粵海制革有限公司

GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

2014 ANNUAL RESULTS ANNOUNCEMENT

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 2014 together with comparative figures.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**2014** ***HK$'000***	2013 *HK$'000*
REVENUE	*4*	**767,185**	594,644
Cost of sales		**(729,758)**	(556,922)
Gross profit		**37,427**	37,722
Other income and gains	*4*	**4,893**	8,631
Selling and distribution expenses		**(3,343)**	(2,324)
Administrative expenses		**(27,010)**	(25,340)
Finance costs	*5*	**(6,676)**	(6,035)
PROFIT BEFORE TAX	*5*	**5,291**	12,654
Income tax expense	*6*	**(3,293)**	(6,923)
PROFIT FOR THE YEAR		**1,998**	5,731
EARNINGS PER SHARE	*7*		
- Basic		**HK0.37 cent**	HK1.07 cents
- Diluted		**HK0.37 cent**	HK1.06 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2014	2013
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**1,998**	5,731
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	**(50)**	4,521
Income tax effect	**12**	(1,130)
	(38)	3,391
Other comprehensive income/(loss) to be reclassified to the statement of profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(1,673)**	15,031
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**(1,711)**	18,422
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**287**	24,153

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**2014** **HK$'000**	2013 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**103,991**	107,057
Prepaid land lease payments		**14,008**	14,377
Total non-current assets		**117,999**	121,434
CURRENT ASSETS			
Inventories		**303,235**	276,049
Receivables, prepayments and deposits	*9*	**279,783**	178,654
Pledged bank balances		**37,283**	4,618
Cash and bank balances		**20,421**	56,569
Tax recoverable		**332**	-
Total current assets		**641,054**	515,890
CURRENT LIABILITIES			
Trade payables	*10*	**97,718**	49,686
Other payables and accruals	*10*	**23,801**	26,811
Interest-bearing bank borrowings		**135,838**	57,372
Due to a PRC joint venture partner		**1,131**	1,131
Loans from the immediate holding company		**142,379**	142,379
Provision		**4,042**	4,056
Tax payable		**-**	1,773
Total current liabilities		**404,909**	283,208
NET CURRENT ASSETS		**236,145**	232,682
TOTAL ASSETS LESS CURRENT LIABILITIES		**354,144**	354,116
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**1,591**	1,304
Total non-current liabilities		**1,591**	1,304
Net assets		**352,553**	352,812
EQUITY			
Share capital: nominal value		**75,032**	53,802
Other statutory capital reserve		**-**	21,230
Share capital and other statutory capital reserves		**75,032**	75,032
Other reserves		**277,521**	277,780
Total equity		**352,553**	352,812

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 ("HKICPAs"), and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention, except for buildings classified as property, plant and equipment, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control for subsidiaries. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

(2) CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised standards and new interpretation for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	*Investment Entities*
Amendments to HKAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to HKAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to HKAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*

Amendment to HKFRS 2 included in *Annual Improvements 2010-2012 Cycle*	*Definition of Vesting Condition*[1]
Amendment to HKFRS 3 included in *Annual Improvements 2010-2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendment to HKFRS 13 included in *Annual Improvements 2010-2012 Cycle*	*Short-term Receivables and Payables*
Amendment to HKFRS 1 included in *Annual Improvements 2011-2013 Cycle*	*Meaning of Effective HKFRSs*

[1] Effective from 1 July 2014

Except for the amendment to HKFRS 1 which is only relevant to an entity's first HKFRS financial statements, the nature and the impact of each amendment and interpretation is described below:

(a) Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The amendments have had no impact on the Group as the Company does not qualify as an investment entity as defined in HKFRS 10.

(b) The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments have had no impact on the Group as the Group does not have any offsetting arrangement.

(c) The HKAS 39 Amendments provide an exception to the requirement of discontinuing hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. For continuance of hedge accounting under this exception, all of the following criteria must be met: (i) the novations must arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) the parties to the hedging instrument agree that one or more clearing counterparties replace their original counter party to become the new counter party to each of the parties; and (iii) the novations do not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing. The amendments have had no impact on the Group as the Group has not novated any derivatives during the current and prior years.

(d) HK(IFRIC)-Int 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation has had no impact on the Group as the Group applied, in prior years, the recognition principles under HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* which for the levies incurred by the Group are consistent with the requirements of HK(IFRIC)-Int 21.

(e) The HKFRS 2 Amendment clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including (i) a performance condition must contain a service conditions; (ii) a performance target must be met while the counterparty is rendering service; (iii) a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group; (iv) a performance condition may be a market or non-market condition; and (v) if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The amendment has had no impact on the Group.

(f) The HKFRS 3 Amendment clarifies that contingent consideration arrangements arising from a business combination that are not classified as equity should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of HKFRS 9 or HKAS 39. The amendment has had no impact on the Group.

(g) The HKFRS 13 Amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has had no impact on the Group.

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*[4]
Amendments to HKFRS 10 and HKAS 28(2011)	*Sale or Contribution of Assets between an Investor and its Associate Joint Venture*[2]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
HKFRS 14	*Regulatory Deferral Accounts*[5]
HKFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[2]
Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to HKAS 27(2011)	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[2]

[1] Effective for annual periods beginning on or after 1 July 2014
[2] Effective for annual periods beginning on or after 1 January 2016
[3] Effective for annual periods beginning on or after 1 January 2017
[4] Effective for annual periods beginning on or after 1 January 2018
[5] Effective for an entity that the first adopts HKFRS for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

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$119,847,000 (2013: HK$89,205,000) was derived from sales to a single customer, which constituted 15.6% (2013: 15.0%) of the total revenue, during the year ended 31 December 2014.

(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:

	2014	2013
	HK$'000	*HK$'000*
Revenue		
Processing and sale of leather	**767,185**	594,644
Other income		
Interest income	**152**	178
Sale of scrap materials	**2,948**	2,269
Government grants*	**675**	1,502
Others	**57**	514
	3,832	4,463
Gains		
Surplus on revaluation of buildings	**429**	-
Foreign exchange gain, net	**-**	4,168
Write-back of provision for trade and bills receivables	**632**	-
	1,061	4,168
	4,893	8,631

* During the year ended 31 December 2014, the Group received HK$675,000 (2013:HK$1,502,000) from the PRC local government to support the Group's PRC operations.

(5) PROFIT BEFORE TAX

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

	2014 *HK$'000*	2013 *HK$'000*
Cost of inventories sold	**731,159**	553,355
Auditors' remuneration	**1,274**	1,237
Depreciation	**10,473**	10,160
Interest on:		
Bank loans and discounting bills receivable to banks	**2,633**	1,948
Loans from the immediate holding company	**4,043**	4,087
	6,676	6,035
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	**37,088**	34,588
Pension scheme contribution (defined contribution schemes)*	**3,514**	3,090
Forfeiture of equity-settled share options	**(125)**	(284)
	40,477	37,394
Provision/(reversal of provision) for inventories**	**(1,401)**	3,567
Minimum lease payments under operating leases in respect of land and buildings	**920**	775
Amortisation of prepaid land lease payments	**319**	316
Deficit/(surplus) on revaluation of buildings	**(429)**	429
Gain on disposal of items of property, plant and equipment	**-**	(308)
Provision/(reversal of provision) for trade and bills receivables, net	**(632)**	530
Provision for other receivables	**-**	259
Provision for prepayment	**-**	89

* At 31 December 2014 and 2013, 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 (2013: 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.

	2014	2013
	HK$'000	*HK$'000*
Group:		
Current - Mainland China		
Charge for the year	**2,998**	7,030
Deferred	**295**	(107)
Total tax charge for the year	**3,293**	6,923

(7) EARNINGS PER SHARE

The calculation of the basic earnings per share amount is based on the profit for the year and the weighted average number of ordinary shares of 538,019,000 (2013: 538,019,000) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary share options into ordinary shares.

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

	2014	2013
	HK$'000	*HK$'000*
Earnings		
Profit for the year, used in the basic earnings per share calculation	**1,998**	5,731

	Number of shares	
	2014	2013
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**538,019,000**	538,019,000
Effect of dilution - weighted average number of ordinary shares:		
Share options	**-**	138,568
	538,019,000	538,157,568

(8) DIVIDEND

The Board does not recommend the payment of a final dividend (2013: Nil).

(9) RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 31 December 2014, included in the Group's receivables, prepayments and deposits were trade and bills receivables with a net balance of HK$275,240,000 (2013: HK$174,486,000) 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:

	2014	2013
	HK$'000	*HK$'000*
Current	**275,350**	174,486
Less than 3 months	**-**	745
3 to 6 months	**-**	-
Over 6 months	**73**	73
	275,423	175,304
Impairment	**(183)**	(818)
	275,240	174,486

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

	2014	2013
	HK$'000	*HK$'000*
At 1 January	**818**	273
Impairment losses recognised/(reversed)	**(632)**	530
Bad debt written off	**-**	-
Exchange realignment	**(3)**	15
At 31 December	**183**	818

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade and bills receivables of HK$183,000 (2013: HK$818,000) with a carrying amount before provision of HK$183,000 (2013: HK$1,257,000). 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:

	2014	2013
	HK$'000	*HK$'000*
Neither past due nor impaired	**275,240**	174,047
Less than 3 months past due	**-**	-
	275,240	174,047

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 2014, a provision of HK$382,000 (2013: HK$384,000) was recognised for other receivables with carrying amount of HK$382,000 (2013: HK$384,000).

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

	2014	2013
	HK$'000	HK$'000
At 1 January	**384**	117
Impairment losses recognised	**-**	259
Exchange realignment	**(2)**	8
At 31 December	**382**	384

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:

	2014	2013
	HK$'000	*HK$'000*
Within 3 months	**66,526**	31,418
3 to 6 months	**26,956**	14,879
Over 6 months	**4,236**	3,389
	97,718	49,686

The trade payables of the Group are non-interest-bearing and are normally settled on terms of 60 to 90 days. Other payables of the Group are non-interest-bearing and have an average term of three months. The carrying amounts of trade and other payables approximate their fair values.

CHAIRMAN'S STATEMENT

Results

I would like to present to the shareholders that the consolidated profit attributable to shareholders of the Group for 2014 was HK$1,998,000 (2013: HK$5,731,000), representing a decrease of 65.1% compared with last year. Basic earnings per share was HK$0.37 cent (2013: HK$1.07 cents), representing a decrease of 65.4% compared with last year.

Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: Nil).

Review

In 2014, the domestic footwear leather market was under pressure given the lack of liquidity encountered by footwear manufacturers, while the export of footwear leather market was greatly disrupted by the foreign currency risk exposure arising from the political crisis in Northern Europe, hence leading to shrinking market demand which further intensified the competition in the industry. During the year, the Group pushed forward its strategic management and took positive steps to respond to the ever-changing market environment, with views to achieving stable production, exploring opportunities for market expansion and getting over market difficulties, and as a result of which, higher production and sales volumes have been realised. However, the Group's operating results reversely deteriorated in the face of rising cost of raw materials. In the wake of more stringent environmental requirements introduced by the government in recent years, the Group actively promoted clean production and strived for technological advancement and innovation. Drawing on the advantages of a higher level of clean production, the Group positioned itself as an enterprise with high corporate value in tannery industry. During the year, the Group submitted its application for being certified as a "New High-tech Enterprise" and was recognised as such in October upon the formal approval by the Science and Technology Department of Jiangsu Province. The attainment marked a new stage of the Group's brand building. Apart from maintaining product quality, the enhanced level of clean production also served as a safeguard for expansion of production capacity and laid solid foundation for sustainability of the Group in the future.

Facing the unfavourable factors of depressed footwear leather goods market and the rising cost of raw materials and labour, the Group embraced its business plan set up at the beginning of the year, with an objective to prepare a proposal on overall budgetary management in a scientific way. On the sales front, during the year, the initiatives taken by the Group included enhancing distribution channels, optimising customer mix, expanding the scale of direct sales business, building a stronger product style through research and development, and conducting research and development works by way of matching the sources of leathers and the product characteristics for eliminating aged inventory. On the purchasing front, the Group strengthened its control over cost of raw materials, further rationalised the production processes and stepped up its efforts in technological upgrade to realise a higher leather yield, as well as, duly determined the planned production volume to minimise production costs. Furthermore, alongside with the kick-off of the overall budgetary management, the Group closely monitored the implementation towards its targets, promoted cost control at every stage of production, diversely put its concept of budgetary management into practice, carried out dynamic analysis on budgetary management and on the basis of which, made scientific adjustments, so as to accomplish an effective management of its exposure to operational risks. These moves strengthened the competitive edges of the Group in the market.

Prospects

Looking forward, the outlook of leather and leather footwear markets across China for 2015 remains sluggish. As the slaughtering volume in cowhide exporting countries dropped, primarily in the United States, by reason of the sustained downward trend in breeding stock of live cattle, high raw material costs are expected to persist. The Group foresees that the leather industry will still be trapped in the vicious cycle, thus further difficult challenges will be confronted by the Group. In the future, the Group will continue to take its established prudent operating strategies towards exploring new modes of operation to eliminate the negative impacts brought about by the market weaknesses. At the same time, greater efforts will be expended in technological upgrade for the realisation of clean production; developing high-end products responsive to market requirements, focusing on the development of key technologies and further extending the industrial chain of the Group's tannery business, for the enhancement of product competitiveness; enhancing distribution channels and optimising its dual operation modes consisting both direct sales and distribution businesses for the transformation into a customer-oriented dual business model that creates shared benefits; fortifying its internal control system, enhancing safety production, high quality workforce and high level of operating efficiency, in the hope of gearing up its profitability in a progressive manner.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's consolidated profit attributable to shareholders for the year ended 31 December 2014 was HK$1,998,000, representing a decrease of HK$3,733,000 or 65.1% as compared to HK$5,731,000 for last year.

The net asset value of the Group as at 31 December 2014 was HK$352,553,000, representing a decrease of HK$259,000 and HK$3,125,000 as compared to those as at 31 December 2013 and 30 June 2014, respectively.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2014.

Business Review

During the year of 2014, the footwear leather goods market remained sluggish in general, with the competition in the industry further intensified by diminishing demand. Hampered by the rising cost of raw materials and the depreciation of Renminbi, the Group's operating results declined despite its orders have reached saturation. During the year, the Group upheld its prudent operating strategies by advancing towards an overall budgetary management and taking active steps to respond to market changes. On one hand, the Group reinforced its marketing and sales system for stable production and sales. On the other hand, the Group stepped up its efforts in research and development to raise leather yield and minimise production costs. These initiatives enabled the Group to mitigate its operating risk exposure in an effective manner amidst a poor economic environment. Moreover, for its pursuit of technological advancement and innovation, the Group was recognised as a "New High-tech Enterprise" during the year, marking a new stage of its brand building.

During the year, the production volume of cowhides was 28,761,000 sq. ft., representing an increase of 3,584,000 sq. ft. or 14.2% as compared to 25,177,000 sq. ft. for last year. The production volume of grey hides was 9,486 tons, representing a decrease of 2,301 tons or 19.5% as compared to 11,787 tons for last year. During the year, the total sales volume of cowhides was 29,907,000 sq. ft., representing an increase of 6,364,000 sq. ft. or 27.0% as compared to 23,543,000 sq. ft. for last year. The sales volume of grey hides was 9,486 tons, representing a decrease of 2,301 tons or 19.5% as compared to 11,787 tons for last year.

The consolidated turnover of the Group for 2014 was HK$767,185,000, representing an increase of HK$172,541,000 or 29.0% from HK$594,644,000 for last year, of which the sales value of cowhides amounted to HK$666,633,000 (2013: HK$498,722,000), representing an increase of 33.7%, and that of grey hides and other products amounted to HK$100,552,000 (2013: HK$95,922,000), representing an increase of 4.8%. The increase in turnover was mainly due to the market recognition of its new products, coupled with the expansion of direct sales business, which resulted in a significant increase in orders compared to last year, allowing the Group to secure a stable production and maintain a better sales performance in the sector.

In terms of sales, owing to the general weaknesses in leather footwear markets as influenced by the slowdown in exports at the beginning of the year, along with the impacts of the turbulent situation and currency depreciation in Northern Europe, a vast number of footwear manufacturers suffered from severe losses and the demand on leathers plunged. In order to overcome the adversities, the Group adhered to its market-oriented approach. On one hand, the Group continued to reinforce its marketing and sales system by procuring key distributors to build up stockpiling during low seasons and optimising the matching for the products of key footwear manufacturers. On the other hand, the Group was motivated to boost cooperation with major direct-selling branded footwear manufacturers. Contributed by the support of the style and trend of product development driven by direct sourcing, the Group developed new products that are well accepted by the market, leading to the record sales for the year.

In terms of purchasing, consistent with its prudent and practical operating strategies, the Group adhered to its balanced procurement approach of “matching production with demand and linking purchase with production”. Specifically, in the course of purchasing, the Group monitored dynamic indicators such as changes of market demand and supply, followed by carrying out analysis with focus on seasonal changes in cowhide markets, through which decisions on procurement activities were made in a timely manner and an orderly flow of supply of cowhides was ensured. Meanwhile, the Group strived to explore innovative patterns of supply of raw materials and established a new procurement pattern for blue leathers in light of market needs and product style. Benefited from this pattern, the Group expanded its production volume and mitigated its risk exposure arising from the substantial increase in inventories for meeting the demand in peak seasons. In addition, the Group strictly implemented its supplier evaluation system and product review system to maintain products of high quality. During the year, total purchases amounted to HK$736,141,000, representing an increase of 25.6% from last year, which was mainly attributable to the increase in sales orders and the rising cost of raw materials during the year.

As at 31 December 2014, the Group’s consolidated inventory amounted to HK$303,235,000 (31 December 2013: HK$276,049,000), representing an increase of HK$27,186,000 or 9.8% over that of 31 December 2013. Such increase was primarily attributable to the slight increase in inventory of hides in support of its purchase strategy, as well as the rise in costs of raw materials. During the year, the Group put great efforts in developing products that accommodate customers’ needs, in tandem with strengthening its cost control to improve inventory costing. Through new product development, the Group effectively lowered the level of aged inventory and enhanced liquidity.

Financial Review

Liquidity and Financial Resources

As at 31 December 2014, the Group's cash and cash equivalents amounted to HK$20,421,000 (31 December 2013: HK$56,569,000), representing a decrease of HK$36,148,000 or 63.9% as compared to the same as at 31 December 2013, which were denominated in Hong Kong dollars (9.7%), Renminbi (86.4%) and United States dollars (3.9%), respectively. During the year, net cash inflow from operating activities was HK$3,607,000, which was mainly attributable to the decrease in cash inflow as a result of the increase in bills receivables. The net cash outflow from investing activities was HK$39,436,000, which mainly represented the increase in pledged bank deposits.

As at 31 December 2014, the Group's interest-bearing borrowings amounted to HK$278,217,000 (31 December 2013: HK$199,751,000), of which interest-bearing borrowings of HK$65,000,000 were denominated in Hong Kong dollars and interest-bearing borrowings of HK$213,217,000 were denominated in United States dollars. The Group's borrowings mainly consisted of: (1) balances of short-term loans of HK$135,838,000 provided by banks, which were secured by bank deposits of RMB29,412,000; and (2) balances of short-term unsecured intra-group borrowings of HK$142,379,000. The above interest-bearing borrowings were charged at floating interest rates.

As at 31 December 2014, the Group's gearing ratio of the interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 44.1% (31 December 2013: 36.2%). During the year, the annual interest rate of the borrowings ranged from approximately 2.7% to 3.8%. The Group's borrowings were all repayable within one year. The Group's interest expenses for the year amounted to HK$6,676,000, representing an increase of 10.6% as compared to last year.

As at 31 December 2014, the total banking facilities of the Group were HK$486,345,000 (31 December 2013: HK$433,877,000), of which HK$135,838,000 (31 December 2013: HK$57,372,000) were utilised and HK$350,507,000 (31 December 2013: HK$376,505,000) were unutilised. Taking into account of the existing cash resources and available credit facilities, the Group has adequate financial resources to meet its day-to-day operational requirements.

Capital Expenditure

As at 31 December 2014, the carrying value of non-current assets including prepaid land lease payments and property, plant and equipment amounted to HK$117,999,000, representing a decrease of HK$3,435,000 as compared to the carrying value as at 31 December 2013 of HK$121,434,000. The total capital expenditure for the year amounted to HK$10,366,000 (2013: HK$6,880,000), which mainly represented the payment for the acquisition of machinery and equipment to meet the Group's production requirements.

Pledge of Assets

As at 31 December 2014, the Group's total bank deposits of HK$37,283,000 (31 December 2013: HK$4,618,000) were pledged to banks to secure the general banking facilities granted to the Group.

Foreign Exchange Exposure

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

Remuneration Policy for Employees

As at 31 December 2014, a total of 673 employees (31 December 2013: 654) 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 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 2014.

REVIEW OF ANNUAL RESULTS

The annual results of the Group for the year ended 31 December 2014 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 Tuesday, 2 June 2015 and Wednesday, 3 June 2015, during such period no transfer of shares of the Company will be registered. In order to determine the identity of the members who are entitled to attend and vote at the forthcoming annual general meeting of the Company, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 1 June 2015.

By order of the Board
Chen Hong
Chairman

Hong Kong, 26 March 2015

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. Liu Bing, 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.