*	**(10,533)**	(6,676)
PROFIT/(LOSS) BEFORE TAX	*5*	**(38,890)**	5,291
Income tax credit/(expense)	*6*	**541**	(3,293)
PROFIT/(LOSS) FOR THE YEAR		**(38,349)**	1,998
EARNINGS/(LOSS) PER SHARE	*7*		
- Basic		**HK(7.13) cents**	HK0.37 cent
- Diluted		**HK(7.13) cents**	HK0.37 cent

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2015	2014
	HK$'000	*HK$'000*
PROFIT/(LOSS) FOR THE YEAR	**(38,349)**	1,998
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) not to be reclassified to the statement of profit or loss in subsequent periods:		
Surplus/(deficit) on revaluation of buildings	**1,265**	(50)
Income tax effect	**(316)**	12
	949	(38)
Other comprehensive loss to be reclassified to the statement of profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(27,569)**	(1,673)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(26,620)**	(1,711)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(64,969)**	287

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**2015** **HK$'000**	2014 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**103,313**	103,991
Prepaid land lease payments		**12,889**	14,008
Total non-current assets		**116,202**	117,999
CURRENT ASSETS			
Inventories		**310,803**	303,235
Receivables, prepayments and deposits	*9*	**129,422**	279,783
Tax recoverable		**25**	332
Pledged bank balances		**8,410**	37,283
Cash and bank balances		**42,156**	20,421
Total current assets		**490,816**	641,054
CURRENT LIABILITIES			
Trade payables	*10*	**86,579**	97,718
Other payables and accruals	*10*	**30,376**	23,801
Interest-bearing bank borrowings		**53,822**	135,838
Due to a PRC joint venture partner		**1,131**	1,131
Loans from the immediate holding company		**-**	142,379
Provision		**3,806**	4,042
Total current liabilities		**175,714**	404,909
NET CURRENT ASSETS		**315,102**	236,145
TOTAL ASSETS LESS CURRENT LIABILITIES		**431,304**	354,144
NON-CURRENT LIABILITIES			
Loans from the immediate holding company		**138,740**	**-**
Deferred tax liabilities		**1,949**	1,591
Total non-current liabilities		**140,689**	1,591
Net assets		**290,615**	352,553
EQUITY			
Share capital		**75,032**	75,032
Other reserves		**215,583**	277,521
Total equity		**290,615**	352,553

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 ("HKICPA"), 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.

The financial information relating to the years ended 31 December 2015 and 31 December 2014 included in this preliminary announcement of annual results for the year ended 31 December 2015 does not constitute the Company's statutory annual consolidated financial statements for those years, but in respect of the year ended 31 December 2014, is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2014 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2015 in due course.

Auditors' reports have been prepared on these financial statements of the Group for both years. The auditors' reports were unqualified; did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

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 described in the accounting policy 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 revised standards for the first time for the current year's financial statements.

Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*
Annual Improvements to HKFRSs 2010-2012 Cycle	*Amendment to a number of HKFRSs*
Annual Improvements to HKFRSs 2011-2013 Cycle	*Amendment to a number of HKFRSs*

The nature and the impact of each amendment is described below:

(a) Amendments to HKAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.

(b) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

- HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group.

- HKAS 24 *Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

(c) The *Annual Improvements to HKFRSs 2011-2013 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 3 *Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

- HKFRS 13 *Fair Value Measurement*: Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in HKFRS 13.

- HKAS 40 *Investment Property*: Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as the Group has no acquisition of investment properties during the year.

In addition, the requirements of Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance (Cap. 622) came into effect for the first time during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial 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 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28(2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKAS 1	*Disclosure Initiative*[1]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS 27(2011)	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[1]

[1] Effective for annual periods beginning on or after 1 January 2016
[2] Effective for annual periods beginning on or after 1 January 2018
[3] Effective for an entity that the first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group
[4] No mandatory effective date yet determined but is available for adoption

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$127,800,000 (2014: HK$119,847,000) was derived from sales to a single customer, which constituted 19.6% (2014: 15.6%) of the total revenue, during the year ended 31 December 2015.

(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:

	2015	2014
	HK$'000	*HK$'000*
Revenue		
Processing and sale of leather	**652,729**	767,185
Other income		
Interest income	**120**	152
Sale of scrap materials	**1,438**	2,948
Government grants*	**5,205**	675
Others	**136**	57
	6,899	3,832
Gains		
Surplus on revaluation of buildings	**-**	429
Write-back of provision for other receivables and prepayments	**61**	-
Write-back of provision for trade and bills receivables	**179**	632
	240	1,061
	7,139	4,893

* During the year ended 31 December 2015, the Group received HK$5,205,000 (2014: HK$675,000) from the PRC local government to support the Group's PRC operations.

(5) PROFIT/(LOSS) BEFORE TAX

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

	2015	2014
	HK$'000	*HK$'000*
Cost of inventories sold	**635,532**	731,159
Auditors' remuneration	**1,300**	1,274
Depreciation	**10,739**	10,473
Interest on:		
Bank loans and discounting bills receivable to banks	**7,017**	2,633
Loans from the immediate holding company	**3,516**	4,043
	10,533	6,676
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	**37,682**	37,088
Pension scheme contribution (defined contribution schemes)*	**3,958**	3,514
Forfeiture of equity-settled share options	**(227)**	(125)
	41,413	40,477
Foreign exchange differences, net	**7,507**	817
Provision/(reversal of provision) for inventories**	**8,824**	(1,401)
Minimum lease payments under operating leases in respect of land and buildings	**929**	920
Amortisation of prepaid land lease payments	**314**	319
Reversal of provision for trade and bills receivables, net	**(179)**	(632)
Reversal of provision for other receivables	**(56)**	-
Reversal of provision for prepayment	**(5)**	-

* At 31 December 2015 and 2014, 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 (2014: 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.

	2015	2014
	HK$'000	*HK$'000*
Group:		
Current - Mainland China		
Charge for the year	**-**	2,998
Overprovision in prior years	**(541)**	-
Deferred	**-**	295
Total tax charge/(credit) for the year	**(541)**	3,293

(7) EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share amount is based on the profit/(loss) for the years and the weighted average number of ordinary shares of 538,019,000 (2014: 538,019,000) in issue during the year.

The calculation of the diluted earnings/(loss) per share amount is based on the profit/(loss) for the years. 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/(loss) 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/(loss) per share are based on:

	2015	2014
	HK$'000	*HK$'000*
Earnings/(loss)		
Profit/(loss) for the year, used in the basic earnings/ (loss) per share calculation	**(38,349)**	1,998

	Number of shares	
	2015	2014
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/ (loss) per share calculation	**538,019,000**	538,019,000

(8) DIVIDEND

The Board does not recommend the payment of a final dividend (2014: Nil).

(9) RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 31 December 2015, included in the Group's receivables, prepayments and deposits were trade and bills receivables with a net balance of HK$126,952,000 (2014: HK$275,240,000) 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:

	2015	2014
	HK$'000	*HK$'000*
Current	**125,724**	275,350
Less than 3 months	**1,228**	-
3 to 6 months	**-**	-
Over 6 months	**-**	73
	126,952	275,423
Impairment	**-**	(183)
	126,952	275,240

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

	2015	2014
	HK$'000	*HK$'000*
At 1 January	**183**	818
Impairment losses reversed	**(179)**	(632)
Exchange realignment	**(4)**	(3)
At 31 December	**-**	183

As at 31 December 2014, included in the above provision for impairment of trade and bills receivables was a provision for individually impaired trade and bills receivables of HK$183,000 with a carrying amount before provision of HK$183,000. 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:

	2015	2014
	HK$'000	*HK$'000*
Neither past due nor impaired	**126,952**	275,240
Less than 3 months past due	**-**	-
	126,952	275,240

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 2015, a provision of HK$307,000 (2014: HK$382,000) was recognised for other receivables with carrying amount of HK$307,000 (2014: HK$382,000).

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

	2015	2014
	HK$'000	HK$'000
At 1 January	**382**	384
Impairment losses reversed	**(56)**	-
Exchange realignment	**(19)**	(2)
At 31 December	**307**	382

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:

	2015	2014
	HK$'000	*HK$'000*
Within 3 months	**48,779**	66,526
3 to 6 months	**34,319**	26,956
Over 6 months	**3,481**	4,236
	86,579	97,718

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

Included in the other payables are accrued interests of HK$2,515,000 (2014: Nil) due to the immediate holding company which are repayable within twelve months, and was arisen from loans from the immediate holding company.

CHAIRMAN'S STATEMENT

Results

I would like to present to the shareholders that the consolidated loss attributable to shareholders of the Group for 2015 was HK$38,349,000 (2014: Consolidated profit attributable to shareholders of HK$1,998,000), turnaround from profit to loss. Basic loss per share was HK$7.13 cents (2014: Basic earnings per share of HK$0.37 cent).

Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: Nil).

Review

Hampered by the diminishing overseas demand, overcapacity and economic structural adjustment, the PRC economy has been growing far slower since 2015. The footwear leather export market was hit by currency devaluation in Russia and other countries, the growth of footwear industry in the Southeast Asian countries and unfavourable trade policies, which resulted in a slump in volume of orders from overseas. The domestic market was under stress arising from liquidity shortage of footwear manufacturers. The demand in the footwear leather market continue to shrink in general, which further intensified the competition among industry players for survival. As the footwear consumer market changes, demand for traditional leather footwear was impacted by footwear products made with new technologies and new materials. Hence, there has been a significant increase in demand for non-cowhide featured footwear by consumers, while market share of leather footwear dropped. During the year, the Group positively responded to the ever-changing market environment by adhering to its established prudent operating strategy. Unfortunately, as affected by the environmental protection policies, certain split leather manufacturers were shut down or reduced their production volume. As consequences, split leather market materially scaled down in size with a sharp fall in demand and a large amount of inventory backlog, and in turn, the unit selling price of grey hides plunged. Meanwhile, Renminbi devalued further after the refinement to the mechanism of Renminbi's central parity rate against US dollars by the People's Bank of China on 11 August. Being an enterprise that relies on imports, the Group is heavily and negatively affected. All of these factors led to a significant decline in the operating results of the Group.

In response to the shrinking footwear leather market and taking market changes into account, the Group set its business goal, prepared a comprehensive budget management plan in a scientific manner and determined various operating targets at the beginning of the year. In respect of sales, during the year, efforts were made to build up distribution channels, seize orders in all aspects with a multi-pronged approach and take initiatives in analysing the needs of strategic customers. The Group also worked on product mix adjustment through research and development, in a bid to expand its direct sales business and enlarge its customer base. In respect of purchasing, actions were taken to better control its cost of raw materials, with focus on reducing the purchasing cost of cowhides. In addition, the Group conducted forecast on market trends and, based on which, adjusted its purchasing strategies. On-site management was strengthened to closely monitor the critical processes for leather yield, so as to increase product competitiveness through leather yield improvement.

Prospects

Looking forward to 2016, footwear leather market will remain stagnant. Under the circumstances of overcapacity and fierce competition in the industry, coupled with the increasingly stringent requirements imposed on tannery industry under the PRC environmental protection policies, tannery enterprises will confront greater challenges. The Group will fight against the adversities brought about by the weak market leveraging on its stable production scale and prudent operating approach, with an aim of "maintaining stability and striving for survival". The Group will devote greater attention to conduct research on the tannery industry, market and products, in order to explore paths for development in the future. In the meantime, the Group will continue to keep abreast of the market trend, proactively conduct product development, optimise its product mix and bring greater added value to its products. Moreover, the Group will further strengthen its internal management and improve its internal control system for better efficiency and execution. Clean production will be promoted to mitigate the environmental risk exposure. The Group will develop stronger strengths in planning, analysing and control to make up its weakness and overcome the difficulties ahead. The Group will endeavour its best to achieve the predetermined operating targets and strive to reduce loss.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's consolidated loss attributable to shareholders for the year ended 31 December 2015 was HK$38,349,000, turnaround from profit to loss, and representing a significant decrease of HK$40,347,000 as compared to the consolidated profit attributable to shareholders of HK$1,998,000 for last year.

The net asset value of the Group as at 31 December 2015 was HK$290,615,000, representing a decrease of HK$61,938,000 and HK$49,114,000 as compared to the net asset value as at 31 December 2014 and 30 June 2015, respectively.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2015.

Business Review

In 2015, influenced by the shrinking overseas sales and diminishing domestic sales as well as the increasingly stringent environmental requirements in the PRC, the footwear leather goods market remained stagnant. As tannery industry is traditional labour intensive, competition in the footwear leather market is extremely fierce. During the year, by adhering to the prudent operating strategy and tightening the cost control, there was a decrease in the production cost of cowhides and an increase in gross profit from cowhides compared to last year. However, under the environmental policies, market demand for split leather materially contracted and sales prices of grey hides significantly dropped, which resulted in a turnaround from gross profit to gross loss from sales of grey hides. Combined with the devaluation in Renminbi, the Group recorded a significant downturn in its operating results. To cope with the adverse conditions in the industry, during the year, the Group took active steps in analysing the market trends, adjusting its strategies and managing scale of production. On one hand, the Group segmented its businesses based on market development, strengthened its research and development capabilities, sped up product matching with branded footwear manufacturers and established key cooperative relationship to secure stable production and sales volumes. On the other hand, the Group analysed in detail the market information on cowhides to reasonably determine the total purchases of cowhides that correspond to the demand and adopted a defensive purchasing strategy. Meanwhile, the Group strived to enhance the leather yield and control the production costs, which enabled the Group to mitigate, to a certain extent, the operating risks amidst this fragile economic environment.

On environmental protection, as China is going green, the government has focused its efforts on pushing forward the development and building a green, low-carbon and recycling industry system in recent years. In April 2015, the State Council launched the policy of "Action Plan for Prevention and Control of Water Pollution" (《水污染防治行動計劃》), which stipulates that by the end of 2016, all tannery and other production projects that cause serious water pollution and do not comply with the national policy will be phased out. Moreover, pursuant to the requirements under the policy, enterprises in tannery industry shall adopt clean production techniques. By the end of 2017, enterprises in tannery industry shall realise chromium reduction and technological innovation based on closed loop technology. All existing sludge treatment and disposal facilities shall be basically upgraded to meet the standards by the end of 2017. At present, the sewage treatment systems possessed by the Group are able to meet the existing production and environmental requirements and has reached the scale as required by the "Industry Regulations" (《行業規範》). These conditions allow us to have better exposure to opportunities arising from the transitional change of the industry from being fragmented to being centralised. Further, the Group has already been in the process of adopting clean production technologies in an active and steady manner. Ammonia free deliming process has been conducted in the production, which lessen the stress for sewage treatment. However, such environmental policy newly introduced by the PRC led to a further increase in the Group's operating costs and exerted relatively great pressure on the Group's operation.

During the year, the total production volume of cowhides was 28,664,000 sq. ft., representing a decrease of 97,000 sq. ft. or 0.3% as compared to 28,761,000 sq. ft. for the last year. The production volume of grey hides was 12,808 tons, representing an increase of 3,322 tons or 35.0% as compared to 9,486 tons for last year. During the year, the total sales volume of cowhides was 27,278,000 sq. ft., representing a decrease of 2,629,000 sq. ft. or 8.8% as compared to 29,907,000 sq. ft. for last year. The sales volume of grey hides was 12,770 tons, representing an increase of 3,284 tons or 34.6% as compared to 9,486 tons for last year.

The consolidated turnover of the Group for 2015 was HK$652,729,000, representing a decrease of HK$114,456,000 or 14.9% from HK$767,185,000 for last year, of which the sales value of cowhides amounted to HK$589,372,000 (2014: HK$666,633,000), representing a decrease of 11.6%, and that of grey hides and other products amounted to HK$63,357,000 (2014: HK$100,552,000), representing a decrease of 37.0%. Dragged by the drop in export volume of downstream footwear manufacturers, purchase orders for footwear leathers in high seasons fell abruptly. Although both of the sales volume and prices of the Group's cowhides declined, gross profit from cowhides increased, which was due to the decrease in the production costs of cowhides. Nevertheless, the increase in sales volume of grey hides was compensated by the significant decrease in unit prices, which was attributable to the diminishing market demand for grey hides and weakening sales prices. Therefore, it resulted in a turnaround from gross profit to gross loss from grey hides and was followed by a downturn of the Group's operating results.

In terms of sales, as consumer demand for footwear has become diverse, there appeared a significant demand for featured footwear products made with non-cowhide materials, while the market share of leather footwear dwindled. Coupled with the destocking by domestic sales manufacturers and the liquidity shortage of small and mid-sized footwear manufacturers, the general footwear leather market saw a shrinking demand. During the year, the Group segmented its businesses based on market development, pursued product development and matching sales with the market and raised the added value of its products, so as to ensure the continuous ordering and production of the traditional footwear products. At the same time, the Group established collaboration with strategic distributors and endeavoured greater effort on direct sales business. Distributors were encouraged to increase inventory and build a strong brand. During the year, direct sales orders accounted for a higher percentage of the Group's total order volume as compared to the same period of last year.

In terms of purchasing, the Group closely monitored the movement of slaughtering volume and demand in end-user market. Capitalising on the downward trend of cowhide prices, the Group adopted a defensive purchasing strategy to reinforce its advantages in cost of cowhides. Furthermore, the Group initiated negotiations with chemical material suppliers for better prices and entered into annual strategic cooperation agreements with them. Further, riding on the cyclical downturn of bulk commodity prices, the Group was able to slash the prices of chemical materials at different ranges, thereby effectively reduced the cost of purchasing chemical materials. During the year, total purchases amounted to HK$642,213,000, representing a decrease of 12.8% as compared to the same period of last year.

As at 31 December 2015, the Group's consolidated inventory amounted to HK$310,803,000 (31 December 2014: HK$303,235,000), representing an increase of HK$7,568,000 or 2.5% over that of 31 December 2014.

Financial Review

Liquidity and Financial Resources

As at 31 December 2015, the Group's cash and cash equivalents balance was HK$42,156,000 (31 December 2014: HK$20,421,000), representing an increase of HK$21,735,000 or 106.4% as compared to the same as at 31 December 2014, which was denominated in Hong Kong dollars (3.0%), Renminbi (92.9%) and United States dollars (4.1%). During the year, net cash inflow from operating activities was HK$13,602,000, which was mainly attributable to the increase in cash inflow as a result of the decrease in bills receivable. Net cash inflow from investing activities was HK$10,213,000, which was mainly attributable to the decrease in pledged bank deposits.

As at 31 December 2015, the Group's interest-bearing borrowings amounted to HK$141,601,000 (31 December 2014: HK$278,217,000), 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$76,601,000. The Group's borrowings mainly consisted of: (1) short-term loans provided by the bank, with a balances of HK$53,822,000, which were secured by bank balances of RMB 7,046,000; (2) long-term unsecured intra-group borrowings, with a balance of HK$87,779,000. The above interest-bearing borrowings were charged at floating interest rates.

As at 31 December 2015, the Group's gearing ratio of the interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 32.8% (31 December 2014: 44.1%). During the year, the annual interest rate of the borrowings ranged from approximately 2.3% to 3.1%. The Group's total interest-bearing borrowings were all repayable within one year except for the loans provided by the immediate holding company amounting to HK$87,779,000. Interest expenses incurred by the Group during the year amounted to HK$10,533,000, representing an increase of 57.8% from the same period of last year, which was mainly attributable to the increase in bank loans during the year.

As at 31 December 2015, the Group's total banking facilities was HK$238,720,000 (31 December 2014: HK$486,345,000), of which banking facilities of HK$53,822,000 (31 December 2014: HK$135,838,000) were utilised and banking facilities of HK$184,898,000 (31 December 2014: HK$350,507,000) were unutilised. Taking into account of the existing cash resources and available credit facilities, the Group had adequate financial resources to meet the daily operational requirements.

Capital Expenditure

As at 31 December 2015, the net value of non-current assets including prepaid land lease payments and, property, plant and equipment amounted to HK$116,202,000, representing a decrease of HK$1,797,000 over the net value as at 31 December 2014 of HK$117,999,000. The capital expenditure incurred during the year amounted to HK$17,635,000 (2014: HK$10,366,000), which mainly represented the payments for acquisition of machinery and equipment to meet the production requirements of the Group.

Pledge of Assets

As at 31 December 2015, bank deposits totaling HK$8,410,000 (31 December 2014: HK$37,283,000) were pledged to banks by the Group to secure general banking facilities granted.

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 currencies other than the functional currency of the operations to which they relate. The currency giving rise to this risk is mainly the United States dollars 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 2015, a total of 627 employees (31 December 2014: 673) were employed by the Group. The Group's remuneration policy is based on its operating results and 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 offers social and medical insurances and pension schemes 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 senior management for their contribution to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

CORPORATE GOVERNANCE CODE

The Group recognises the importance of achieving the highest standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all of its stakeholders and is fully committed to doing so. It is also with these objectives in mind that the Group has applied the principles of the 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 2015.

REVIEW OF ANNUAL RESULTS

The annual results of the Group for the year ended 31 December 2015 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, 6 June 2016 and Tuesday, 7 June 2016, 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 to be held on Tuesday, 7 June 2016, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s share registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Friday, 3 June 2016.

By order of the Board
Sun Jun
Chairman and Managing Director

Hong Kong, 24 March 2016

As at the date of this announcement, the Board comprises one Executive Director, namely Mr. Sun Jun; three Non-Executive Directors, namely Mr. Xiao Zhaoyi, Mr. Kuang Hu and Mr. Ran Bo; and three Independent Non-Executive Directors, namely Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat.