GDH

粤海制革有限公司

GUANGDONG TANNERY LIMITED

(股份代號 Stock Code: 1058)

ANNUAL REPORT 年報

2015

Contents

Corporate Information

BOARD OF DIRECTORS

Sun Jun *(Chairman and Managing Director)*
Xiao Zhaoyi#
Kuang Hu#
Ran Bo#
Fung Lak*
Choi Kam Fai, Thomas*
Chan Cheong Tat*

Non-Executive Director
* *Independent Non-Executive Director*

AUDIT COMMITTEE

Fung Lak *(Chairman)*
Choi Kam Fai, Thomas
Chan Cheong Tat

REMUNERATION COMMITTEE

Choi Kam Fai, Thomas *(Chairman)*
Fung Lak
Chan Cheong Tat

NOMINATION COMMITTEE

Sun Jun *(Chairman)*
Fung Lak
Choi Kam Fai, Thomas
Chan Cheong Tat

COMPANY SECRETARY

Lo Sze Sze

AUDITORS

Ernst & Young

REGISTERED OFFICE

29th Floor, Guangdong Investment Tower
148 Connaught Road Central
Hong Kong

Telephone	:	(852) 2308 1013
Facsimile	:	(852) 2789 0451
Website	:	http://www.gdtann.com.hk

SHARE REGISTRAR

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

SHARE INFORMATION

Place of Listing	:	Main Board of The Stock Exchange of Hong Kong Limited
Stock Code	:	1058
Board Lot	:	2,000 shares
Financial Year End	:	31 December

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

	As at 31 December		
Key Indicators	**2015**	2014	Change
Current Ratio[1]	**2.79 times**	1.58 times	+76.6%
Quick Ratio[2]	**1.02 times**	0.83 times	+22.9%
Debt to asset ratio[3]	**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%

Notes:

1. $\frac{\text{Current assets}}{\text{Current liabilities}}$

2. $\frac{\text{Current assets-Stock}}{\text{Current liabilities}}$

3. $\frac{\text{Total liabilities}}{\text{Total assets}}$

Chairman's Statement

RESULTS

I would like to present to the shareholders that the consolidated loss attributable to shareholders of Guangdong Tannery Limited (the "Company") and its subsidiaries (collectively referred to as 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 of directors of the Company (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.

Chairman's Statement (Continued)

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.

Sun Jun
Chairman

Hong Kong, 24 March 2016

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.

BUSINESS REVIEW (CONTINUED)

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.

Management Discussion and Analysis (Continued)

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 interest-bearing 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.

FINANCIAL REVIEW (CONTINUED)

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.

Biographical Details of Directors and Senior Management

(A) EXECUTIVE DIRECTOR

Mr. Sun Jun (Age: 42)

Mr. Sun was appointed an Executive Director and the Managing Director of the Company in February 2010. He was appointed the Chairman of the Company with effect from February 2016 and continued to act as the Managing Director of the Company. He is an economist in the People's Republic of China (the "PRC"). He graduated from 西安公路學院 (Xian Highway College) (now known as 長安大學 (Chang'an University)) and obtained a bachelor's degree in 工程機械與起重運輸 (Mechanical Engineering and Lifting Transportation Program). Mr. Sun worked with certain companies of GDH Limited ("GDH"), the immediate controlling shareholder of the Company, from November 2002 to August 2003. He then worked with the Company and its subsidiaries in September 2003 and was appointed to certain posts, including, inter alia, acting as assistant general manager and deputy general manager of the Company from March 2004 to December 2005 and from July 2007 to February 2010 respectively. Mr. Sun currently holds the following posts of wholly-owned subsidiaries of the Company, including the chairman and the general manager of 徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.), 徐州港威皮革有限公司 (Xuzhou Gangwei Leather Co., Ltd.) and 粵海制革(徐州)有限公司 (Guangdong Tannery (Xuzhou) Limited); and an executive deputy project director of relocation project of 徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.).

(B) NON-EXECUTIVE DIRECTORS

Mr. Xiao Zhaoyi (Age: 52)

Mr. Xiao Zhaoyi was appointed a Non-Executive Director of the Company in February 2016. He graduated from the Department of Law of Southwest University of Political Science and Law. He obtained a Master's degree in Law from Hainan University and a Master's degree in Business Administration from Murdoch University, Australia. Mr. Xiao had worked as a judge and deputy office director of High People's Court of Guangdong. From December 1996 to October 2005, he acted as the assistant general manager and the general manager of the office of Guangnan (Holdings) Limited ("Guangnan Holdings"), a director of Guangdong Investment Limited ("GDI"), the general manager in Administrative Department and the Company Secretary of GDH and a director and the general manager of China City Water Supply Investment Holding Limited (中國城市供水投資控股有限公司). GDI and Guangnan Holdings are currently the subsidiaries of GDH. Mr. Xiao was then transferred back to the judiciary in October 2005 where he worked at the Guangzhou Intermediate People's Court. He was the division level judge, the third grade senior judge. He also served on a number of leading roles including the division level researcher of the Fourth Civil Court, the division level judge and the presiding judge of the Third Civil Court, the director of Judicial Administration Management Office Equipment, the office director. In October 2015, he was appointed as the general manager of the legal departments of 廣東粵海控股集團有限公司 (Guangdong Holdings Limited) ("Guangdong Holdings"), the ultimate controlling shareholder of the Company, and GDH.

(B) NON-EXECUTIVE DIRECTORS (CONTINUED)

Mr. Kuang Hu (Age: 38)

Mr. Kuang Hu was appointed a Non-Executive Director of the Company in February 2016. He graduated from the Department of International Economics and Trading of Beijing Normal University, the PRC. He obtained a Master's degree in World Economics and a Doctoral degree in Finance from Sun Yat-sen University, the PRC. In July 2003, Mr. Kuang joined 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) (now known as 廣東粵海控股集團有限公司 (Guangdong Holdings Limited) and defined as "Guangdong Holdings" herein) and worked in Strategic Development Department. From November 2012 to June 2015, he was appointed as deputy general manager of Strategic Development Department of both Guangdong Holdings and GDH. He currently acts as the general manager of the Operation Department of Guangdong Holdings and GDH. Mr. Kuang also acts as a director of 徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.) and 粵海制革(徐州)有限公司 (Guangdong Tannery (Xuzhou) Limited), both of which are wholly-owned subsidiaries of the Company.

Mr. Ran Bo (Age: 37)

Mr. Ran Bo was appointed a Non-Executive Director of the Company in November 2015. He graduated from the Department of Economics of Sun Yat-Sen University, the PRC. He was a Master's degree graduate in International Politics from Jinan University. From 2005 to 2006, Mr. Ran worked as an assistant researcher at 廣東省科技情報研究所 (Guangdong Institute of Scientific & Technical Information). Between 2006 and 2008, he acted as the project director and the secretary of 廣東省產業發展研究院 (Guangdong Institute of Industrial Development). In August 2008, Mr. Ran jointed 廣東粵海控股有限公司 (Guangdong Holdings Limited) (now known as 廣東粵海控股集團有限公司 (Guangdong Holdings Limited) and defined as "Guangdong Holdings" herein) and worked in Strategic Development Department and was appointed as general manager of Strategic Development Departments of Guangdong Holdings and GDH in October 2015. He also acts as a director of certain subsidiaries of Guangdong Holdings and GDH. Mr. Ran is also a director of 徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.), 徐州港威皮革有限公司 (Xuzhou Gangwei Leather Co., Ltd.) and 粵海制革(徐州)有限公司 (Guangdong Tannery (Xuzhou) Limited), all of which are wholly-owned subsidiaries of the Company.

(C) INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fung Lak (Age: 68)

Mr. Fung Lak was appointed an Independent Non-Executive Director of the Company in November 2002. He holds a bachelor degree in Science (Economics) major in Accounting and Finance from the London School of Economics and Political Science of University of London. He is also a fellow member of Hong Kong Institute of Certified Public Accountants, a fellow member of the Institution of Chartered Accountants in the United Kingdom, a fellow member of the Association of Chartered Certified Accountants and a member of the Taxation Institute of Hong Kong. Mr. Fung was the former president of the Society of Chinese Accountants and Auditors. Mr. Fung has over 30 years' experience in the accounting and finance and is a director of Lak & Associates C.P.A. Limited.

Mr. Choi Kam Fai, Thomas (Age: 70)

Mr. Choi Kam Fai, Thomas was appointed an Independent Non-Executive Director of the Company in October 2004. He is a Chartered Professional Accountant with the Chartered Professional Accountants of British Columbia, Canada. He holds a bachelor degree in Commerce and Business Administration from the University of Alberta, Canada and completed the Executive Development Program organized by J.L. Kellogg Graduate School of Management of the Northwestern University, U.S.A. Mr. Choi is the General Manager of the Internal Audit Department of Henderson Land Development Company Limited. He has worked for the audit departments of various private, public and governmental bodies in Hong Kong and Canada for over 30 years.

Mr. Chan Cheong Tat (Age: 66)

Mr. Chan Cheong Tat was appointed an Independent Non-Executive Director of the Company in March 2006. He is a fellow member of Hong Kong Institute of Certified Public Accountants, Association of Chartered Certified Accountants and CPA Australia. He is also an associate member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. Mr. Chan obtained his master's degree in Financial Management from Central Queensland University. He served in the Inland Revenue Department of the Hong Kong Government for 33 years and retired in early 2005. He is currently a director of a tax consultancy company. Mr. Chan is an independent non-executive director of Medicskin Holdings Limited and Man Sang International Limited. He had also acted as an independent non-executive director of Wasion Group Holdings Limited and retired in May 2015.

(D) SENIOR MANAGEMENT

The senior management of the Group comprises the Executive Director above (namely Mr. Sun Jun) and Ms. Lee Wai Mei, the Chief Financial Officer of the Company.

Ms. Lee Wai Mei (Age: 41)

Ms. Lee Wai Mei was appointed the Chief Financial Officer of the Company in May 2005. She has over 15 years of experience in auditing and accounting. She is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Report of the Directors

The directors (the "Directors") of Guangdong Tannery Limited (the "Company") herein present their report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The Group is principally engaged in the processing and sale of semi-finished and finished leather. The activities of the principal subsidiaries of the Company are set out in note 1 to the financial statements on page 42 of this Annual Report. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2015 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 36 to 96 of this Annual Report.

No interim dividend was paid during the year and the Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2015.

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development, principal risks and uncertainties that the Group may be facing are provided in the Chairman's Statement on pages 4 and 5 and Management Discussion and Analysis on pages 6 to 9 of this Annual Report.

The financial risk management objectives and policies of the Group are shown in note 33 to the financial statements on pages 90 to 94 of this Annual Report.

An analysis of the Group's performance during the year using financial key performance indicators is provided in the Highlights on page 3 of this Annual Report.

Discussion on the Group's environmental issues and compliance with the relevant laws and regulations that have a significant impact on the Company are contained in the Management Discussion and Analysis on pages 6 to 9 and in the Corporate Governance Report on pages 24 to 33 of this Annual Report.

The Company's key relationships with its employees, customers and suppliers and business associates that have a significant impact on the Company and on which the Company's success depends are shown in the Management Discussion and Analysis under "REMUNERATION POLICY FOR EMPLOYEES" section on page 9 and in the Corporate Governance Report on pages 24 to 33 of this Annual Report.

FINANCIAL SUMMARY

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate and adjusted to reflect the change in accounting policies. The summary does not form part of the audited financial statements.

Results

	Year ended 31 December				
	2015	2014	2013	2012	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**652,729**	767,185	594,644	622,869	587,020
Profit/(loss)from operating activities	**(28,357)**	11,967	18,689	12,014	10,592
Finance costs	**(10,533)**	(6,676)	(6,035)	(5,923)	(5,385)
Profit/(loss)before tax	**(38,890)**	5,291	12,654	6,091	5,207
Income tax credit/(expense)	**541**	(3,293)	(6,923)	(5,058)	(4,018)
Profit/(loss) for the year	**(38,349)**	1,998	5,731	1,033	1,189

Assets and liabilities

	As at 31 December				
	2015	2014	2013	2012	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Property, plant and equipment, and prepaid land lease payments	**116,202**	117,999	121,434	117,812	123,533
Current assets	**490,816**	641,054	515,890	494,652	522,978
Total assets	**607,018**	759,053	637,324	612,464	646,511
Liabilities					
Current liabilities	**175,714**	404,909	283,208	282,582	317,468
Non-current liabilities	**140,689**	1,591	1,304	309	633
Total liabilities	**316,403**	406,500	284,512	282,891	318,101
Net assets	**290,615**	352,553	352,812	329,573	328,410

Report of the Directors (Continued)

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 11 to the financial statements.

INTEREST-BEARING BANK AND OTHER BORROWINGS

Details of the interest-bearing bank and other borrowings of the Company and the Group as at 31 December 2015 are set out in notes 17 and 19 to the financial statements.

SHARES ISSUED

Details of the Company's shares issued during the year are set out in note 22 to the financial statements.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "SHARE OPTIONS OF THE COMPANY" of this report and "SHARE OPTION SCHEME" in note 23 to the financial statements, no equity-linked agreement was entered into by the Company during the year.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 24 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2015, no reserves of the Company, calculated in accordance with the provisions of sections 291, 297 and 299 of the Hong Kong Companies Ordinance, is available for cash distribution.

CHARITABLE CONTRIBUTIONS

The Group did not make any charitable contributions during the year (2014: Nil).

DIRECTORS

The Directors during the year and up to the date of this report were:

Sun Jun *(Chairman and Managing Director)*	
Xiao Zhaoyi#	*(appointed on 26 February 2016)*
Kuang Hu#	*(appointed on 26 February 2016)*
Ran Bo#	*(appointed on 13 November 2015)*
Fung Lak*	
Choi Kam Fai, Thomas*	
Chan Cheong Tat*	
Ho Lam Lai Ping, Theresa#	*(resigned on 29 October 2015)*
Liu Bing#	*(resigned on 13 November 2015)*
Chen Hong	*(resigned on 26 February 2016)*
Qiao Jiankang#	*(resigned on 26 February 2016)*

\# *Non-Executive Director*
* *Independent Non-Executive Director*

In accordance with Article 77 of the Company's Articles of Association, any newly appointed Director shall hold office only until the first general meeting of the Company after his appointment and shall then be eligible for re-election. Mr. Xiao Zhaoyi, Mr. Kuang Hu and Mr. Ran Bo, who were appointed as Non-Executive Directors on 26 February 2016, 26 February 2016 and 13 November 2015 respectively, shall hold office until the forthcoming annual general meeting of the Company ("2016 AGM") and, being eligible, have offered themselves for re-election.

In accordance with Articles 82 to 84 of the Articles of Association of the Company, Mr. Fung Lak will retire by rotation at the 2016 AGM and, being eligible, has offered himself for re-election.

Mr. Xiao Zhaoyi, Mr. Kuang Hu, Mr. Ran Bo and Mr. Fung Lak, if re-elected, will hold office from the date of re-election to the earlier of (i) the conclusion of the annual general meeting of the Company to be held in 2019, and (ii) 30 June 2019, subject to earlier determination in accordance with the Articles of Association of the Company and/or any applicable laws and regulations.

Mrs. Ho Lam Lai Ping, Theresa resigned as a Non-Executive Director on 29 October 2015 as she focused on her work with Guangdong Investment Limited, a subsidiary of GDH Limited ("GDH"), the immediate controlling shareholder of the Company. Mr. Liu Bing resigned as a Non-Executive Director on 13 November 2015 to pursue his career development. Mr. Chen Hong resigned as an Executive Director and the Chairman of the Board of Directors on 26 February 2016 as he intended to devote more time for his duties and responsibilities in 廣東粵海控股集團有限公司 (Guangdong Holdings Limited) ("Guangdong Holdings"), the ultimate controlling shareholder of the Company, and GDH. Mr. Qiao Jiankang resigned as a Non-Executive Director on 26 February 2016 as he focused on his work with Guangdong Holdings and GDH. Mrs. Ho, Mr. Liu, Mr. Chen and Mr. Qiao have confirmed that they have no disagreement with the Board and there was no other matter relating to their resignations that needed to be brought to the attention of the shareholders of the Company.

DIRECTORS OF SUBSIDIARIES

The directors who have served on the boards of the subsidiaries of the Company during the year ended 31 December 2015 are set out below (in alphabetical order):

Mr. Chen Hong, Mr. Kuang Hu, Ms. Lee Wai Mei, Mr. Qiao Jiankang, Mr. Sun Jun, Mr. Zhuang Xiaobin, Mr. Zhou Hao

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the 2016 AGM has a service contract with the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company's subsidiaries, fellow subsidiaries or its parent company was a party and in which a Director or his connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

Indemnity provision within the meaning of permitted indemnity provision under the Hong Kong Companies Ordinance for the benefit of the Directors is currently in force and was in force throughout the year ended 31 December 2015. In addition, the Company has taken out and kept in force appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Company.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2015, none of the Directors was interested in any business, apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2015, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive were taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), were as follows:

INTERESTS AND SHORT POSITIONS IN THE COMPANY

(1) Interests in ordinary shares

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held *(Note)*
Sun Jun	Personal	40,000	Long position	0.007%
Fung Lak	Personal	1,380,000	Long position	0.256%
Choi Kam Fai, Thomas	Personal	60,000	Long position	0.011%

Note: The approximate percentage of interests held was calculated on the basis of 538,019,000 ordinary shares of the Company in issue as at 31 December 2015.

Report of the Directors (Continued)

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (CONTINUED)

INTERESTS AND SHORT POSITIONS IN THE COMPANY (CONTINUED)

(2) *Interests in share options relating to ordinary shares (long positions)*

Name of Director	Date of grant of share options *(dd.mm.yyyy)*	Number of share options: At date of grant	At 1 January 2015	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2015	Total consideration paid for share options granted *HK$*	Exercise price of share options* *HK$ (per share)*	Price of ordinary shares at date immediately before date of grant ** *HK$ (per share)*	Price of ordinary shares at date immediately before the exercise date** *HK$ (per share)*
Chen Hong#	14.07.2010	5,110,000	1,022,000	–	–	(1,022,000)	–	–	0.435	0.435	–
Sun Jun	14.07.2010	1,260,000	252,000	–	–	(252,000)	–	–	0.435	0.435	–
Qiao Jiankang#	14.07.2010	1,780,000	356,000	–	–	(356,000)	–	–	0.435	0.435	–

resigned as Director on 26 February 2016

Notes to the above share options granted pursuant to the share option scheme adopted by the Company on 24 November 2008 ("2008 Scheme"):

(a) The option period of all the share options is five years and six months from the date of grant.

(b) Any share option is only exercisable during the option period after it has become vested.

(c) The normal vesting scale of the share options is as follows:

Date	**Percentage Vesting**
The date two years after the date of grant	40%
The date three years after the date of grant	30%
The date four years after the date of grant	10%
The date five years after the date of grant	20%

(d) The vesting of the share options is further subject to the achievement of such performance targets as determined by the Board upon grant and stated in the offer of grant.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (CONTINUED)

INTERESTS AND SHORT POSITIONS IN THE COMPANY (CONTINUED)

(2) Interests in share options relating to ordinary shares (long positions) (Continued)

Notes to the above share options granted pursuant to the share option scheme adopted by the Company on 24 November 2008 ("2008 Scheme") (Continued):

(e) The leaver vesting scale of the share options that would apply in the event of the grantee ceasing to be an eligible person under certain special circumstances (less the percentage which has already vested under the normal vesting scale or lapsed) is as follows:

Date on which event occurs	Percentage Vesting
On or before the date which is four months after the date of grant	0%
After the date which is four months after but before the date which is one year after the date of grant	10%
On or after the date which is one year after but before the date which is two years after the date of grant	25%
On or after the date which is two years after but before the date which is three years after the date of grant	40%
On or after the date which is three years after but before the date which is four years after the date of grant	70%
On or after the date which is four years after the date of grant	80% The remaining 20% also vests upon passing the overall performance appraisal for those four years

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

** The price of the Company's ordinary shares disclosed as "at date immediately before date of grant" of the share options is the closing price on the Hong Kong Stock Exchange on the business day prior to which the share options were granted.

The price of the Company's ordinary shares disclosed as "at date immediately before the exercise date" of the share options is the weighted average of the Hong Kong Stock Exchange closing prices immediately before the dates on which the share options were exercised by each of the Directors or all other participants as an aggregate whole.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (CONTINUED)

INTERESTS AND SHORT POSITIONS IN THE COMPANY (CONTINUED)

Save as disclosed above, as at 31 December 2015, to the knowledge of the Company, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive are taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2015, so far as is known to any Director or the chief executive of the Company, the following persons (other than a Director or the chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held *(Note 1)*
廣東粵海控股集團有限公司 (Guangdong Holdings Limited) *(Note 2)*	Interest in controlled corporation	383,820,000	Long position	71.34%
GDH Limited	Beneficial owner	383,820,000	Long position	71.34%

Notes:

1. The approximate percentage of interests held was calculated on the basis of 538,019,000 ordinary shares of the Company in issue as at 31 December 2015.

2. The attributable interest which 廣東粵海控股集團有限公司 (Guangdong Holdings Limited) has in the Company is held through its 100% direct interest in GDH Limited.

Save as disclosed above, as at 31 December 2015, so far as is known to any Director or the chief executive of the Company, there were no other persons (other than a Director or the chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

Report of the Directors (Continued)

SHARE OPTIONS OF THE COMPANY

As at 31 December 2015, save as disclosed in the section of "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES" of this report, certain eligible persons of the Company (other than Directors) had the following interests in rights to subscribe for shares of the Company granted under the 2008 Scheme. Each option gives the holder the right to subscribe for one share of the Company. Further details are set out in note 23 to the financial statements.

		Number of share options									
Category of Participants	Date of grant of share options (dd.mm.yyyy)	At date of grant	At 1 January 2015	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2015	Total consideration paid for share options granted HK$	Exercise price of share options* HK$ (per share)	Price of ordinary shares at date immediately before date of grant ** HK$ (per share)	Price of ordinary shares at date immediately before the exercise date** HK$ (per share)
Senior Management	14.07.2010	2,980,000	596,000	–	–	(596,000)	–	–	0.435	0.435	–
Other participant	14.07.2010	2,040,000	408,000	–	–	(408,000)	–	–	0.435	0.435	–

Note: Additional information regarding the above share options granted under the 2008 Scheme is set out in the notes under "Interests in share options relating to ordinary shares (long positions)" in the section headed "INTERESTS AND SHORT POSITIONS IN THE COMPANY" of this report on pages 19 and 20.

SIGNIFICANT CONTRACTS WITH CONTROLLING SHAREHOLDER

Save as disclosed in notes 19 and 29 to the financial statements, the Group and the controlling shareholders of the Company had not entered into any other contracts of significance during the year.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES" and "SHARE OPTIONS OF THE COMPANY" of this report, and in note 23 to the financial statements, at no time during the year was the Company, or any of its subsidiaries, its holding companies or its fellow subsidiaries a party to any arrangements to enable the Directors or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of the related party transactions undertaken in the normal course of business of the Group are provided under note 29 to the financial statements. None of the related party transactions constituted discloseable non-exempted connected transaction or non-exempted continuing connected transaction under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2015, the amount of purchases attributable to the Group's largest supplier represented 27% of the Group's total purchases; and the aggregate amount of purchases (excluding the purchases of items of a capital nature) attributable to the Group's five largest suppliers represented 74% of the Group's total purchases. In addition, the amount of turnover attributable to the Group's largest customer represented 20% of the Group's total turnover; and the aggregate amount of the turnover attributable to the Group's five largest customers represented 38% of the Group's total turnover. None of the Directors or their associates, or any shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers or customers.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules based on the information that is publicly available to the Company and within the knowledge of the Directors.

CHANGES IN DIRECTORS' INFORMATION

The changes in information of the Directors of the Company are set out below:

(1) (a) Mr. Sun Jun was appointed as the chairman of 徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.), 徐州港威皮革有限公司 (Xuzhou Gangwei Leather Co., Ltd.) and 粵海制革(徐州)有限公司 (Guangdong Tannery (Xuzhou) Limited) on 20 January 2016.

(b) The salaries, allowances and benefits in kind of Mr. Sun Jun amounted to approximately RMB31,000 per month for the period from 1 January 2015 to 25 February 2016 and was adjusted to approximately RMB35,000 per month with effect from 26 February 2016.

(2) Mr. Ran Bo was appointed as a director of 徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.), 徐州港威皮革有限公司 (Xuzhou Gangwei Leather Co., Ltd.) and 粵海制革(徐州)有限公司 (Guangdong Tannery (Xuzhou) Limited) on 20 January 2016.

Save for the above changes in the Directors' information, there is no other information that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

AUDITORS

A resolution will be proposed at the 2016 annual general meeting for the reappointment of Messrs. Ernst & Young as the auditors of the Company.

By order of the Board
Sun Jun
Chairman and Managing Director

Hong Kong, 24 March 2016

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Group recognizes the importance of achieving the highest standard of corporate governance consistent with the needs and requirements of its business and the best interest of all of its stakeholders and is fully committed to doing so. It is also with these objectives in mind that the Group has applied the principles of the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In the opinion of the directors of the Company ("the Directors"), the Company complied with the applicable code provisions in the CG Code throughout the year ended 31 December 2015.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. All Directors confirmed, upon specific enquiry by the Company, that they had complied with the required standard as set out in the Model Code during the year.

BOARD OF DIRECTORS

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

There were several changes to the Board during the year and up to the date of this Annual Report as below:

- On 29 October 2015, Mrs. Ho Lam Lai Ping, Theresa resigned as a Non-Executive Director.
- On 13 November 2015, Mr. Liu Bing resigned as a Non-Executive Director and Mr. Ran Bo was appointed a Non-Executive Director.
- On 26 February 2016, Mr. Chen Hong resigned as an Executive Director and the Chairman of the Board. Mr. Sun Jun was appointed the Chairman of the Board and continued to act as the Managing Director. Mr. Xiao Zhaoyi and Mr. Kuang Hu were appointed Non-Executive Directors and Mr. Qiao Jiankang resigned as a Non-Executive Director.

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The management is delegated with the authority and responsibility by the Board for the day-to-day management of the Group. Major corporate matters that are specifically delegated by the Board to the management include the preparation of interim and annual reports and announcements for Board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory and regulatory requirements and rules and regulations.

The Board members do not have any financial, business, family or other material/relevant relationships with each other. Such balanced Board composition ensures that strong independence exists across the Board. The biographies of the Directors are set out in pages 10 to 12 of this Annual Report, which demonstrate a diversity of skills, expertise, experience and qualifications.

BOARD OF DIRECTORS (CONTINUED)

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Company, and to review and approve the Company's annual, interim and quarterly results. During the financial year ended 31 December 2015, seven Board meetings were held and attendance of each Director at the Board meetings is set out in the section headed "BOARD AND COMMITTEE MEETINGS" of this report.

CHAIRMAN AND MANAGING DIRECTOR

Mr. Sun Jun serves as the Chairman of the Board and also as the Managing Director of the Company. He has executive responsibilities, provides leadership for the Board and ensures a proper and effective functioning of the Board in discharge of its responsibilities. He is also accountable to the Board for the overall implementation of the Company's strategies and the co-ordination of overall business operations. The Board believes that vesting the roles of both Chairman and Managing Director in the same person provides the Group with strong and consistent leadership and allows for effective and efficient planning and implementation of business strategies and decisions.

The Board also considers that the current structure of vesting the roles of Chairman and Managing Director in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board shall review this structure from time to time to ensure appropriate and timely action to meet changing circumstances.

NON-EXECUTIVE DIRECTORS

All Directors, including Non-Executive Directors, appointed to fill a causal vacancy or as an addition to the existing Board, shall hold office only until the first general meeting after his appointment and shall then be eligible for re-election. Moreover, all Non-Executive Directors (including Independent Non-Executive Directors) are appointed for a term of not more than approximately three years expiring on the earlier of either (i) the conclusion of the annual general meeting of the Company in the year of the third anniversary of the appointment or re-election of that Director, or (ii) the expiration of the period within which the annual general meeting of the Company is required to be held in the year of the third anniversary of the appointment or re-election of that Director and in any event, subject to earlier determination in accordance with the Articles of Association of the Company and/or applicable laws and regulations.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year under review and up to the date of this report, the Company has complied with the requirements under Rule 3.10(1), 3.10(2) and 3.10A of the Listing Rules. The Company has received confirmation of independence from the three Independent Non-Executive Directors, namely Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat, in accordance with Rule 3.13 of the Listing Rules. The Company has assessed their independence and concluded that all the Independent Non-Executive Directors are independent within the definition of the Listing Rules.

Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat served the Board for more than nine years. They have clearly demonstrated their willingness to exercise independent judgment and to provide objective challenges to the management. There is no evidence that length of tenure is having an adverse impact on their independence. The Board therefore considers that Mr. Fung, Mr. Choi and Mr. Chan remain independent, notwithstanding the length of their tenure.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Upon appointment to the Board, each new Director receives an induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he is sufficiently aware of his responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company encourages the Directors to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, Hong Kong ordinances and corporate governance practices so that they can continuously update and further improve their relevant knowledge and skills. Some Directors attended seminars and conferences organized by government authorities, professional bodies and industrial organizations in relation to corporate governance, updates on laws, rules and regulations, accounting, financial, management or other professional skills. The Company organized a seminar in October 2015 to brief the Directors on the topic of "Director's Duties, the new Companies Ordinance and the Securities and Futures Commission" and provided reading materials to the Directors to develop and refresh their professional skill.

According to the records kept by the Company, the Directors attended the following trainings during the year ended 31 December 2015.

Name of Director	Seminars and Conferences	Reading materials
Executive Directors		
Sun Jun	✓	✓
Chen Hong *(resigned on 26 February 2016)*	✓	✓
Non-Executive Directors		
Xiao Zhaoyi *(appointed on 26 February 2016)*	N/A	N/A
Kuang Hu *(appointed on 26 February 2016)*	N/A	N/A
Ran Bo *(appointed on 13 November 2015)*	✓	N/A
Ho Lam Lai Ping, Theresa *(resigned on 29 October 2015)*	✓	✓
Liu Bing *(resigned on 13 November 2015)*		✓
Qiao Jiankang *(resigned on 26 February 2016)*	✓	✓
Independent Non-Executive Directors		
Fung Lak	✓	✓
Choi Kam Fai, Thomas	✓	✓
Chan Cheong Tat	✓	✓

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy (the "Policy") on 23 August 2013 which sets out the approach to achieve diversity on the Board.

The Company recognizes and embraces the benefits of having a diversified Board and sees increasing diversity at Board level as an essential element in supporting the attainment of the Company's strategic objectives and sustainable development.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The Company will also take into consideration its own business model and specific needs from time to time. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the Board.

The Nomination Committee has set the measurable objectives based on five focused areas: gender, age, length of service, professional experience and skills and knowledge for the implementation of Board diversity of the Company. The Nomination Committee reviews the Policy, as appropriate, to ensure its continued effectiveness from time to time.

As at the date of this report, the Board comprises seven directors. Three of them are Independent Non-Executive Directors, thereby promoting critical review and control of the management process. The Board has maintained a balanced composition in terms of age, professional experience, skills and knowledge, and has performed effectively.

Having reviewed the implementation of the Policy and the structure, size and composition of the Board, the Nomination Committee considered that the requirement of the Policy had been met.

CORPORATE GOVERNANCE FUNCTIONS

It is the responsibility of the Board to determine the appropriate corporate governance practices applicable to the Company's circumstances and to ensure processes and procedures are in place to achieve the Company's corporate governance objectives.

The duties of the Board performing corporate governance functions are set out below:

1. to develop and review the Company's policies and practices on corporate governance;

2. to review and monitor the training and continuous professional development of Director and senior management of the Company;

3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Company; and

5. to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

CORPORATE GOVERNANCE FUNCTIONS (CONTINUED)

During the year under review, the Board considered the following corporate governance issues:

(i) adopted the revised Terms of Reference of the Audit Committee;

(ii) set out the plan for compiling the Environmental, Social and Governance Reporting; and

(iii) reviewed the effectiveness of the internal controls and risk management systems of the Company through the Audit Committee.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee in June 2005. Terms of reference of the Remuneration Committee detailing the authorities and duties are available on the Company's website.

The Remuneration Committee comprises three Independent Non-Executive Directors, being Mr. Choi Kam Fai, Thomas, Mr. Fung Lak and Mr. Chan Cheong Tat. Mr. Choi Kam Fai, Thomas is the Chairman of the Remuneration Committee.

During the financial year ended 31 December 2015, the Remuneration Committee held two meetings to approve the annual review of the remuneration packages and performance bonuses for the Executive Directors. The attendance of each member of the Remuneration Committee is set out in the section headed "BOARD AND COMMITTEE MEETINGS" of this report.

Details of the amount of Directors' remuneration for the year 2015 are set out in note 8 to the financial statements.

NOMINATION COMMITTEE

The Company established the Nomination Committee in June 2005. Terms of reference of the Nomination Committee detailing the authority and duties are available on the Company's website.

The Nomination Committee comprises one Executive Director, being Mr. Sun Jun and three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat. Mr. Sun Jun is the Chairman of the Nomination Committee.

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members, assessing the independence of its Independent Non-Executive Directors in accordance with the criteria prescribed under the Listing Rules and the CG Code, considering the reappointment of the Directors and succession planning for Directors and making recommendations to the Board in respect of the aforesaid matters.

During the financial year ended 31 December 2015, the Nomination Committee held two meetings (i) to evaluate the structure, size and composition of the Board; (ii) to assess the independence of Independent Non-Executive Directors; (iii) to make recommendations to the Board on the appointment of a Non-Executive Director and the re-election of Directors. The attendance of each member of the Nomination Committee is set out in the section headed "BOARD AND COMMITTEE MEETINGS" of this report.

AUDIT COMMITTEE

The Audit Committee was established in September 1998. Terms of reference of the Audit Committee detailing the authority and duties are available on the Company's website.

The Audit Committee comprises three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat who all possess the required experience and knowledge in the accounting profession. Mr. Fung Lak is the Chairman of the Audit Committee.

During the financial year ended 31 December 2015, the Audit Committee held six meetings. It reviewed the 2014 annual results, the 2015 interim results and the 2015 quarterly results of the Company before their submission to the Board and monitored the integrity of such financial statements/financial information. The Audit Committee oversees matters concerning the external auditors including making recommendations to the Board regarding the appointment of the external auditors, reviewing the scope of their audit and work and approving their fees. In addition to the six meetings as aforesaid, the Audit Committee also had a private meeting with the external auditors without the presence of the management to discuss any area of concern. To be consistent with the CG Code, revised terms of reference of the Audit Committee were reviewed and submitted to the Board for approval. The Audit Committee further ensures that the management has put in place an effective system of internal control and maintains an overview of the Group's risk assessment, control and management processes. It reviews the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function and their training programmes and budget. In addition, it reviews the internal audit schedules of the Group, considers the Group's internal audit reports and monitors the effectiveness of the internal audit function. The attendance of each member of the Audit Committee is set out in the section headed "BOARD AND COMMITTEE MEETINGS" of this report.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the Company's auditors, Messrs. Ernst & Young, is set out as follows:

Services rendered	**Fee paid/payable** *HK$'000*
Audit of Final Results	1,300
Review of Interim Results	320

BOARD AND COMMITTEES MEETINGS

The individual attendance records of each Director at the meetings of the Board, Remuneration Committee, Nomination Committee, Audit Committee and general meetings during the year ended 31 December 2015 are set out below:

Name of Director	Board Meeting	Remuneration Committee	Nomination Committee	Audit Committee	Annual General Meeting
Executive Directors					
Sun Jun	7/7	–	–	–	1/1
Chen Hong *(resigned on 26 February 2016)*	7/7	–	2/2	–	1/1
Non-Executive Directors					
Xiao Zhaoyi *(appointed on 26 February 2016)*	N/A	–	–	–	N/A
Kuang Hu *(appointed on 26 February 2016)*	N/A	–	–	–	N/A
Ran Bo *(appointed on 13 November 2015)*	N/A	–	–	–	N/A
Ho Lam Lai Ping, Theresa *(resigned on 29 October 2015)*	6/6	–	–	–	1/1
Liu Bing *(resigned on 13 November 2015)*	5/6	–	–	–	0/1
Qiao Jiankang *(resigned on 26 February 2016)*	7/7	–	–	–	1/1
Independent Non-Executive Directors					
Fung Lak	7/7	2/2	2/2	6/6	1/1
Choi Kam Fai, Thomas	7/7	2/2	2/2	6/6	1/1
Chan Cheong Tat	7/7	2/2	2/2	6/6	1/1

ACCOUNTABILITY AND AUDIT

The Board is responsible for overseeing the preparation of financial statements for the year ended 31 December 2015, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that financial year. In preparing the financial statements for the year ended 31 December 2015, the Board has selected appropriate accounting policies, applied them consistently in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements and, made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on the going concern basis.

The Company endeavors to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. The annual and interim results of the Company are announced in a timely manner within the limit of three months and two months respectively after the end of the relevant periods in accordance with the Listing Rules. To further enhance the Company's level of corporate governance and transparency, the Company has announced its unaudited quarterly financial information during the financial year ended 31 December 2015, and will continue to publish unaudited financial information quarterly in the future.

The Directors have acknowledged their responsibility for preparing all information and representations contained in the financial statements of the Company for the year ended 31 December 2015.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the Group's system of internal controls, risk management and and their effectiveness. The internal control system has been designed to mitigate the Group's risk exposure; to facilitate the effectiveness and efficiency of operations; to safeguard the assets against loss and misappropriation; to maintain proper accounting records for producing reliable financial information and ensuring compliance with applicable laws and regulations.

The management under the supervision of the Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the systems of risk management and internal controls when there are changes to business environment or regulatory guidelines.

The risk management and internal control system of the Group comprises a well-established organisational structure and comprehensive policies and standards. The Board has clearly defined the authorities and key responsibilities of each operational unit to ensure adequate checks and balances. The management assists the Board in the implementation of the Board's relevant policies and procedures on risk and control by identifying and assessing the risks faced, and involving in the design, operation and monitoring of suitable internal controls to mitigate and control these risks. The key processes that have been established in reviewing the adequacy and integrity of the system of risk management and internal controls include the following:

A defined management structure is maintained with specified limits of authority and control responsibilities, which is designed to (a) safeguard assets from inappropriate use; (b) maintain proper accounts; (c) ensure compliance with regulations; and (d) identify, manage and mitigate key risks to the Group.

The Audit Committee is established to, inter alia, review the financial controls, risk management and internal control systems of the Group and any significant internal control issues identified by the internal audit department, external auditors, regulatory authorities and management. It also conducts review of the internal audit functions with particular emphasis on the scope and quality of the internal audits and independence of the internal audit department. During its annual review, the Audit Committee also considers the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budgets.

The internal audit department monitors compliance with policies and procedures and the effectiveness of the risk management and internal control systems, and highlight significant findings in respect of any non compliance. It plays an important role in the Group's internal control framework, and provides objective assurance to the Board that a sound internal control system is maintained and operated in compliance with the established processes and standards by performing periodic checking. Using a risk-based approach, the internal audit department plans its internal audit schedules annually with audit resources being focused on higher risk areas. The internal audit department issues reports to the Board and relevant management covering various operational and financial processes of the Group and provides summary reports to the Audit Committee together with the status of implementation of their recommendation in each Audit Committee meeting.

The Board has conducted an annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance controls and risk management systems. The Board is satisfied that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and accounts is reasonably effective and adequate.

COMPANY SECRETARY

Ms. Lo Sze Sze, the Company Secretary of the Company, is not a full time employee of the Company. She reports to the Chairman of the Company and responsible for advising the Board on corporate governance matters of the Company. The primary contact person of the Company with Ms. Lo is Ms. Lee Wai Mei, the Chief Financial Officer of the Company. Ms. Lo has confirmed that she has taken no less than 15 hours of relevant professional training during the year under review.

SHAREHOLDERS' RIGHTS

SHAREHOLDERS CONVENING AN EXTRAORDINARY GENERAL MEETING

Pursuant to the new Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholders of the Company holding not less than 5% of the total voting rights of all the members having a right to vote at general meeting may request the Directors to call a general meeting of the Company. The request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. The request may be sent to the Company in hard copy form or in electronic form; and must be authenticated by the person or persons making it. Directors of the Company must call a meeting with 21 days after the date on which they become subject to the requirement. The meeting being called must be held on a date not more than 28 days after the date of the notice convening the meeting. If the Directors fail to call the meeting, the shareholders who requested the meeting, or any of them representing more than one half of the total voting rights of all of them, may themselves call a general meeting. The meeting must be called for a date not more than 3 months after the date on which the Directors become subject to the requirement to call a meeting.

Details of the procedures for shareholders to propose a person for election as a Director of the Company are available on the Company's website.

SHAREHOLDERS' ENQUIRIES AND PROPOSALS

Shareholders may direct their enquiries about their shareholdings to the Company's Share Registrar, Tricor Tengis Limited.

Shareholders may also send written enquiries to the Company, for the attention of the Chief Financial Officer or the Company Secretary of the Company by mail or by fax. The contact details of the Company are set out in the "Contact Us" section of the Company's website at www.gdtann.com.hk. In addition, the Company is committed to maximizing the use of its website as a channel to provide updated information in a timely manner and to strengthen the communications with both the shareholders and the public. The Company has formulated the "Shareholders Communication Policy" which enables Shareholders to exercise their rights in an informed manner.

ENVIRONMENTAL ISSUES

The Company is committed to the sustainable development of the environment and our society. The Group has endeavoured to comply with laws and regulations regarding environmental protection and adopted effective environmental technologies to ensure its projects meet the required standards and ethics in respect of environmental protection.

RELATIONSHIPS WITH STAKEHOLDERS

The Company recognizes that our employees, customers and suppliers and business associates are key stakeholders to the Company's success. We strive to achieve corporate sustainability through engaging our employees, providing quality services to our customers, collaborating with business partners (including suppliers and contractors) to deliver quality sustainable products and services and supporting our community.

CONSTITUTIONAL DOCUMENTS

During the year under review, there are no changes in the Company's Articles of Association. An up-to-date consolidated version of the Company's Articles of Association is available on the Company's website.

By order of the Board
Sun Jun
Chairman and Managing Director

Hong Kong, 24 March 2016

Independent Auditors' Report

To the members of **Guangdong Tannery Limited**
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Guangdong Tannery Limited (the "Company") and its subsidiaries set out on pages 36 to 96, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report (Continued)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

24 March 2016

Consolidated Statement of Profit or Loss

Year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
REVENUE	5	**652,729**	767,185
Cost of sales		**(644,356)**	(729,758)
Gross profit		**8,373**	37,427
Other income and gains	5	**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	6	**(10,533)**	(6,676)
PROFIT/(LOSS) BEFORE TAX	6	**(38,890)**	5,291
Income tax credit/(expense)	7	**541**	(3,293)
PROFIT/(LOSS) FOR THE YEAR		**(38,349)**	1,998
EARNINGS/(LOSS) PER SHARE	10		
– Basic		**HK(7.13) cents**	HK0.37 cent
– Diluted		**HK(7.13) cents**	HK0.37 cent

Consolidated Statement of Comprehensive Income

Year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'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	11	**1,265**	(50)
Income tax effect	21	**(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

31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**103,313**	103,991
Prepaid land lease payments	12	**12,889**	14,008
Total non-current assets		**116,202**	117,999
CURRENT ASSETS			
Inventories	13	**310,803**	303,235
Receivables, prepayments and deposits	14	**129,422**	279,783
Tax recoverable		**25**	332
Pledged bank balances	15	**8,410**	37,283
Cash and bank balances	15	**42,156**	20,421
Total current assets		**490,816**	641,054
CURRENT LIABILITIES			
Trade payables	16	**86,579**	97,718
Other payables and accruals	16	**30,376**	23,801
Interest-bearing bank borrowings	17	**53,822**	135,838
Due to a PRC joint venture partner	18	**1,131**	1,131
Loans from the immediate holding company	17,19	**–**	142,379
Provision	20	**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	17,19	**138,740**	–
Deferred tax liabilities	21	**1,949**	1,591
Total non-current liabilities		**140,689**	1,591
Net assets		**290,615**	352,553
EQUITY			
Share capital	22	**75,032**	75,032
Other reserves	24	**215,583**	277,521
Total equity		**290,615**	352,553

Sun Jun
Director

Xiao Zhaoyi
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2015

	Notes	Share capital HK$'000	Share premium account HK$'000	Equity component of convertible notes HK$'000	General reserve fund HK$'000 (Note 24(i))	Reserve funds HK$'000 (Note 24(iii))	Share option reserve HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Exchange translation reserve HK$'000	Property revaluation reserve HK$'000	Special capital reserve HK$'000 (Note 24(ii))	Accumulated losses HK$'000	Total HK$'000
At 1 January 2014		53,802	20,785*	5,545*	167,746*	19,233*	1,154*	445*	–*	110,423*	5,620*	3,396*	(35,337)*	352,812
Profit for the year		–	–	–	–	–	–	–	–	–	–	–	1,998	1,998
Other comprehensive income for the year:														
Changes in fair value of buildings, net of tax		–	–	–	–	–	–	–	–	–	(38)	–	–	(38)
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	(1,673)	–	–	–	(1,673)
Total comprehensive income for the year		–	–	–	–	–	–	–	–	(1,673)	(38)	–	1,998	287
Equity-settled share option arrangements	23	–	–	–	–	–	(546)	–	–	–	–	–	–	(546)
Transfer to accumulated losses in accordance with the undertaking		–	–	–	–	–	–	–	–	–	–	(130)	130	–
Transfer from retained profits of subsidiaries established in the PRC		–	–	–	–	821	–	–	–	–	–	–	(821)	–
Transition to no-par value regime	24(iv)	21,230	(20,785)	–	–	–	–	(445)	–	–	–	–	–	–
At 31 December 2014 and 1 January 2015		75,032	–*	5,545*	167,746*	20,054*	608*	–*	-*	108,750*	5,582*	3,266*	(34,030)*	352,553
Loss for the year		–	–	–	–	–	–	–	–	–	–	–	(38,349)	(38,349)
Other comprehensive loss for the year:														
Changes in fair value of buildings, net of tax		–	–	–	–	–	–	–	–	–	949	–	–	949
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	(27,569)	–	–	–	(27,569)
Total comprehensive loss for the year		–	–	–	–	–	–	–	–	(27,569)	949	–	(38,349)	(64,969)
Equity-settled share option arrangements	23	–	–	–	–	–	(608)	–	–	–	–	–	–	(608)
Transfer to accumulated losses in accordance with the undertaking		–	–	–	–	–	–	–	–	–	–	(2,076)	2,076	–
Capital contribution from the immediate holding company		–	–	–	–	–	–	–	3,639	–	–	–	–	3,639
At 31 December 2015		75,032	–*	5,545*	167,746*	20,054*	–*	–*	3,639*	81,181*	6,531*	1,190*	(70,303)*	290,615

* These reserve accounts comprise the consolidated other reserves of HK$215,583,000 (2014: HK$277,521,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		(38,890)	5,291
Adjustments for:			
Finance costs	6	10,533	6,676
Interest income	5	(120)	(152)
Depreciation	6	10,739	10,473
Provision/(reversal of provision) for inventories	6	8,824	(1,401)
Reversal of provision on trade and bills receivables, net	6	(179)	(632)
Impairment on items of property, plant and equipment		3,004	–
Reversal of provision for other receivables	6	(56)	–
Reversal of provision for prepayments	6	(5)	–
Surplus on revaluation of buildings	5	–	(429)
Amortisation of prepaid land lease payments	6	314	319
Forfeiture of equity-settled share options	23	(608)	(546)
		(6,444)	19,599
Increase in inventories		(35,183)	(26,613)
Decrease/(increase) in receivables, prepayments and deposits		140,211	(100,714)
Increase/(decrease) in trade payables		(5,695)	48,015
Increase/(decrease) in other payables and accruals		5,054	(4,073)
Increase/(decrease) in interest-bearing bank borrowings		(77,283)	78,362
Cash from operations		20,660	14,576
Interest received		120	152
Interest paid		(8,018)	(6,032)
Overseas tax refund/(paid)		840	(5,089)
Net cash flows from operating activities		13,602	3,607
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(17,635)	(10,366)
Decrease/(increase) in pledged bank balances		27,848	(32,556)
Receipt of government grants	28	–	3,486
Net cash flows from/(used in) investing activities		10,213	(39,436)

Consolidated Statement of Cash Flows (Continued)

Year ended 31 December 2015

	Notes	2015 *HK$'000*	2014 *HK$'000*
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**23,815**	(35,829)
Cash and cash equivalents at beginning of year		**20,421**	56,569
Effect of foreign exchange rate changes, net		**(2,080)**	(319)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**42,156**	20,421
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*15*	**42,156**	20,421

Notes to Financial Statements

31 December 2015

1. CORPORATE AND GROUP INFORMATION

Guangdong Tannery Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 29/F, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong.

During the year, the Group was principally engaged in the processing and sale of semi-finished and finished leather.

GDH Limited ("GDH"), a company incorporated in Hong Kong, is the immediate holding company of the Company. In the opinion of the directors, the ultimate holding company of the Company is 廣東粵海控股集團有限公司 (Guangdong Holdings Limited), which is established in the People's Republic of China (the "PRC" or "Mainland China").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct (%)	Principal activities
徐州港威皮革有限公司 (Xuzhou Gangwei Leather Co., Ltd.) +*	PRC/Mainland China	RMB18,000,000	100	Lease of plant and machinery
徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.) +*	PRC/Mainland China	US$10,450,000	100	Processing of cowhides and leather trading
粵海制革(徐州)有限公司 (Guangdong Tannery (Xuzhou) Limited) +*	PRC/Mainland China	US$9,000,000	100	Lease of plant and machinery

\+ Registered as wholly-foreign-owned enterprises under PRC law.

* Subsidiaries whose financial statements were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year and formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 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 as further explained in note 2.4 to the financial statements. 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 Company and its subsidiaries (collectively referred to as 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 below. 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.

2.2 CHANGES IN ACCOUNTING POLICIES 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	
Annual Improvements to HKFRSs 2011-2013 Cycle	

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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(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 (Continued):

- 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.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises, unless the asset is carried at revaluated amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revaluated amount.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at revaluated amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revaluated asset.

Fair value measurement

The Group measures its buildings at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (Continued)

(b) (Continued)

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Plant and equipment, other than construction in progress and buildings, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Buildings are stated at valuation. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the property revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2% to 10%
Leasehold improvements	4% to 20%
Plant and machinery	10% to 12.5%
Electronic equipment	20%
Furniture, fixtures and equipment	15% to 20%
Motor vehicles	15% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents machinery and equipment under construction. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of loans and receivables is as follows:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other operating expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (Continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to administrative expenses in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, accruals, an amount due to a PRC joint venture partner, interest-bearing bank borrowings, and loans from the immediate holding company.

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provisions for staff redundancy payments and compensation to a PRC joint venture partner for early termination of a joint venture agreement are determined based on the relevant employment contracts and the terms of the joint venture agreement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside the profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 23 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (Continued)

Share-based payments (Continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings/loss per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme (the "PRC Scheme") operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the PRC Scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the PRC Scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of each reporting period, the assets and liabilities of these entities are translated into the Hong Kong dollars at the exchange rates prevailing at the end of each reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for inventories

Management reviews the condition of inventories of the Group at the end of each reporting period and makes provision for obsolete and slow-moving inventory items. Management also estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. Management reassesses the estimation at the end of each reporting period.

Impairment of trade receivables

The Group maintains an allowance for the estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of the assets. The estimation of the useful life of the asset is based on experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at the end of each reporting period, based on changes in circumstances.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2015 was HK$72,038,000 (2014: HK$72,038,000). Further details are contained in note 21 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Impairment of property, plant and equipment

The Group assesses at the end of each reporting period whether there is an indication that property, plant and equipment may be impaired. If any indication exists, the Group estimates the recoverable amount of the property, plant and equipment. The Group measures the recoverable amount of the property, plant and equipment with reference to their value-in-use. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from property, plant and equipment and a suitable discount rate in order to calculate the present value. As at 31 December 2015, the carrying amount of property, plant and equipment was approximately HK$103,313,000 (2014: HK$103,991,000) (note 11).

4. 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 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.

5. 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:

	Note	2015 HK$'000	2014 HK$'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	11(a)	**–**	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.

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2015 HK$'000	2014 HK$'000
Cost of inventories sold		635,532	731,159
Auditors' remuneration		1,300	1,274
Depreciation	11	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 *(note 8)*):			
Wages and salaries		37,682	37,088
Pension scheme contributions (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	12	314	319
Reversal of provision for trade and bills receivables, net	14	(179)	(632)
Reversal of provision for other receivables	14	(56)	–
Reversal of provision for prepayments		(5)	–

* At 31 December 2015 and 2014, the Group had no forfeited contributions 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.

7. 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 *HK$'000*	2014 *HK$'000*
Current – Mainland China		
Charge for the year	–	2,998
Overprovision in prior years	(541)	–
Deferred *(note 21)*	–	295
Total tax charge/(credit) for the year	(541)	3,293

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense/(credit) at the effective tax rates is as follows:

2015

	Hong Kong *HK$'000*	Mainland China *HK$'000*	Total *HK$'000*
Loss before tax	(8,421)	(30,469)	(38,890)
Tax at the statutory tax rate	(1,389)	(7,617)	(9,006)
Adjustments in respect of current tax of previous periods	–	(541)	(541)
Income not subject to tax	(103)	(71)	(174)
Expenses not deductible for tax	1,492	2,223	3,715
Tax loss utilised from previous periods	–	(144)	(144)
Tax loss not recognised	–	5,609	5,609
Tax credit at the Group's effective rate	–	(541)	(541)

7. INCOME TAX (CONTINUED)

2014

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Profit/(loss) before tax	(9,569)	14,860	5,291
Tax at the statutory tax rate	(1,579)	3,715	2,136
Income not subject to tax	(91)	(341)	(432)
Expenses not deductible for tax	1,661	236	1,897
Tax loss utilised from previous periods	–	(317)	(317)
Tax loss not recognised	9	–	9
Tax charge at the Group's effective rate	–	3,293	3,293

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2015 HK$'000	2014 HK$'000
Fees	**450**	450
Other emoluments:		
Salaries, allowances and benefits in kind	**1,050**	1,187
Performance related bonuses*	**174**	926
Forfeiture of equity-settled share options	**(381)**	(421)
Pension scheme contributions	**256**	287
	1,099	1,979
	1,549	2,429

* Certain executive directors of the Company are entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.

8. DIRECTORS' REMUNERATION (CONTINUED)

In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 23 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosure.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2015 *HK$'000*	2014 *HK$'000*
Mr. Fung Lak	**150**	150
Mr. Choi Kam Fai, Thomas	**150**	150
Mr. Chan Cheong Tat	**150**	150
	450	450

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

(b) Executive directors and non-executive directors

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Performance related bonuses *HK$'000*	Equity-settled share options forfeited *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
2015						
Executive directors:						
Mr. Chen Hong	–	524	–	(239)	190	475
Mr. Sun Jun	–	526	174	(59)	66	707
	–	1,050	174	(298)	256	1,182
Non-executive directors:						
Mrs. Ho Lam Lai Ping, Theresa*	–	–	–	–	–	–
Mr. Qiao Jiankang	–	–	–	(83)	–	(83)
Mr. Liu Bing*	–	–	–	–	–	–
Mr. Ran Bo#	–	–	–	–	–	–
	–	–	–	(83)	–	(83)
	–	1,050	174	(381)	256	1,099

8. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors and non-executive directors (Continued)

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Performance related bonuses *HK$'000*	Equity-settled share options forfeited *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
2014						
Executive directors:						
Mr. Chen Hong	–	718	295	(90)	253	1,176
Mr. Sun Jun	–	469	631	(22)	34	1,112
	–	1,187	926	(112)	287	2,288
Non-executive directors:						
Mr. Xiong Guangyang*	–	–	–	(278)	–	(278)
Mrs. Ho Lam Lai Ping, Theresa*	–	–	–	–	–	–
Mr. Qiao Jiankang	–	–	–	(31)	–	(31)
Mr. Liu Bing*	–	–	–	–	–	–
	–	–	–	(309)	–	(309)
	–	1,187	926	(421)	287	1,979

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

* Mr. Xiong Guangyang, Mrs. Ho Lam Lai Ping, Theresa and Mr. Liu Bing resigned as non-executive directors of the Company on 1 April 2014, 29 October 2015 and 13 November 2015, respectively.

Mr. Ran Bo was appointed as a non-executive director of the Company on 13 November 2015.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two (2014: two) directors, details of whose remuneration is set out in note 8 above. Details of the remuneration for the year of the remaining three (2014: three) highest paid employees who are not directors of the Company, are as follows:

	2015 HK$'000	2014 HK$'000
Salaries and allowances	1,596	1,844
Pension scheme contributions	102	67
	1,698	1,911

The number of non-director highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2015	2014
Nil to HK$1,000,000	3	3

10. 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.

10. EARNINGS/(LOSS) PER SHARE (CONTINUED)

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

	2015 *HK$'000*	2014 *HK$'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

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Electronic equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2015								
At 1 January 2015:								
Cost or valuation	51,019	21,996	112,536	4,560	497	6,405	4,632	201,645
Accumulated depreciation and impairment	–	(13,124)	(74,006)	(3,794)	(460)	(6,270)	–	(97,654)
Net carrying amount	51,019	8,872	38,530	766	37	135	4,632	103,991
At 1 January 2015, net of accumulated depreciation and impairment	51,019	8,872	38,530	766	37	135	4,632	103,991
Additions	–	3,157	459	40	–	–	13,979	17,635
Surplus on revaluation *(note (a))*	1,265	–	–	–	–	–	–	1,265
Impairment *(note (b))*	–	(559)	(2,410)	(30)	–	(5)	–	(3,004)
Depreciation provided during the year	(2,259)	(1,594)	(6,502)	(253)	(12)	(119)	–	(10,739)
Transfer	2,724	–	12,021	–	–	104	(14,849)	–
Exchange realignment	(2,449)	(679)	(2,408)	(35)	–	(30)	(234)	(5,835)
At 31 December 2015, net of accumulated depreciation and impairment	50,300	9,197	39,690	488	25	85	3,528	103,313
At 31 December 2015:								
Cost or valuation	50,300	23,738	118,761	4,339	497	6,261	3,528	207,424
Accumulated depreciation and impairment	–	(14,541)	(79,071)	(3,851)	(472)	(6,176)	–	(104,111)
Net carrying amount	50,300	9,197	39,690	488	25	85	3,528	103,313
Analysis of cost or valuation:								
At cost	–	23,738	118,761	4,339	497	6,261	3,528	157,124
At 31 December 2015 valuation	50,300	–	–	–	–	–	–	50,300
	50,300	23,738	118,761	4,339	497	6,261	3,528	207,424

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Electronic equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2014								
At 1 January 2014:								
Cost or valuation	53,049	21,633	109,119	4,244	497	6,240	3,100	197,882
Accumulated depreciation and impairment	–	(11,772)	(69,263)	(3,390)	(446)	(5,954)	–	(90,825)
Net carrying amount	53,049	9,861	39,856	854	51	286	3,100	107,057
At 1 January 2014, net of accumulated depreciation and impairment	53,049	9,861	39,856	854	51	286	3,100	107,057
Additions	–	433	2,052	174	–	163	7,544	10,366
Disposals	–	–	(2,987)	–	–	–	–	(2,987)
Surplus on revaluation *(note (a))*	379	–	–	–	–	–	–	379
Depreciation provided during the year	(2,250)	(1,378)	(6,091)	(414)	(13)	(327)	–	(10,473)
Transfer	–	–	5,839	154	–	15	(6,008)	–
Exchange realignment	(159)	(44)	(139)	(2)	(1)	(2)	(4)	(351)
At 31 December 2014, net of accumulated depreciation and impairment	51,019	8,872	38,530	766	37	135	4,632	103,991
At 31 December 2014:								
Cost or valuation	51,019	21,996	112,536	4,560	497	6,405	4,632	201,645
Accumulated depreciation and impairment	–	(13,124)	(74,006)	(3,794)	(460)	(6,270)	–	(97,654)
Net carrying amount	51,019	8,872	38,530	766	37	135	4,632	103,991
Analysis of cost or valuation:								
At cost	–	21,996	112,536	4,560	497	6,405	4,632	150,626
At 31 December 2014 valuation	51,019	–	–	–	–	–	–	51,019
	51,019	21,996	112,536	4,560	497	6,405	4,632	201,645

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

(a) The Group's buildings were revalued individually at 31 December 2015 based on the valuations performed by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at an aggregate open market value of HK$50,300,000 (2014: HK$51,019,000) based on their existing use, with a revaluation surplus of HK$1,265,000 (2014: net revaluation surplus of HK$379,000) credited to other comprehensive income.

Had these buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts as at 31 December 2015 would have been approximately HK$39,798,000 (2014: HK$41,768,000).

Each year, the Group appoints an external valuer to be responsible for external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management has discussion with the valuers on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's buildings:

	Fair value measurement as at 31 December 2015 using		
	Quoted prices in active markets (Level 1) ***HK$'000***	**Significant observable inputs (Level 2)** ***HK$'000***	**Significant unobservable inputs (Level 3)** ***HK$'000***
Recurring fair value measurement for properties held for own use	**–**	**–**	**50,300**

	Fair value measurement as at 31 December 2014 using		
	Quoted prices in active markets (Level 1) *HK$'000*	Significant observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*
Recurring fair value measurement for properties held for own use	–	–	51,019

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes (Continued):

(a) Fair value hierarchy (Continued)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Properties held for own use *HK$'000*
Carrying amount at 1 January 2015	51,019
Additions for the year (transfer from construction in progress)	2,724
Depreciation charge for the year	(2,259)
Gain from fair value measurement recognised in other comprehensive income	1,265
Exchange realignment	(2,449)
Carrying amount at 31 December 2015	50,300

Below is a summary of the valuation techniques used and the key inputs to the valuation:

	Valuation technique	Significant unobservable inputs	Range
Properties held for own use	Market approach	Price per square metre	RMB135 to RMB138 per square metre
	Depreciated replacement cost method	Estimated hard cost of construction per square metre	RMB400 to RMB900 per square metre
		Estimated construction period	1 year
		Estimated soft cost	3% to 4.35 % on estimated hard cost of construction

A combination of the market and depreciated replacement cost approaches was adopted in assessing the land portions of the properties and the buildings and structures standing on the land respectively. The sum of the two results represents the market value of the properties as a whole. In the valuation of the land portions, reference has been made to the sales comparables in the locality. Due to the nature of the buildings and structures cannot be valued on the basis of market value; they have therefore been valued on the basis of their depreciated replacement cost. The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar properties in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence percent, whether arising from physical, functional or economic causes. The depreciated replacement cost approach generally furnishes the most reliable indication of value for properties in the absence of a known market based on comparable sales.

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes (Continued):

(b) In light of the business activity and the future performance of the manufacture and sale of the leather business, the directors reassessed the recoverable amounts of plant and equipment as at 31 December 2015 by reference to a valuation as at 31 December 2015 (the "Valuation") performed by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers. Based on the Valuation, an impairment loss of HK$3,004,000 was recognised in the consolidated statement of profit or loss for the year ended 31 December 2015.

According to the Valuation, the recoverable amount was determined based on a value-in-use calculation which was derived from the present value of expected future cash flows to be generated from the sale of semi-finished and finished leather. The discount rate applied to the projected cash flows was 16.5%.

12. PREPAID LAND LEASE PAYMENTS

	2015 ***HK$'000***	2014 *HK$'000*
Carrying amount at 1 January	**14,328**	14,698
Recognised during the year *(note 6)*	**(314)**	(319)
Exchange realignment	**(824)**	(51)
Carrying amount at 31 December	**13,190**	14,328
Current portion included in receivables, prepayments and deposits	**(301)**	(320)
Non-current portion	**12,889**	14,008

The Group's leasehold land is held under medium term leases and is situated in Mainland China.

13. INVENTORIES

	2015 ***HK$'000***	2014 *HK$'000*
Raw materials	**34,681**	72,952
Work in progress	**209,642**	183,964
Finished goods	**66,480**	46,319
	310,803	303,235

14. 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 ***HK$'000***	2014 *HK$'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 ***HK$'000***	2014 *HK$'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.

14. RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

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 gross carrying amount of HK$307,000 (2014: HK382,000).

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 amounts of other receivables approximate their carrying values.

15. CASH AND BANK BALANCES AND PLEDGED BANK BALANCES

	2015 HK$'000	2014 HK$'000
Cash and bank balances	**50,566**	57,704
Less: Pledged bank balances*	**(8,410)**	(37,283)
Cash and bank balances	**42,156**	20,421

* These bank balances were pledged to banks for banking facilities granted to the Group (note 30).

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$47,543,000 (2014: HK$54,901,000). The RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of cash and bank balances approximate their fair values.

16. 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 HK$'000	2014 HK$'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.

Details of the loans from the immediate holding company are included in note 19 to the financial statements.

17. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2015			2014		
	Effective interest rate (%)	Maturity	Amount HK$'000	Effective interest rate (%)	Maturity	Amount HK$'000
Current						
Trust receipt loans, secured	**2.90-3.02**	**2016**	**53,822**	2.93-3.10	2015	135,838
Loans from the immediate holding company *(note 19)*	**–**	**–**	**–**	2.74-2.88	2015	142,379
			53,822			278,217
Non-current						
Loans from the immediate holding company *(note 19)*	**2.33-2.40**	**2018**	**138,740**	–	–	–
			192,562			278,217

	2015 HK$'000	2014 HK$'000
Analysed into:		
Trust receipt loans repayable within one year	**53,822**	135,838
Other borrowings repayable		
Within one year	**–**	142,379
In the second year	**–**	–
In the third to fifth years, inclusive	**138,740**	–
	138,740	142,379
	192,562	278,217

The Group's trust receipt loan facilities which are denominated in United States dollars and amounted to HK$238,720,000 (2014: HK$486,345,000) are secured by the pledge of certain of the Group's bank balances and supported by corporate guarantees executed by the Company. HK$53,822,000 had been utilised at 31 December 2015 (2014: HK$135,838,000).

Details of the pledge of assets are included in note 30 to the financial statements.

The carrying amounts of the Group's interest-bearing bank borrowings approximate their fair values.

18. DUE TO A PRC JOINT VENTURE PARTNER

The amount due to a PRC joint venture partner is unsecured, interest-free and has no fixed terms of repayment. The carrying amount approximates its fair value.

19. LOANS FROM THE IMMEDIATE HOLDING COMPANY

The following table illustrates the loans from GDH, the Company's immediate holding company:

	2015	2014
Notes	***HK$'000***	*HK$'000*
(a)	**22,779**	22,779
(b)	**65,000**	65,000
(c)	**50,961**	54,600
	138,740	142,379

Notes:

(a) The balance represents an unsecured loan of US$2,920,000 (2014: US$2,920,000), which bears interest at 3-month LIBOR + 2.5% for the period from 1 January 2015 to 31 July 2015 and 3-month LIBOR + 2% for period from 1 August 2015 to 31 December 2015 (2014: 3-month LIBOR + 2.5%) and is repayable on 31 July 2018 (2014: repayable on 31 July 2015).

(b) The balance represents an unsecured loan of HK$65,000,000 (2014: HK$65,000,000), which bears interest at 3-month HIBOR + 2.5% for the period from 1 January 2015 to 9 August 2015 and 3-month HIBOR + 2% for the period from 10 August 2015 to 31 December 2015 (2014: 3-month HIBOR + 2.5%) and is repayable on 9 August 2018 (2014: repayable on 9 August 2015).

(c) The balance represents an unsecured loan of US$7,000,000 (2014: US$7,000,000), which bears interest at 3-month LIBOR + 2.5% for the period from 1 January 2015 to 30 September 2015 and no interest for the period from 1 October 2015 to 31 December 2015 (2014: 3-month LIBOR + 2.5%) and is repayable on 30 December 2018 (2014: 30 December 2015).

The carrying values of the loans approximate their fair values.

20. PROVISION

	Early termination of a joint venture agreement *HK$'000*
At 1 January 2015	**4,042**
Exchange realignment	**(236)**
At 31 December 2015	**3,806**

With respect to the Group's decision in August 2001 to curtail the operations of 青島南海皮廠有限公司 (Qingdao Nanhai Tannery Co., Ltd.) ("Qingdao Tannery"), a subsidiary of the Group, due to its continuous losses, provisions of RMB3,000,000 were made for (a) staff redundancy payments of RMB2,000,000; and (b) compensation of RMB1,000,000 to the PRC joint venture partner for early termination of the joint venture agreement with Qingdao Tannery. These provisions were determined based on the relevant employment contracts and the terms of the joint venture agreement.

Qingdao Tannery is a Sino-foreign co-operative joint venture. Pursuant to the joint venture agreement, the registered capital of Qingdao Tannery was solely contributed by the Company. The PRC joint venture partner contributed its plant and equipment for the operations of Qingdao Tannery. The Company is entitled to all its distributable profits after the payment of an agreed annual fee to the PRC joint venture partner.

During the year ended 31 December 2004, the arbitration proceedings undertaken by the Group and the PRC joint venture partner were concluded by the China International Economic and Trade Arbitration Commissions in Shenzhen and Beijing. These proceedings determined that (i) the joint venture agreement of Qingdao Tannery was terminated with effect from 23 August 2001; (ii) Qingdao Tannery should be liquidated in accordance with the joint venture agreement and the relevant laws and regulations in the PRC; and (iii) the PRC joint venture partner's claim against the Company for an economic loss of RMB15 million due to the termination of the joint venture agreement was revoked.

As the liquidation of Qingdao Tannery has not been completed, no payment for the provision, additional provision or reversal of provision was made during the year.

21. DEFERRED TAX LIABILITIES

Movements in deferred tax liabilities/(assets) of the Group during the year are as follows:

	Depreciation in excess of related tax depreciation HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1 January 2014	(906)	2,210	1,304
Deferred tax credited to the property revaluation reserve	–	(12)	(12)
Exchange realignment	4	–	4
Deferred tax debited to the statement of profit or loss during the year *(note 7)*	188	107	295
At 31 December 2014 and 1 January 2015	**(714)**	**2,305**	**1,591**
Deferred tax debited to the property revaluation reserve	**–**	**316**	**316**
Exchange realignment	**42**	**–**	**42**
At 31 December 2015	**(672)**	**2,621**	**1,949**

The Group has tax losses arising in Hong Kong of HK$72,038,000 (2014: HK$72,038,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. As at 31 December 2015, the Group had tax losses arising in Mainland China of HK$27,976,000 (2014: HK$6,116,000) that would expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and the directors considered it is not probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

21. DEFERRED TAX LIABILITIES (CONTINUED)

At 31 December 2015, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The unremitted earnings of the subsidiaries in Mainland China which represented the aggregate amount of the temporary differences that deferred tax liabilities have not been recognised totalled approximately HK$92,961,000 at 31 December 2015 (2014: HK$127,065,000).

22. SHARE CAPITAL

Shares

	2015 *HK$'000*	2014 *HK$'000*
Issued and fully paid:		
538,019,000 (2014: 538,019,000) ordinary shares	**75,032**	75,032

23. SHARE OPTION SCHEME

On 24 November 2008, the Company adopted a new share option scheme (the "2008 Scheme").

The purpose of the 2008 Scheme is to provide incentives to selected employees, officers and directors who contribute to the Group and to provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to such employees, officers and directors or to serve such other purposes as the board of directors of the Company (the "Board") may approve from time to time. Eligible persons of the 2008 Scheme include the employees, officers or directors of the members of the Group. The 2008 Scheme, unless otherwise terminated or amended, will remain in force for 10 years from 24 November 2008.

The total number of ordinary shares which may be issued upon exercise of all share options to be granted under the 2008 Scheme (excluding any which has lapsed) and any other schemes of the Company must not, in aggregate, exceed 10% of the ordinary shares in issue as at the date of the adoption of the 2008 Scheme.

The total number of ordinary shares issued and to be issued upon exercise of the share options granted and to be granted under the 2008 Scheme to each eligible person (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of grant of share options must not exceed 1% of the ordinary shares in issue at such date. Any further grant of share options under the 2008 Scheme in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

23. SHARE OPTION SCHEME (CONTINUED)

Share options granted to a director or chief executive of the Company, or any of their respective associates, under the 2008 Scheme must be approved by the independent non-executive directors of the Company. In addition, for any share options granted to an independent non-executive director of the Company, or any of their respective associates, which would result in the ordinary shares issued and to be issued upon exercise of all share options already granted or to be granted under the 2008 Scheme (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (i) representing in aggregate over 0.1% of the ordinary shares in issue; and (ii) having an aggregate value (based on the closing price of the ordinary shares at the date of grant) in excess of HK$5 million, such grant of options by the Board must be approved by shareholders in a general meeting.

An offer of grant of a share option under the 2008 Scheme may be accepted by the grantee within the period of the time stipulated by the Board, but no later than 14 days from the date of such offer. All share options under the 2008 Scheme will be unvested share options upon grant which will, subject to a grantee continuing to be an eligible person, vest with the grantee in accordance with the vesting schedules specified in their respective offer of grant. Subject to the rules of the 2008 Scheme and the relevant offer of the grant of a share option, a vested share option may be exercised in accordance with the terms of the rules of the 2008 Scheme at any time during the period to be determined and notified by the directors to each grantee, which period may commence on the date which is 2 years from the date of grant of the share option but shall end in any event no later than 10 years from the aforesaid date of grant. The exercise of any share option under the 2008 Scheme may be subject to the achievement of performance targets which may be determined by the Board, at its absolute discretion, on a case by case basis upon the grant of the relevant share option and stated in the offer of grant of such share option.

The exercise price of the share options under the 2008 Scheme is determinable by the Board and shall not be less than the highest of (i) the closing price of the ordinary shares as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the share options; (ii) the average closing price of the Company's ordinary shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the share options; and (iii) the nominal value of the ordinary shares.

No dividends (including distributions made upon the liquidation of the Company) will be payable and no voting rights will be exercisable in relation to any share option that has not been exercised.

23. SHARE OPTION SCHEME (CONTINUED)

The following share options were outstanding during the year:

	2015		2014	
	Weighted average exercise price per share	**Number of options**	Weighted average exercise price per share	Number of options
	HK$	***'000***	*HK$*	*'000*
At 1 January	**0.435**	**2,634**	0.435	5,247
Forfeited during the year	**0.435**	**(2,634)**	0.435	(2,613)
At 31 December	**–**	**–**	0.435	2,634

The exercise prices and exercise periods of the share options outstanding as at 31 December 2014 are as follows:

2014

Number of options	Exercise price per share*	Exercise period
'000	*HK$*	*(dd. mm. yyyy)*
2,634	0.435	14.7.2015-13.1.2016

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair values of the share options granted in the years 2008 and 2010 were HK$940,000 and HK$4,225,000, respectively, of which the Group recognised an income of HK$608,000 due to forfeiture (2014: HK$546,000) in respect of equity-settled share option arrangements during the year ended 31 December 2015.

23. SHARE OPTION SCHEME (CONTINUED)

The fair value of equity-settled share options granted under the 2008 Scheme in 2008 and in 2010 was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2008	2010
Dividend yield (%)	Nil	Nil
Expected volatility (%)	91.26	70.261
Risk-free interest rate (%)	1.39	1.64
Expected life of options (year)	5.5	5.5
Closing share price at date of grant (HK$)	0.27	0.435

The expected life of the options is based on the historical data over the past five years and six months and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

During the year ended 31 December 2015, 2,634,000 (2014: 2,613,000) share options under the 2008 Scheme granted in 2010 were forfeited.

As at 31 December 2015 and at the date of approval of these financial statements, the Company had no share option outstanding under the 2008 Scheme.

24. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

(i) The general reserve fund of the Group is an undistributable reserve and may not be treated as realised profits.

On 25 November 1996, a court order confirming the reduction of the share premium account by HK$133,349,000 was registered by the Registrar of Companies in Hong Kong and the credit arising therefrom was transferred to the general reserve fund against which goodwill arising on the acquisition of a subsidiary was eliminated in the consolidated financial statements. In the year ended 31 December 2002, there was a release of goodwill of HK$133,349,000 in respect of impairment of an investment in a subsidiary relating to the goodwill arising from the acquisition of that subsidiary in 1996.

Pursuant to a special resolution passed in the Group's extraordinary general meeting held on 23 January 1998 and confirmed by the Order of the High Court of the Hong Kong Special Administrative Region of the PRC (the "Court") dated 2 March 1998, the share premium account was reduced by the amount of HK$34,397,000 and, as undertaken by the Group, a general reserve fund was credited in the books of accounts of the Group in the same amount for the purpose of setting off, in the consolidated financial statements of the Group and its subsidiaries, goodwill arising on consolidation in 1997. In 2000 and 2001, there was a release of goodwill of HK$12,478,000 and HK$21,919,000, respectively, in respect of impairment of investments in subsidiaries relating to the goodwill arising from the acquisition of the subsidiaries in 1997.

(ii) On 1 February 2011, a special resolution was passed by the shareholders of the Company for approving the reduction in share premium of the Company (the "Share Premium Reduction"). The purpose of the Share Premium Reduction is to reduce the credit standing to the share premium account of the Company to the extent of HK$393,345,845 and to apply the credit arising from such reduction to eliminate the accumulated losses of the Company by the same amount.

On 22 March 2011, the Court made an order (the "Order") confirming the Share Premium Reduction. An office copy of the Order was registered with the Registrar of the Companies on 29 March 2011 (the "Effective Date") in accordance with Section 61 of the Companies Ordinance. Accordingly, the Share Premium Reduction became effective immediately following the registration of the Order of the Court and the accumulated losses of the Company of HK$393,345,845 were eliminated against the Company's share premium account.

24. RESERVES (CONTINUED)

(ii) (Continued)

In connection with the application for the Share Premium Reduction (the "Application"), the Company undertakes that in the event of the Company making any future recoveries of the assets identified in the Application for which provision for impairment in value or amortisation was made in the accounts of the Company between 31 December 2000 and 30 June 2010 (the "Assets"), beyond their written down values in the Company's accounts as at 30 June 2010, all such recoveries beyond that written down values up to an amount of HK$150,345,170 (the "Limit"), will be credited to a special capital reserve in the accounting records of the Company (the "Special Capital Reserve") and that so long as there shall remain outstanding any debt of or claim against the Company which, if the Effective Date was the date of the commencement of the winding up of the Company, would be admissible to proof in such winding up and the persons entitled to the benefit of such debts or claims shall not have agreed otherwise, such reserve shall not be treated as realised profits for the purposes of ss291, 297 and 299 of the new Companies Ordinance (Cap. 622 of the Laws of Hong Kong) and shall (for so long as the Company shall remain a listed company) be treated as an undistributable reserve of the Company for the purposes of ss290 and 298 of the new Companies Ordinance (Cap. 622 of the Laws of Hong Kong), or any statutory re-enactments or modifications thereof provided that:

(1) the Company shall be at liberty to apply the Special Capital Reserve for the same purposes as a share premium account may be applied;

(2) the Limit in respect of the Special Capital Reserve may be reduced by the amount of any increase, after the Effective Date, in the amount standing to the credit of the share premium account of the Company as the result of the paying up of shares by the receipt of new consideration or the capitalisation of distributable profits;

(3) the Limit in respect of the Special Capital Reserve may be reduced upon the disposal or other realisation, after the Effective Date, of the Assets by the amount of the impairment in value and amortisation made in relation to such asset as at 30 June 2010 less such amount (if any) as is credited to the Special Capital Reserve as a result of such disposal or realisation; and

(4) in the event that the amount standing to the credit of the Special Capital Reserve exceeds the Limit thereof after any reduction of such Limit pursuant to provisions (2) and/or (3) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution.

During the year ended 31 December 2015, an addition of provision for impairment of HK$2,076,000 (2014: HK$130,000) was made for the Assets. This resulted in a transfer of HK$2,076,000 (2014: HK$130,000) from the Special Capital Reserve to the accumulated losses.

The Limit as at 31 December 2015 was HK$150,273,970 (2014: HK$150,273,970) and the amount standing to the credit of the Group's Special Capital Reserve as at 31 December 2015 was HK$1,190,000 (2014: HK$3,266,000).

24. RESERVES (CONTINUED)

(iii) Pursuant to the relevant PRC laws and regulations, a portion of the profits of the Group's subsidiaries which are established in Mainland China has been transferred to reserve funds which are restricted as to use.

(iv) In accordance with the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014, any amount standing to the credit of the share premium account has become part of the Company's share capital.

25. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any contingent liabilities which had not been provided for in the financial statements.

26. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from two to three years.

At 31 December 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 ***HK$'000***	2014 *HK$'000*
Within one year	**556**	552
In the second to fifth years, inclusive	**113**	540
	669	1,092

27. COMMITMENTS

In addition to the operating lease commitments detailed in note 26 above, the Group had the following capital commitments at the end of the reporting period:

	2015 HK$'000	2014 HK$'000
Contracted, but not provided for:		
Land and buildings	46	1,707
Leasehold improvements	469	63
Plant and machinery	3,018	8,101
	3,533	9,871

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transaction

During the year ended 31 December 2014, the Group purchased items of equipment at HK$3,486,000. A government grant of HK$3,486,000 was received from the PRC local government to support the purchase of equipment which offset the purchase consideration. The acquisition had no impact on the addition of property, plant and equipment during the year ended 31 December 2014.

29. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2015 HK$'000	2014 HK$'000
Office rental paid to a fellow subsidiary	(i)	492	477
Computer system maintenance service fees paid to the immediate holding company	(ii)	208	101
Computer system maintenance service fees paid to a fellow subsidiary	(iii)	21	–
Interest expense to the immediate holding company	(iv)	3,516	4,043
Computer system software cost and implementation fee paid to the ultimate holding company	(v)	–	197

29. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) (Continued)

Notes:

(i) The office rental was charged by a fellow subsidiary at HK$40,960 per month for the year ended 31 December 2015 (Period from 1 January 2014 to 5 February 2014: HK$28,800 per month; Period from 6 February 2014 to 31 December 2014: HK$40,960 per month) in accordance with the terms of the rental agreement between the Group and the fellow subsidiary. As at 31 December 2015, the Group had a rental deposit of HK$138,786 (2014: HK$138,786) with the fellow subsidiary.

(ii) The immediate holding company charged maintenance service fees at HK$20,775 per month during the period from 1 January 2015 to 31 October 2015 (2014: HK$8,386 per month) for the computer system used by the Group.

(iii) The fellow subsidiary charged maintenance service fees at HK$10,349 per month during the period from 1 November 2015 to 31 December 2015 for the computer system used by the Group.

(iv) The interest expense to the immediate holding company arose from the loans advanced from GDH. Further details of the loans, including the terms, are disclosed in note 19 to the financial statements.

(v) The ultimate holding company charged a computer system software cost and an implementation fee at HK$197,000 per year for the year ended 31 December 2014 for the computer system used by the Group.

(b) Commitments with related parties:

On 29 November 2013, the Group entered into a three-year office rental agreement commencing 6 February 2014 and ending 5 February 2017 with Global Head Developments Limited, a fellow subsidiary of the Group. The total operating lease commitments due within one year and in the second to fifth years as at 31 December 2015 were approximately HK$492,000 and HK$48,000, respectively.

(c) Outstanding balances with related parties:

(i) Details of the Group's loans from the immediate holding company as at the end of the reporting period are included in note 19 to the financial statements.

(ii) Details of the Group's accrued interests arising from loans from the immediate holding company as at the end of the reporting period are included in note 16 to the financial statements.

(d) Compensation of key management personnel of the Group:

The key management personnel are the directors. Details of their remuneration are disclosed in note 8 to the financial statements.

The related party transactions in respect of items in note 29(a)(i), 29(a)(ii), 29(a)(iii), 29(a)(v) and 29(b) above also constituted continuing connected transactions and those in note 29(a)(iv) and 29(c) above constituted connected transactions as defined in Chapter 14A of the Listing Rules. However, these transactions are fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

30. PLEDGE OF ASSETS

As at 31 December 2015, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

	Note	2015 HK$'000	2014 HK$'000
Bank balances	15	8,410	37,283

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the respective reporting period are as follows:

Financial assets

	2015 Loans and receivables HK$'000	2014 Loans and receivables HK$'000
Trade and bills receivables	126,952	275,240
Financial assets included in deposits and other receivables	1,674	2,928
Pledged bank balances	8,410	37,283
Cash and bank balances	42,156	20,421

Financial liabilities

	2015 Financial liabilities at amortised cost HK$'000	2014 Financial liabilities at amortised cost HK$'000
Trade payables	86,579	97,718
Financial liabilities included in other payables and accruals	23,994	16,034
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	138,740	142,379

32. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

At 31 December 2015, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB11,465,000 (equivalent to HK$13,685,000) (2014: RMB4,000,000 (equivalent to HK$5,070,000)) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables. Subsequent to the Endorsement, the Group does not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills to which the suppliers have recourse was RMB11,465,000 (equivalent to HK$13,865,000) (2014: RMB4,000,000 (equivalent to HK$5,070,000)) as at 31 December 2015.

Transferred financial assets that are derecognised in their entirety

At 31 December 2015, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount of RMB13,046,000 (equivalent to HK$15,572,000) (2014: RMB33,282,000 (equivalent to HK$42,188,000)). The Derecognised Bills have a maturity from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2015, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year ended 31 December 2015.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing secured bank borrowings, interest-bearing unsecured other borrowings from the immediate holding company, and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to certain of the Group's debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using an appropriate mix of fixed and floating rate borrowings. Despite the fact that the Group had its debt obligations at floating interest rates, in the opinion of the directors, the Group had no significant concentration of interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit/(loss) before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	**Decrease/ (increase) in loss before tax** *HK$'000*
2015		
Hong Kong dollar	**100**	**(650)**
United States dollar ("US$")	**100**	**(228)**
Hong Kong dollar	**(10)**	**65**
US$	**(10)**	**23**

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax *HK$'000*
2014		
Hong Kong dollar	100	(650)
US$	100	(774)
Hong Kong dollar	(10)	65
US$	(10)	77

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from purchases by operating units in currencies other than the units' functional currencies. Approximately 70% (2014: 62%) of the Group's purchases was denominated in currencies other than the functional currencies of the operating units making the purchases, whilst all sales are denominated in the units' functional currency.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$-RMB exchange rates, with all other variables held constant, of the Group's profit/(loss) before tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the equity of the Group.

	Increase/ (decrease) in exchange rate %	Decrease/ (increase) in loss before tax HK$'000
2015		
If RMB weakens against US$	**(3)**	**(13,302)**
If RMB strengthens against US$	**3**	**13,302**

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax HK$'000
2014		
If RMB weakens against US$	(3)	(13,092)
If RMB strengthens against US$	3	13,092

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Further details of the credit policy and quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 14 to the financial statements.

The credit risk of the other financial assets, which comprise cash and bank balances, pledged bank balances and, bills and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. As the Group's exposure spreads over a diversified portfolio of customers, there are no significant concentrations of credit risk within the Group.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans.

The Group's policy is to regularly monitor its liquidity to ensure it maintains sufficient reserves of cash and cash equivalents and adequate committed lines of funding from major financial institutions and the immediate holding company to meet its liquidity requirements in the short and longer term.

The maturity profile of the Group's financial liabilities as at the end of the respective reporting period, based on the contractual undiscounted payments, is as follows:

2015	**On demand** *HK$'000*	**Less than 3 months** *HK$'000*	**3 to less than 12 months** *HK$'000*	**1 to 5 years** *HK$'000*	**Total** *HK$'000*
Trade payables	**37,800**	**48,779**	**–**	**–**	**86,579**
Other payables	**21,479**	**–**	**2,515**	**–**	**23,994**
Interest-bearing bank borrowings	**–**	**53,907**	**–**	**–**	**53,907**
Due to a PRC joint venture partner	**1,131**	**–**	**–**	**–**	**1,131**
Loans from the immediate holding company	**–**	**–**	**–**	**147,974**	**147,974**
	60,410	**102,686**	**2,515**	**147,974**	**313,585**

2014	On demand *HK$'000*	Less than 3 months *HK$'000*	3 to less than 12 months *HK$'000*	Total *HK$'000*
Trade payables	31,192	66,526	–	97,718
Other payables	16,034	–	–	16,034
Interest-bearing bank borrowings	–	136,823	–	136,823
Due to a PRC joint venture partner	1,131	–	–	1,131
Loans from the immediate holding company	–	–	145,378	145,378
	48,357	203,349	145,378	397,084

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 2014.

The Group monitors capital using a gearing ratio, which is total debt divided by the equity attributable to equity holders of the Company plus total debt. Total debt includes interest-bearing bank borrowings and loans from the immediate holding company. The gearing ratios as at the end of the respective reporting periods were as follows:

	2015 ***HK$'000***	2014 *HK$'000*
Interest-bearing bank borrowings	**53,822**	135,838
Loans from the immediate holding company	**138,740**	142,379
Total debt	**192,562**	278,217
Equity attributable to equity holders of the Company	**290,615**	352,553
Total debt and equity	**483,177**	630,770
Gearing ratio	**40%**	44%

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2015 *HK$'000*	2014 *HK$'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**25**	37
Interests in subsidiaries	**282,532**	289,988
Total non-current assets	**282,557**	290,025
CURRENT ASSETS		
Prepayments, deposits and other receivables	**203**	203
Cash and bank balances	**1,431**	2,145
Total current assets	**1,634**	2,348
CURRENT LIABILITIES		
Other payables and accruals	**2,368**	307
Loans from the immediate holding company	**–**	87,779
Total current liabilities	**2,368**	88,086
NET CURRENT LIABILITIES	**(734)**	(85,738)
TOTAL ASSETS LESS CURRENT LIABILITIES	**281,823**	204,287
NON-CURRENT LIABILITY		
Loans from the immediate holding company	**87,779**	–
Total non-current liability	**87,779**	–
Net assets	**194,044**	204,287
EQUITY		
Share capital	**75,032**	75,032
Other reserves *(note)*	**119,012**	129,255
Total equity	**194,044**	204,287

Sun Jun
Director

Xiao Zhaoyi
Director

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK$'000	Equity component of convertible notes HK$'000	General reserve fund HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Special capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2014	20,785	5,545	167,746	1,154	445	3,396	(38,207)	160,864
Equity-settled share option arrangements	–	–	–	(546)	–	–	–	(546)
Transfer to accumulated losses in accordance with the undertaking	–	–	–	–	–	(130)	130	–
Transition to no-par value regime	(20,785)	–	–	–	(445)	–	–	(21,230)
Total comprehensive loss for the year	–	–	–	–	–	–	(9,833)	(9,833)
At 31 December 2014 and 1 January 2015	–	5,545	167,746	608	–	3,266	(47,910)	129,255
Equity-settled share option arrangements	–	–	–	(608)	–	–	–	(608)
Transfer to accumulated losses in accordance with the undertaking	–	–	–	–	–	(2,076)	2,076	–
Total comprehensive loss for the year	–	–	–	–	–	–	(9,635)	(9,635)
At 31 December 2015	–	5,545	167,746	–	–	1,190	(55,469)	119,012

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share capital account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2016.

粤海制革有限公司
GUANGDONG TANNERY LIMITED